## 1. CORPORATE INFORMATION

The head office and principal place of operations of the Company is situated at 3rd Floor, Cameron Commercial Centre, 468 Hennessy Road, Causeway Bay, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of bullion, futures and securities broking and trading, the provision of margin and loan financing, shipment sales of metals and metal scraps, the holding of investment properties in Hong Kong and strategic investments through its associates in mining operations in Xinjiang Province, Mainland China. During the year, the Group disposed of certain equity interests in Alexis Resources Limited, formerly a subsidiary of the Company. Further details of which are set out in note 19 to the financial statements. Other than the foregoing, there were no significant changes in the nature of the Group's principal activities during the year and up to the date of this report.

## 2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP 12 on these financial statements is described below:

**Measurement and recognition**

Deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future.

The adoption of SSAP 12 had no significant impact for the financial statements for the year ended 30 April 2003 on the amounts recorded for income taxes.

**Disclosures**

The related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 11 to the financial statements and include a reconciliation between the accounting loss and the tax charge for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 11 to the financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments and gold on hand, as further explained below.

**Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 April 2004. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

**Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

**Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Joint venture companies (continued)**

A joint venture company is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Group holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

**Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Associates (continued)**

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

**Goodwill**

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life. In case of associates and jointly-controlled entities, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP that permitted such goodwill to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

**Impairment of assets**

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

**Fixed assets and depreciation**

Fixed assets, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fixed assets and depreciation (continued)**

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | | |
|---|---|---|
| Leasehold land | – | Over the lease terms |
| Buildings | – | 4% or over the lease terms, whichever is shorter |
| Leasehold improvements | – | 20% to 25% or over the lease terms, whichever is shorter |
| Plant and machinery | – | 8% to 10% |
| Furniture, equipment and motor vehicles | – | 20% to 50% |

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses and is not depreciated. Cost comprises direct costs incurred during the period of construction, installation and testing. Construction in progress is re-classified to the appropriate category of fixed assets when completed and ready for use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

**Research and development costs**

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

**Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investment properties (continued)**

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

**Trading rights**

Trading rights, representing the eligibility rights to trade on or through the SEHK and the HKFE, are stated at cost less accumulated amortisation and any impairment losses.

Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over their estimated lives of 20 years.

**Other long term assets**

Other long term assets held on a long term basis are stated at cost less any impairment losses, on an individual basis.

**Non-trading investments**

Non-trading investments are investments in listed and unlisted equity securities intended to be held on a long term basis. Listed securities are stated at their fair values on the basis of their quoted market prices at the balance sheet date on an individual basis. Unlisted securities are stated at their estimated fair values on an individual basis.

The gains or losses arising from changes in the fair values of a security are dealt with as movements in the non-trading investment revaluation reserve, until the security is sold, collected, or otherwise disposed of, or until the security is determined to be impaired, when the cumulative gain or loss derived from the security recognised in the non-trading investment revaluation reserve, together with the amount of any further impairment, is charged to the profit and loss account for the period in which the impairment arises.

**Trading investments**

Trading investments are investments in listed equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Gold on hand**

Gold on hand is stated at the market value at the balance sheet date. Differences between book value and market value are dealt with in the profit and loss account.

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

**Provision**

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

**Income tax**

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax (continued)**

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

**Revenue recognition**

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

– from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

– interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

– dividend income, when the shareholders' right to receive payment has been established;

– rental income, on the straight-line basis over the lease terms; and

– income from bullion, securities and futures contracts broking and trading, on the following bases:

  (i) profits/losses on bullion and futures contracts are recognised on all open contracts existing at the balance sheet date by translating the contract amounts at the prices ruling at the balance sheet date, and on all closed positions on the trade date basis;

  (ii) profits/losses on securities dealing are recognised on the trade date basis; and

  (iii) commission income, handling fee income, premium income and custodian fee income are recognised when the services are rendered.

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

**Employee benefits**

*Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

*Long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their services to the Group to the balance sheet date.

*Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when an employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme. When an employee leaves the MPF Exempted ORSO retirement benefits scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group has joined a mandatory central pension scheme operated by the PRC government for its PRC employees, the assets of which are held separately from those of the Group. Contributions made are based on a percentage of the eligible employees' salaries and are charged to the profit and loss account as they become payable, in accordance with the rules of the scheme. The employer contributions vest fully once they are made.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits (continued)**

*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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as 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 share options, the resulting shares issued are recorded by the Company as additional 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, or which lapse, are deleted from the register of outstanding options.

**Foreign currencies**

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and associates are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Cash and cash equivalents (continued)**

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

## 4. DISCONTINUED OPERATIONS

During the year ended 30 April 2003, the Group discontinued its business involving the provision of in-warehouse metal sales, following the abandonment of the operations of a wholly-owned subsidiary of the Company.

Due to the abandonment of these operations, the turnover and the loss from operating activities in respect of the Group's in-warehouse metal sales operation for the year, together with the corresponding amounts for the prior period, are classified and disclosed under discontinued operations in accordance with SSAP 33.

The turnover other revenue, expenses and results of the discontinued operations were as follows:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Turnover | **–** | – |
| Cost of sales | **–** | – |
| Gross profit | **–** | – |
| Other revenue | **–** | – |
| Selling and distribution costs | **–** | – |
| Administrative expenses | **–** | (157) |
| Loss from operating activities | **–** | (157) |
| Finance costs | **–** | – |
| Loss before tax | **–** | (157) |
| Tax | **–** | – |
| Net loss from ordinary activities attributable to shareholders | **–** | (157) |

There were no assets or liabilities relating to the discontinued operations at 30 April 2003 and 2004.

There were no material gains/(losses) recognised on the disposal of the assets or the settlement of the liabilities attributable to the discontinued operations.

## 5. SEGMENT INFORMATION

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 corporate and other segment comprises the holding of investment properties, loan financing, provision of management and consultancy services together with corporate income and expense items;

– the mining segment represents the mining operations in Mainland China; and

– the in-warehouse metal sales segment engaged in in-warehouse metal sales and was discontinued in prior year (note 4).

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

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

| Group | Continuing operations | | | | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Securities | | Shipment sales | | Corporate and others | | Mining | | In-warehouse metal sales | | Consolidated | |
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | 25,829 | 11,307 | 39,876 | 39,674 | 1,374 | 5,665 | 24,329 | 24,257 | – | – | 91,408 | 80,903 |
| Other revenue and gains | – | 437 | 428 | – | 2,186 | 2,025 | 105 | – | – | – | 2,719 | 2,462 |
| Total | 25,829 | 11,744 | 40,304 | 39,674 | 3,560 | 7,690 | 24,434 | 24,257 | – | – | 94,127 | 83,365 |
| Segment results | (1,738) | (17,032) | (3,632) | (2,760) | 19,797 | (76,784) | 4,963 | 195 | – | (157) | 19,390 | (96,538) |
| Unallocated interest income and gains | | | | | | | | | | | 1,395 | 588 |
| Unallocated expenses | | | | | | | | | | | (2,469) | (2,380) |
| Profit/(loss) from operating activities | | | | | | | | | | | 18,316 | (98,330) |
| Waiver of a loan from a related company | | | | | | | | | | | – | 7,822 |
| Finance costs | | | | | | | | | | | (2,711) | (15,282) |
| Share of profits and losses of: | | | | | | | | | | | | |
| – jointly-controlled entities | – | – | 1,247 | 5,098 | (1,295) | (34) | – | – | – | – | (48) | 5,064 |
| – associates | – | – | – | – | (1,115) | (3,718) | – | – | – | – | (1,115) | (3,718) |
| Gain on disposal of associates | – | – | – | – | 2,178 | 5,328 | – | – | – | – | 2,178 | 5,328 |
| Amortisation of goodwill on acquisition of associates | – | – | – | – | (1,250) | – | – | – | – | – | (1,250) | – |
| Impairment loss on interests in jointly-controlled entities | – | – | – | – | (11,500) | – | – | – | – | – | (11,500) | – |
| Write back of impairment loss on interests in associates | – | – | – | 1,845 | – | 1,493 | – | – | – | – | – | 3,338 |
| Profit/(loss) before tax | | | | | | | | | | | 3,870 | (95,778) |
| Tax | | | | | | | | | | | (3,549) | (1,458) |
| Profit/(loss) before minority interests | | | | | | | | | | | 321 | (97,236) |
| Minority interests | | | | | | | | | | | (506) | (128) |
| Net loss attributable from ordinary activities to shareholders | | | | | | | | | | | (185) | (97,364) |

## 5. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

| Group | Continuing operations | | | | | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Securities | | Shipment sales | | Corporate and others | | Mining | | In-warehouse metal sales | | Consolidated | |
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment assets | **68,743** | 70,854 | **85** | 2,501 | **180,899** | 221,917 | **–** | 65,070 | **–** | – | **249,727** | 360,342 |
| Interests in associates | **–** | – | **–** | – | **29,822** | (509) | **–** | – | **–** | – | **29,822** | (509) |
| Interests in jointly-controlled entities | **–** | – | **–** | 22,028 | **6,841** | 4,923 | **–** | – | **–** | – | **6,841** | 26,951 |
| Bank overdrafts included in segment assets | **–** | 1,370 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 1,370 |
| Unallocated assets | | | | | | | | | | | **21,057** | 1,344 |
| Total assets | | | | | | | | | **–** | | **307,447** | 389,498 |
| Segment liabilities | **52,897** | 47,739 | **34** | 3,415 | **17,919** | 240,268 | **–** | 17,177 | **–** | – | **70,850** | 308,599 |
| Bank overdrafts included in segment assets | **–** | 1,370 | **–** | – | **–** | – | **–** | – | **–** | – | **–** | 1,370 |
| Unallocated liabilities | | | | | | | | | | | **169,666** | 11,536 |
| Total liabilities | | | | | | | | | | | **240,516** | 321,505 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation and amortisation | **2,431** | 3,374 | **4** | 13 | **5,227** | 2,349 | **2,783** | 4,816 | **–** | – | **10,445** | 10,552 |
| Provision for bad and doubtful debts | **3,491** | 666 | **–** | 51 | **–** | 100 | **–** | – | **–** | – | **3,491** | 817 |
| Impairment losses recognised in the profit and loss account | **6,889** | – | **–** | – | **13,707** | 16,966 | **–** | – | **–** | – | **20,596** | 16,966 |
| Deficit/(surplus) on revaluation of investment properties recognised in the profit and loss account | **(494)** | – | **–** | – | **(25,944)** | 25,376 | **–** | – | **–** | – | **(26,438)** | 25,376 |
| Capital expenditure | **302** | 1,408 | **–** | – | **15** | 48 | **4,958** | 4,152 | **–** | – | **5,275** | 5,608 |

## 5. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

**Group**

| | Mainland China | | Hong Kong | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | **25,382** | 28,114 | **54,717** | 40,467 | **11,309** | 12,322 | **91,408** | 80,903 |
| Other segment information: | | | | | | | | |
| Segment assets | **35,393** | 92,021 | **272,054** | 297,477 | **–** | – | **307,447** | 389,498 |
| Bank overdrafts included in segment assets | **–** | – | **–** | 12,906 | **–** | – | **–** | 12,906 |
| Capital expenditure | **4,958** | 4,152 | **317** | 1,456 | **–** | – | **5,275** | 5,608 |

## 6. TURNOVER, REVENUE AND GAINS

Revenue from the following activities has been included in turnover. An analysis of turnover, other revenue and gains is as follows:

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| **Turnover** | | |
| Continuing operations: | | |
| Fees and commission income from bullion, securities and futures broking | **23,656** | 14,796 |
| Income/(loss) on trading of bullion, securities and futures contracts | **2,080** | (3,897) |
| Interest income from loan and margin financing activities | **93** | 408 |
| Shipment sales | | |
| – Metals | **56,347** | 63,134 |
| – Metal scraps | **6,805** | 64 |
| – Others | **1,053** | 733 |
| Gross rental income | **1,374** | 5,665 |
| | **91,408** | 80,903 |
| **Other revenue and gains** | | |
| Interest income | **1,141** | 266 |
| Dividend income from: | | |
| – unlisted investments | **564** | 542 |
| – listed investments | **8** | – |
| Others | **2,401** | 1,892 |
| | **4,114** | 2,700 |
| **Other gains** | | |
| Gain on partial disposal of subsidiaries | **–** | 350 |
| Gain on disposal/deemed disposal of subsidiaries | **9,063** | – |
| Gain on disposal of associates | **2,178** | 5,328 |
| Net write back of impairment loss on interests in associates | **–** | 3,338 |
| Surplus on revaluation of investment properties | **26,438** | – |
| | **133,201** | 92,619 |

## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

| | Note | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|---|
| Cost of inventories sold and services provided * | | **54,452** | 54,963 |
| Auditors' remuneration | | **620** | 720 |
| Depreciation | 14 | **5,792** | 6,806 |
| Amortisation of intangible assets ** | | **3,403** | 3,746 |
| Research and development costs: | | | |
| Current year expenditure | | **–** | 1,588 |
| Provision for inventory obsolescence | | **–** | 1,235 |
| Provision for bad and doubtful debts ** | | **3,491** | 817 |
| Minimum lease payments under operating leases on land and buildings | | **2,847** | 3,411 |
| Staff costs (including directors' remuneration – note 8): | | | |
| Wages and salaries | | **19,174** | 19,068 |
| Pension scheme contributions | | **274** | 329 |
| Mandatory provident fund contributions | | **418** | 406 |
| Less: Forfeited contributions refunded/offset | | **(49)** | (70) |
| Net pension contributions | | **643** | 665 |
| Total staff costs | | **19,817** | 19,733 |
| Gross rental income | | **(1,374)** | (5,665) |
| Less: Outgoings | | **146** | 98 |
| Net rental income | | **(1,228)** | (5,567) |
| Loss/(gain) on disposal/deemed disposal of subsidiaries | | **(9,063)** | 26,351 |
| Unrealised holding (gains)/losses on trading investments | | **(1,808)** | 7,573 |
| Loss on disposal/write-off of fixed assets ** | | **120** | 1,767 |
| Write back of impairment loss on interests in associates | | **–** | 7,455 |
| Impairment loss on interests in associates | | **–** | 4,117 |
| Exchange losses, net | | **14** | 113 |

## 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES (continued)

* The cost of inventories sold and services provided for the year ended 30 April 2004 included HK$1,684,000 (2003: HK$3,890,000), relating to direct staff costs, depreciation, and amortisation of intangible assets and provision for inventory obsolescence, which are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

** The provision for bad and doubtful debts, amortisation of intangible assets and loss on disposal of/write-off of fixed assets for the year are included in "Other operating expenses" on the face of the consolidated profit and loss account.

## 8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees: | | |
| Executive directors | **–** | – |
| Independent non-executive directors | **240** | 300 |
| | **240** | 300 |
| Other emoluments for executive directors: | | |
| Salaries, allowances and benefits in kind | **3,533** | 2,131 |
| Pension scheme contributions | **96** | 96 |
| | **3,629** | 2,227 |

## 8. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|---|---|---|
| | **2004** | 2003 |
| Nil – HK$1,000,000 | **6** | 6 |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |
| HK$1,500,001 – HK$2,000,000 | **–** | – |
| HK$2,000,001 – HK$2,500,000 | **1** | – |
| | **8** | 7 |

There was no arrangement under which a director waived or agreed to waive any remuneration for the year (2003: Nil).

During the year, no emoluments were paid by the Group to any of the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: three) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2003: two) non-director, highest paid employees are set out below.

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Salaries, allowances and benefits in kind | **2,232** | 902 |
| Pension scheme contributions | **57** | 42 |
| | **2,289** | 944 |

## 9. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of directors | |
|---|---|---|
| | **2004** | 2003 |
| Nil – HK$1,000,000 | **2** | – |
| HK$1,000,001 – HK$1,500,000 | **1** | 2 |
| | **3** | 2 |

During the year, there were no bonuses paid to or receivable by any of the five highest paid individuals of the Group (2003: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

## 10. FINANCE COSTS, NET

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Interest on bank loans, overdrafts and other loans wholly repayable within five years | **448** | 9,211 |
| Waiver of interest payable on bank loans and other loans | **(1,098)** | – |
| Interest on convertible note | **160** | 86 |
| Interest on convertible bonds | **6,577** | 1,803 |
| Rental income pledged against the convertible bonds interest * | **(4,674)** | (967) |
| Expenses in relation to issue of convertible bonds | **1,298** | 5,149 |
| | **2,711** | 15,282 |

* Rental income of HK$4,472,000 (2003: HK$967,000) and HK$201,600 (2003: Nil) earned from the Group's investment properties was assigned and directly paid to banks for settlement of interest on and expenses in relation to issue of the Bonds and the Note (note 30 and 37(b)(ii)).

## 11. TAX

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Group: | | |
| Current – Hong Kong | | |
| Charge for the year | – | – |
| Underprovision in prior years | 92 | – |
| Current – Elsewhere | 861 | 253 |
| Deferred tax – note 31 | 1,753 | – |
| | 2,706 | 253 |
| Share of tax attributable to: | | |
| Associates | 3 | 515 |
| Jointly-controlled entities | 840 | 690 |
| Total tax charge for the year | 3,549 | 1,458 |

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2003: Nil). The statutory tax rate for Hong Kong profit tax is 17.5% (2003: 17.5%). 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.

The statutory tax rate of corporate income tax in Mainland China is 33% (2003: 33%). Xinjiang Yakesi Resources Co., Ltd. ("Xinjiang Yakesi"), an associate of the Company established in Mainland China, was exempted from corporate income tax in Mainland China for the two years starting from the year ended 31 December 2000, and thereafter is eligible for a 50% relief from income tax for the following three years under the Income Tax Law of Mainland China. The standard corporate income tax rate in Mainland China applicable to Xinjiang Yakesi is 33%. As a result of the exemptions, Xinjiang Yakesi was exempt from the paying of corporate income tax for the years ended 31 December 2000 and 2001, and is subject to corporate income tax at the rate of 18% for the years ended 31 December 2002 and 2003 and the year ending 31 December 2004.

## 11. TAX (continued)

A reconciliation of the tax charge/(credit) applicable to the Group's profit/(loss) before tax using the statutory rates for the countries in which the Company and its subsidiaries, jointly-controlled entities and associates are domiciled to the tax credit at the effective tax rates, is as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Profit/(loss) before tax | **3,870** | (95,778) |
| Tax charge/(credit) at the statutory rate of 17.5% | **677** | (16,761) |
| Higher tax rates for specific provinces and local authority | **141** | 87 |
| Income not subject to tax | **(7,958)** | (891) |
| Expenses not deductible for tax | **10,800** | 9,328 |
| Tax losses utilised from previous years | **(203)** | (2,483) |
| Increase in unutilised tax losses carryforward | **–** | 12,178 |
| Adjustment in respect of current tax of previous years | **92** | – |
| Tax charge at the Group's effective rate | **3,549** | 1,458 |

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong of HK$43,921,000 (2003: HK$44,124,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

SSAP 12 (revised) was adopted during the year as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 30 April 2003. Accordingly, no prior year adjustment is included in the financial statements.

## 12. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 30 April 2004 dealt with in the financial statements of the Company is HK$11,601,000 (2003: HK$117,130,000).

## 13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders of HK$185,000 (2003: HK$97,364,000) and 412,566,000 shares in issue during the year (2003: weighted average of 346,997,326 shares).

Diluted loss per share amounts for the years ended 30 April 2004 and 2003 have not been disclosed, as the share options and Bonds (as defined in note 30) outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

The effect of the Note (as defined in note 30) has not been included in the computation of diluted loss per share as the shares to be so issued would be fairly priced and are assumed to be neither dilutive nor anti-dilutive.

## 14. FIXED ASSETS

### Group

| | Leasehold land and buildings | Leasehold improvements | Plant and machinery | Construction in progress | Furniture, equipment and motor vehicles | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Cost: | | | | | | |
| At beginning of year | 69,181 | 6,605 | 10,630 | – | 15,720 | 102,136 |
| Additions | – | 58 | 1,035 | 3,855 | 327 | 5,275 |
| Transfer from investment properties – note 15 | 16,626 | – | – | – | – | 16,626 |
| Transfer to investment properties – note 15 | (15,544) | – | – | – | – | (15,544) |
| Disposal of subsidiaries | (5,231) | (23) | (11,505) | (3,855) | (261) | (20,875) |
| Disposals/write-off | – | – | (160) | – | (40) | (200) |
| At 30 April 2004 | 65,032 | 6,640 | – | – | 15,746 | 87,418 |
| Accumulated depreciation and impairment: | | | | | | |
| At beginning of year | 35,257 | 5,491 | 2,955 | – | 11,211 | 54,914 |
| Provided during the year | 2,994 | 544 | 796 | – | 1,458 | 5,792 |
| Transfer to investment properties – note 15 | (9,304) | – | – | – | – | (9,304) |
| Disposal of subsidiaries | (1,949) | – | (3,689) | – | (99) | (5,737) |
| Disposals/write-off | – | – | (62) | – | (18) | (80) |
| At 30 April 2004 | 26,998 | 6,035 | – | – | 12,552 | 45,585 |
| Net book value: | | | | | | |
| At 30 April 2004 | 38,034 | 605 | – | – | 3,194 | 41,833 |
| At 30 April 2003 | 33,924 | 1,114 | 7,675 | – | 4,509 | 47,222 |

## 14. FIXED ASSETS (continued)

The Group's leasehold land and buildings at cost are held under the following lease terms:

| | Total |
|---|---|
| | HK$'000 |
| Long term leases | 26,356 |
| Medium term leases | 38,676 |
| | 65,032 |

As at 30 April 2004, all leasehold land and buildings in Hong Kong with net book value of HK$38,034,000 (2003: land and buildings of HK$30,256,000 and plant and machinery of HK$5,878,000) were pledged to secure banking facilities granted to the Group (note 38).

## 15. INVESTMENT PROPERTIES

| | **Group** | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **123,194** | 148,570 |
| Transfer from land and buildings – note 14 | **6,240** | – |
| Transfer to land and buildings – note 14 | **(16,626)** | – |
| Revaluation surplus/(deficit) | **26,438** | (25,376) |
| Disposals | **(3,880)** | – |
| At 30 April | **135,366** | 123,194 |

## 15. INVESTMENT PROPERTIES (continued)

The Group's investment properties are situated in Hong Kong and are held under the following lease terms:

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Long term leases | **129,796** | 104,730 |
| Medium term leases | **5,570** | 18,464 |
| | **135,366** | 123,194 |

As at 30 April 2004, all investment properties with an aggregate carrying value of HK$135,366,000 were revalued on an open market existing use basis by K.T. Liu Surveyors Limited, a firm of independent professional valuers.

The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

All investment properties were pledged to banks to secure banking facilities granted to the Group (note 38).

Further particulars of the Group's investment properties are included on page 73 of the Company's annual report.

## 16. GOODWILL AND NEGATIVE GOODWILL

The amount of the goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of a subsidiary, is as follows:

**Group**

| | HK$'000 |
|---|---|
| Cost: | |
| At beginning of year and 30 April 2004 | 3,602 |
| Accumulated amortisation and impairment: | |
| At beginning of year and 30 April 2004 | 3,602 |
| Net book value: | |
| At 30 April 2003 and 2004 | – |

As detailed in note 3 to the financial statements, on the adoption of SSAP 30, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to 1 May 2001, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively. Prior to 1 May 2002, the Group's remaining goodwill eliminated against consolidated reserves of HK$304,506,000 was fully impaired.

## 17. INTERESTS IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **41,510** | 41,510 |
| Due from subsidiaries | **1,539,498** | 1,549,921 |
| Due to subsidiaries | **(39,393)** | (38,018) |
| | **1,541,615** | 1,553,413 |
| Provision for impairment | **(1,351,549)** | (1,351,549) |
| | **190,066** | 201,864 |

## 17. INTERESTS IN SUBSIDIARIES (continued)

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are set out in note 44 to the financial statements.

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Share of net assets | **18,362** | 27,045 |
| Loans to jointly-controlled entities | **284** | 377 |
| Due to a jointly-controlled entity | **(305)** | (471) |
| | **18,341** | 26,951 |
| Provision for impairment | **(11,500)** | – |
| | **6,841** | 26,951 |

The balances with jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

The local governmental authority has imposed certain measures that the jointly-controlled entity has to invest further sum of capital in order to comply with the new statutory environmental protection requirement. As the directors consider it may not be the best use of the Group's resources, and accordingly, an impairment provision of HK$11,500,000 is made to reduce the carrying value of the jointly-controlled entity to its net realisable value.

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

Particulars of the jointly-controlled entities are as follows:

| Name | Business structure | Place of incorporation/ registration and operations | Effective equity interest attributable to the Group | Group's percentage of voting power | Principal activities |
|---|---|---|---|---|---|
| Guangxi Dexin Aluminium Industry Company Limited (廣西德鑫鋁業有限公司) | Corporate | Mainland China | 50% | 50% | Trading and manufacturing of aluminium products |
| 南京熊貓網絡科技有限公司 | Corporate | Mainland China | 50% | 50% | Data communication terminal products and network communication products |

The jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

The Group's percentage of profit share is the same as the effective equity interest attributable to the Group.

According to the joint venture agreements, neither of the joint venturers has unilateral control over the activities of these entities.

## 18. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

A summary of the results for the year and the assets as at the balance sheet date of a material jointly-controlled entity is set out below:

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| OPERATING RESULTS | | |
| Turnover | **114,246** | 123,240 |
| Net profit attributable to shareholders | **5,208** | 8,960 |
| Dividends | **8,411** | 4,673 |
| ASSETS AND LIABILITIES | | |
| Non-current assets | **39,570** | 48,624 |
| Current assets | **16,821** | 22,496 |
| Current liabilities | **(19,099)** | (28,411) |

## 19. INTERESTS IN ASSOCIATES

| | Group | |
|---|---|---|
| | 2004<br>HK$'000 | 2003<br>HK$'000 |
| Share of net assets | **15,553** | – |
| Unamortised goodwill on acquisition | **1,250** | – |
| | **16,803** | – |
| Loan to an associate | **2,100** | 2,100 |
| Due from associates | **13,287** | 15 |
| Due to associates | **(268)** | (524) |
| | **31,922** | 1,591 |
| Provision for impairment | **(2,100)** | (2,100) |
| | **29,822** | (509) |

## 19. INTERESTS IN ASSOCIATES (continued)

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

The table below lists the associates of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Particulars of the principal associates are as follows:

| Name | Business structure | Place of incorporation/ registration and operations | Nominal value of issued share/ paid-up capital | Effective equity interest attributable to the Group 2004 | 2003 | Principal activities |
|---|---|---|---|---|---|---|
| Alexis Resources Limited * | Corporate | British Virgin Islands/ Mainland China | US$10,000 | **49.44%** | 93% | Investment holding |
| Bullion Road Limited * | Corporate | Hong Kong | HK$100 | **46.12%** | 85.59% | Precious metals trading |
| Xinjiang Yakesi Resources Co. Ltd. (note (a)) * | Corporate | Mainland China | RMB5,000,000 | **47.96%** | 90.21% | Mining operations |
| 哈密市聚寶資源開發有限公司 (note (b)) * | Corporate | Mainland China | RMB5,000,000 | **47.48%** | 89.03% | Mining operations |

* During the year, certain equity interests in these former subsidiaries were disposed of. These former subsidiaries then become associates of the Group.

## 19. INTERESTS IN ASSOCIATES (continued)

Notes:

(a) Xinjiang Yakesi Resources Co. Ltd. is a sino-foreign equity joint venture established by Alexis Resources Limited ("Alexis") and a PRC venturer in Mainland China for a period of 50 years commencing from the date of issuance of its business licence on 12 October 1999.

(b) 哈密市聚寶資源開發有限公司 is an enterprise established by Xinjiang Yakesi Resources Co. Ltd. and a PRC venturer in Mainland China for a period of five years commencing from the date of issuance of its business licence on 12 July 1999. The tenure was subsequently extended for further three years to 2007.

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 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 (note 37(a)) were disposed to the Purchaser at an aggregate consideration of HK$30,222,000 in cash.

Further details of the transaction are set out in the Company's circular to its shareholders dated 24 September 2003.

A summary of the results for the year and the assets as at the balance sheet date of material associates is set out below:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| OPERATING RESULTS | | |
| Turnover | **19,454** | – |
| Net profit attributable to shareholders | **2,500** | – |
| ASSETS AND LIABILITIES | | |
| Non-current assets | **56,383** | – |
| Current assets | **11,403** | – |
| Current liabilities | **(14,046)** | – |
| Non-current liabilities | **(26,291)** | – |
| Minority interests | **(28)** | – |

## 20. INTANGIBLE ASSETS

**Group**

| | **Trading rights** HK$'000 | **Mining rights** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| Cost: | | | |
| At beginning of year | 19,984 | 76,685 | 96,669 |
| Disposals of subsidiaries | – | (76,685) | (76,685) |
| At 30 April 2004 | 19,984 | – | 19,984 |
| Accumulated amortisation and impairment: | | | |
| At beginning of year | 10,213 | 36,700 | 46,913 |
| Provided during the year | 575 | 2,828 | 3,403 |
| Impairment loss | 6,889 | – | 6,889 |
| Disposals of subsidiaries | – | (39,528) | (39,528) |
| At 30 April 2004 | 17,677 | – | 17,677 |
| Net book value: | | | |
| At 30 April 2004 | 2,307 | – | 2,307 |
| At 30 April 2003 | 9,771 | 39,985 | 49,756 |

## 21. INVESTMENTS IN SECURITIES

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Non-trading investments: | | |
| Listed equity investments in Hong Kong, at market value | **70** | 41 |
| Unlisted equity investments in Hong Kong, at fair value | **485** | 485 |
| Less: Provision for impairment | **(207)** | – |
| | **278** | 485 |
| Unlisted equity investments outside Hong Kong, at fair value | **22,178** | 22,078 |
| Less: Provision for impairment | **(17,164)** | (15,164) |
| | **5,014** | 6,914 |
| | **5,362** | 7,440 |
| Less: Portion classified as current assets | **(70)** | (41) |
| Long term portion | **5,292** | 7,399 |
| Trading investments: | | |
| Listed equity investments in Hong Kong, at market value | **5,392** | 2,957 |
| Investment in securities classified as current assets: | | |
| Non-trading investments | **70** | 41 |
| Trading investments | **5,392** | 2,957 |
| | **5,462** | 2,998 |

## 22. OTHER LONG TERM ASSETS

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Cost of membership of the Chinese Gold and Silver Exchange Society | **2,000** | 2,000 |
| Deposits with SEHK: | | |
| Compensation Fund | **200** | 200 |
| Replenished Compensation Fund | **7** | 7 |
| Fidelity Fund | **200** | 200 |
| Admission fee paid to the Hong Kong Securities Clearing Company Limited | **200** | 200 |
| Contribution in cash to the Guarantee Fund of the Central Clearing and Settlement System | **200** | 200 |
| Deposit with the Compensation Fund of HKFE | **–** | 100 |
| | **2,807** | 2,907 |

## 23. INVENTORIES

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| Raw materials | **–** | 1,014 |
| Work in progress | **–** | 4,876 |
| Finished goods | **–** | 2,103 |
| | **–** | 7,993 |

None of the above inventories was carried at net realisable value at the balance sheet date (2003: Nil).

## 24. 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 to 90 days.

An aged analysis of trade receivables as at 30 April is as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **34,715** | 38,204 |
| 31 – 60 days | **971** | 147 |
| 61 – 90 days | **551** | 651 |
| Over 90 days | **4,168** | 3,443 |
| | **40,405** | 42,445 |
| Provision for bad and doubtful debts | **(4,265)** | (1,322) |
| | **36,140** | 41,123 |

## 25. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND BANK TRUST ACCOUNT BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **8,281** | 9,772 | **3,960** | 1,344 |
| Time deposits | **17,555** | 17,822 | **–** | 3,188 |
| | **25,836** | 27,594 | **3,960** | 4,532 |
| Less: Pledged time deposits and cash and bank balances for: | | | | |
| Convertible bonds | **(19,743)** | (16,446) | **(3,188)** | (3,188) |
| Bank overdrafts | **(1,000)** | (1,000) | **–** | – |
| | **(20,743)** | (17,446) | **(3,188)** | (3,188) |
| Cash and cash equivalents * | **5,093** | 10,148 | **772** | 1,344 |
| Bank trust account balances ** | **12,391** | 6,922 | **–** | – |

* At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$7,000 (2003: HK$4,253,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

** Cash and bank balances held under trust accounts were kept by a wholly-owned subsidiary principally engaged in the securities broking business.

## 26. TRADE PAYABLES

An aged analysis of trade payables as at 30 April is as follows:

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| 0 – 30 days | **48,553** | 81,286 |
| 31 – 60 days | **9** | 818 |
| 61 – 90 days | **–** | – |
| Over 90 days | **34** | 1,187 |
| | **48,596** | 83,291 |

Included in the Group's trade payables as at 30 April 2003 was an amount due to an associate of approximately HK$35,224,000, which was repayable on similar credit terms to those offered to the major customers of the Group.

## 27. PROVISION FOR LONG SERVICE PAYMENTS

| | Group | |
|---|---|---|
| | **2004** | 2003 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **3,421** | 3,465 |
| Additional provision | **126** | 312 |
| Amounts utilised during the year | **(62)** | (356) |
| | **3,485** | 3,421 |
| Portion classified as current liabilities | **–** | (3,421) |
| Non-current portion | **3,485** | – |

The Group provides for the probable future long service payments expected to be made to employees under the Hong Kong Employment Ordinance, as further explained under the heading "Employee benefits" in note 3 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group as at the balance sheet date.

## 28. DUE TO RELATED COMPANIES

Amounts due to a related company are unsecured, interest-free and have no fixed terms of repayment.

## 29. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | | Group | |
|---|---|---|---|
| | Notes | **2004** | 2003 |
| | | **HK$'000** | HK$'000 |
| Bank overdrafts, secured and repayable on demand | (a) | **–** | 12,906 |
| Bank loans, secured and repayable: | | | |
| Within one year | | **1,474** | 4,953 |
| In the second year | | **1,416** | – |
| In the third to fifth years, inclusive | | **3,094** | – |
| | | **5,984** | 4,953 |
| Other loans: | | | |
| Unsecured | 28 | **4,292** | – |
| Secured | (b) | **–** | 15,000 |
| | | **4,292** | 15,000 |
| Total interest-bearing borrowings | | **10,276** | 32,859 |
| Portion classified as current liabilities | | **(1,474)** | (32,859) |
| Non-current portion | | **8,802** | – |

Notes:

(a) Included in the Group's bank overdrafts balance in prior year was an overdue bank overdraft of HK$11,536,000 previously withdrawn by the bank. Pursuant to a term loan agreement entered into between the Group and a bank dated 19 July 2003, the overdue bank overdraft facility was replaced by a HK$7,120,000 term loan facility which is repayable by 60 equal instalments of HK$131,126 over five years up to 18 July 2008.

(b) The other loans were borrowed from a non-financial institution, and bear interests at a rate of 8% per annum, and are secured by a corporate guarantee executed by the Company. The other loans were set off against the consideration receivable from the Purchaser in connection with the disposal of Alexis (notes 4 and 37(b)(ii)).

## 30. CONVERTIBLE NOTE AND BONDS

| | | Group and Company | |
|---|---|---|---|
| | Notes | **2004** | 2003 |
| | | **HK$'000** | HK$'000 |
| 2% convertible note | (a) | **8,000** | 8,000 |
| 4.25% convertible bonds | (b) | **150,000** | 150,000 |
| | | **158,000** | 158,000 |
| Portion classified as current liabilities | | **(8,000)** | – |
| Non-current portion | | **150,000** | 158,000 |

(a) **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"), a Taiwanese company owned by Helix Technologies Inc., a 2% convertible note due 16 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 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. 16 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 year.

## 30. CONVERTIBLE NOTE AND BONDS (continued)

**(b) 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 20 January 2006 in the principal sum of HK$150,000,000 were issued by the Company to the Bondholder on 20 January 2003. Further details of the Bonds are set out in the Company's circular dated 30 December 2002.

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 year.

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 "Guarantee"). Details of the security provided by the Group in relation to the Bonds and Guarantee are set out in note 38 to the financial statements.

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

## 31. DEFERRED TAX

The movement in deferred tax liabilities during the year is as follows:

**Deferred tax liabilities**

| | Accelerated tax depreciation | | Revaluation of properties | | Total | |
|---|---|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 | **2004** | 2003 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| At beginning of year | **20** | 20 | **–** | – | **20** | 20 |
| Charge/(credit) for the year | **(6)** | – | **1,759** | – | **1,753** | – |
| At 30 April | **14** | 20 | **1,759** | – | **1,773** | 20 |

## 32. DUE TO DIRECTORS

The loans from directors are unsecured, interest-free and are repayable after one year.

## 33. DUE TO A MINORITY SHAREHOLDER

The loan from a minority shareholder is unsecured, interest-free and is repayable after one year.

## 34. SHARE CAPITAL

**Shares**

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 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 |

## 34. SHARE CAPITAL (continued)

During the year ended 30 April 2003, the movements in share capital were as follows:

(i) 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 "Subscriber"), which is a subsidiary of Helix Technologies Inc., 60,000,000 ordinary shares of HK$0.01 each of the Company were subscribed by the Subscriber at a price of HK$0.25 per share (the "Subscription Price") for a total subscription price of HK$15 million on 16 October 2002.

The Subscription Price was arrived at after arm's length negotiations between the Company and the Subscriber, taking into account the general market conditions, and represented a premium of 20.19% over the closing price of the Company's shares of HK$0.208 per share as quoted on the SEHK on 28 August 2002.

(ii) Pursuant to various placing agreements dated 28 August 2002 entered into between the Company and more than six independent third parties (the "Placees"), a total of 80,000,000 ordinary shares of HK$0.01 each of the Company were placed by the Company and subscribed by the Placees at a price of HK$0.20 per share (the "Placing Price") for a total subscription price of HK$16 million on 16 October 2002.

The Placing Price was the higher of (a) HK$0.20 and (b) 95% of the arithmetic average of the closing prices of the shares of the Company during the three consecutive trading days immediately prior to (and excluding) 11 October 2002, on which a special general meeting was convened. The formula to determine the Placing Price was arrived at after arm's length negotiations between the Company and the Placees by reference to the prevailing market price of the Company's shares of HK$0.208 per share on the SEHK on 28 August 2002.

The proceeds net of related expenses received by the Company from the issue of shares described in (i) and (ii) above, amounting to approximately HK$30,422,000, were used to replay part of the outstanding bank loan to an extent of HK$20,000,000 with the balance being used for the general working capital of the Group. The excess of the consideration received over the nominal value of the shares issued, in the amount of HK$29,600,000, was credited to the share premium account (note 36).

Details of the share subscription and the placing are set out in the circular to the members dated 25 September 2002.

## 35. SHARE OPTION SCHEMES

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 SEHK announced amendments to Chapter 17 of 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, the directors consider that it was 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 existing share option scheme (the "Previous Scheme") adopted in 1994 with a life span of 10 years was terminated and a new share option scheme (the "New Scheme") was adopted.

Under the New 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 of the Company's subsidiaries. The New 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 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 Scheme since its adoption. The maximum number of shares issuable under share options to each eligible participant in the New Scheme within any 12-month period is limited to 1% of the shares of the Company in issue at exercise date. 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.

## 35. SHARE OPTION SCHEMES (continued)

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 10 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.

Notwithstanding the termination of the Previous Scheme, the share options previously outstanding thereunder remain valid. Pursuant to the Previous Scheme, there were 10,500,000 share options outstanding as at 30 April 2004, which if fully exercised, would represent approximately 2.55% of the Company's shares in issue at the balance sheet date.

## 35. SHARE OPTION SCHEMES (continued)

The following share options granted under the Previous Scheme were outstanding at the balance sheet date:

| Name or category of participant | Number of shares options outstanding at 1 May 2003 and 30 April 2004 | Date of grant* | Exercise price** HK$ | Exercise period |
|---|---|---|---|---|
| **Directors** | | | | |
| Mr. Haywood Cheung | **2,500,000** | 02/03/1998 | 2.8 | 02/09/1998 to 01/03/2008 |
| Mr. Felipe Tan | **500,000** | 20/01/1997 | 8.0 | 20/07/1997 to 19/01/2007 |
| | **1,750,000** | 02/03/1998 | 2.8 | 02/09/1998 to 01/03/2008 |
| Mr. So Pak Kwai | **30,000** | 20/01/1997 | 8.0 | 20/07/1997 to 19/01/2007 |
| | **4,780,000** | | | |
| Other employees in aggregate | **20,000** | 20/01/1997 | 8.0 | 20/07/1997 to 19/01/2007 |
| | **5,700,000** | 02/03/1998 | 2.8 | 02/09/1998 to 01/03/2008 |
| | **10,500,000** | | | |

* 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.

## 36. RESERVES

**Group**

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 25 of the financial statements.

The contributed surplus of the Group represents the excess of the nominal value of the shares of the subsidiaries acquired pursuant to the Group reorganisation in 1994 prior to the listing of the Company's shares (the "Reorganisation"), over the nominal value of the Company's shares issued in exchange therefor.

Pursuant to the relevant laws in Mainland China, a portion of profits of the Group's associates and jointly-controlled entities in Mainland China, subject to the discretion of its board of directors, were transferred to general reserve. Subject to certain restrictions set out in the relevant regulations in Mainland China and the articles of associations of the relevant companies, the general reserve may be used to set off losses or for capitalisation as paid-up capital.

**Company**

| | **Share premium account** | **Contributed surplus** | **Accumulated losses** | **Total** |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 May 2002 | 225,494 | 25,760 | (123,602) | 127,652 |
| Net loss for the year | – | – | (117,130) | (117,130) |
| Private placements | 29,600 | – | – | 29,600 |
| Share issue expenses | (578) | – | – | (578) |
| At 30 April and 1 May 2003 | 254,516 | 25,760 | (240,732) | 39,544 |
| Net loss for the year | – | – | (11,601) | (11,601) |
| At 30 April 2004 | 254,516 | 25,760 | (252,333) | 27,943 |

The contributed surplus of the Company represents the excess of the net asset value of the subsidiaries acquired pursuant to the Reorganisation, over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus is currently not available for distribution.

## 37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Disposal of subsidiaries

| | 2004<br>HK$'000 | 2003<br>HK$'000 |
|---|---|---|
| Net assets disposed of: | | |
| Intangible assets | **37,157** | – |
| Fixed assets | **15,138** | 4,694 |
| Interests in jointly-controlled entities | **2,417** | 8,566 |
| Inventories | **816** | – |
| Trade receivables | **186** | – |
| Prepayments, deposits and other receivables | **3,362** | 7,769 |
| Cash and bank balances | **4,611** | 239 |
| Trade payables | **(732)** | – |
| Other payables and accrued liabilities | **(5,471)** | (146) |
| Bank loans | **(3,178)** | – |
| Loan from a minority shareholder | **(1,595)** | – |
| Loan due to the Group | **(12,081)** | – |
| Tax payable | **(861)** | – |
| Minority interests | **(634)** | – |
| | **39,135** | 21,122 |
| Realised of reserves: | | |
| General reserve | **(1,084)** | – |
| Currency translation reserve | **(210)** | 5,729 |
| Loss on disposal of subsidiaries | **9,063** | (26,351) |
| Transfer to interests in associates | **(13,753)** | – |
| | **33,151** | 500 |
| Satisfied by: | | |
| Cash | **21,454** | 500 |
| Loan due to the Group (note 19) | **11,697** | – |
| | **33,151** | 500 |

## 37. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

**(a) An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:**

| | 2004 HK$'000 | 2003 HK$'000 |
|---|---|---|
| Cash consideration | **21,454** | 500 |
| Cash and cash balances disposed of | **(4,611)** | (239) |
| Set-off against other loan due by the Group | **(15,000)** | – |
| Net cash inflow of cash and cash equivalents in respect of the disposal of subsidiaries | **1,843** | 261 |

The subsidiaries disposed of during the year contributed HK$56,347,000 and HK$2,583,000 to the Group's consolidated turnover and loss after tax and minority interests for the year, respectively.

The subsidiaries disposed of during the year ended 30 April 2003 had no significant impact on the Group's consolidated turnover and loss after tax for the year.

**(b) Non-cash transaction**

(i) During the year ended 30 April 2003, the Group disposed of its entire interest in Simsen International Commodities Limited ("Simsen Commodities") to one of the directors and shareholders of Simsen Commodities at a consideration of HK$7,500,000, of which HK$1,000,000 was settled by cash during that year; HK$3,900,000 was duly settled in May 2003; and the remaining HK$2,600,000 was settled by the assignment of the amounts due to Simsen Commodities by the Group to the purchaser.

(ii) During the year, certain equity interests in former subsidiaries were disposed of (note 37(a)). A portion of the consideration amounting to HK$15,000,000 was settled by setting off against a loan due by the Group to a third party according to the instruction given by such party.

## 38. BORROWING FACILITIES

As at the balance sheet date, the Group's borrowing facilities were secured by the following:

**Interest-bearing bank and other borrowings**

(a) bank deposits of the Group amounting to HK$1,000,000;

(b) bank deposits of certain directors of the Company amounting to HK$2,644,000;

(c) bank deposits of a director of a wholly-owned subsidiary of the Company amounting to HK$1,000,000;

(d) first legal charges on certain investment properties of the Group with carrying value of HK$5,570,000;

(e) listed investments of a wholly-owned subsidiary of the Company with market value of HK$16,000;

(f) personal guarantees executed by certain directors of the Company and executives of the Group; and

(g) corporate guarantees executed by the Company.

**Bonds and Guarantee**

(a) first legal charges on certain investment properties of the Group with carrying value of HK$129,796,000;

(b) first legal charges on all of the leasehold land and buildings of the Group in Hong Kong with net book value of HK$38,034,000;

(c) first rental and rental deposit assignments of certain investment properties of the Group;

(d) bank deposits of the Group amounting to HK$19,743,000;

(e) a corporate guarantee from a substantial shareholder of the Company up to a principle sum of HK$56,328,000;

## 38. BORROWING FACILITIES (continued)

**Bonds and Guarantee (continued)**

(f) undertakings given by a substantial shareholder of the Company that he agrees to hold not less than 30,418,000 shares of the Company and he indemnifies the Guarantor in full demand from and against any amount payable under the Guarantee in excess of HK$118,000,000; and

(g) corporate guarantees executed by the Company.

## 39. CONTINGENT LIABILITIES

During the year, the Group disposed part of its interests of Alexis to the Vendor and the Company guarantees to procure Alexis the payment of a dividend of not less than HK$2,740,000 and HK$913,000 to Belmont for the years ending 30 April 2005 and 30 April 2006 respectively. Any deficiency will be paid by the Company.

At the balance sheet date, the Company had contingent liabilities not provided for in the financial statements as follows:

| | 2004 | 2003 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Guarantee for borrowing and guarantee facilities granted to subsidiaries | **163,983** | 162,906 |

## 40. OPERATING LEASE ARRANGEMENTS

**(a) As lessor**

The Group leases its investment properties (note 15) under operating arrangements, with leases negotiated for terms ranging from two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rental adjustments according to the then prevailing market conditions.

At 30 April 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2004 | 2003 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Within one year | **5,784** | 3,391 |
| In the second to fifth years, inclusive | **5,371** | 4,803 |
| | **11,155** | 8,194 |

## 40. OPERATING LEASE ARRANGEMENTS (continued)

**(b) As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 5 years.

At 30 April 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within one year | **7,754** | 2,719 |
| In the second to fifth years, inclusive | **2,467** | 2,951 |
| After five years | **–** | 6,472 |
| | **10,221** | 12,142 |

## 41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group had commitments of HK$44,516,000 and HK$55,735,000 in respect of in-warehouse purchases and sales of bullion contracts undertaken in the ordinary course of business existing at the balance sheet date.

In addition, the Company and the Group had a capital commitment of HK$17,160,000 (2003: Nil) in respect of acquisition of a 50% equity interest in Lee Fung Hong (Cheung's) Forex Dealers Limited ("LFH Forex") as set out in note 42 below.

Save as disclosed above, the Group and the Company did not have any other significant commitments as at 30 April 2004.

## 42. CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions with LFH Forex, a company of which Mr. Haywood Cheung, a director of the Company, is a shareholder:

| | **2004** | 2003 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Rental income received | **1,086** | 1,630 |

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.

Further details of the above transactions with LFH Forex are included in the section headed "Connected transactions" in the Report of the Directors.

In addition, on 26 March 2004, the Company entered into (i) a conditional sale and purchase agreement with Mr. Haywood Cheung (''Mr. Cheung"), a director and a substantial shareholder of the Company in relation to the acquisition of a 50% equity interest in LFH Forex (the "Acquisition") for a consideration of HK$17,160,000; and (ii) a conditional placing agreement with Karl-Thomson Securities Company Limited, which is a third party of the Group and acts as a sole placing agent of the Company, in relation to a placement (the "Placing") of 95,000,000 new shares of the Company at a placing price of HK$0.088 per share (i.e., the aggregate gross proceeds from the Placing are HK$8,360,000) to more than six independent institutional investors.

Pursuant to the agreement in respect of the Acquisition, the consideration of the Acquisition will be satisfied by way of issue of 100,000,000 new shares of the Company to Mr. Cheung at a price of HK$0.088 per share (or HK$8,800,000) and the balance of HK$8,360,000 in cash. The net proceeds from the Placing are estimated to be HK$7,360,000 which will be used to fund part of the consideration of the Acquisition. As the balance sheet date, neither the Acquisition nor the Placing has been completed.

As the Acquisition constituted a discloseable and connected transaction of the Company under Chapter 14 of the Listing Rules, an ordinary resolution to approve of the Acquisition and the Placing was passed at a special general meeting of the Company on 6 May 2004.

## 43. RELATED PARTY TRANSACTIONS

(a) In addition to the connected transactions as set out in note 42 and those disclosed in other notes to these financial statements, the Group had the following material transactions with related parties during the year:

| | Notes | **2004** **HK$'000** | 2003 HK$'000 |
|---|---|---|---|
| Interest paid to a related company | (i) | **7** | 198 |
| Management fee received from: | | | |
| – a jointly-controlled entity | (ii) | **343** | 280 |
| – related companies | (ii) | **310** | 391 |
| – associates | (ii) | **245** | 811 |
| Management fee paid to a related company | (ii) | **172** | – |
| Rental expense paid to related companies | (iii) | **551** | 1,047 |
| Administrative fee paid to an associate | (iii) | **–** | 298 |
| Promotion service fees paid to an associate | (iii) | **–** | 232 |
| Service fees paid to related companies | (iii) | **–** | 443 |
| Purchases of goods from a jointly-controlled entity | (iv) | **31,416** | 20,528 |
| Dividend income received from: | | | |
| – a related company | | **564** | 527 |
| – a jointly-controlled entity | | **4,218** | 2,356 |
| Purchase of mining rights from a minority shareholder | | **–** | 3,846 |

Notes:

(i) The interest paid to a related company arose from loan, further details of which, including the terms, are disclosed in note 28 to the financial statements.

(ii) The management fee received were based on the actual costs incurred for the services provided.

## 43. RELATED PARTY TRANSACTIONS (continued)

(iii) The management fee, administrative fee, rental expense, promotion service fees and services fees paid were based on the actual cost incurred.

(iv) 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 (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 (2003: HK$32,000,000). As at the balance sheet date, the Group had not utilised any of the banking facilities.

(d) During the year ended 30 April 2003, the Group partially disposed of certain equity interest in its subsidiaries to a director of the subsidiaries at a cash consideration of HK$350,000.

## 44. PARTICULARS OF SUBSIDIARIES

The table below lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share paid-up capital | Percentage of equity attributable to the Group 2004 | 2003 | Principal activities |
|---|---|---|---|---|---|
| **Held directly** | | | | | |
| Firstmount International Limited | British Virgin Islands/ Hong Kong | US$1 | **100** | 100 | Investment holding |
| **Held indirectly** | | | | | |
| Cheung's Gold Dealers Limited | Hong Kong | HK$10,000,000 | **100** | 100 | Metal trading and property holding for rental purposes |
| Cheung's Gold Traders Limited | Hong Kong | HK$5,000,000 | **100** | 100 | Metal broking and trading |
| Cheung's Securities Brokers Limited | Hong Kong | HK$10,000,000 | **100** | 100 | Securities broking and trading and provision of margin financing |
| Excel Vision Development Limited | Hong Kong | HK$1,000 | **100** | 100 | Property holding for rental purposes |
| Lee Fung Hong Bullion Limited | Hong Kong | HK$30,000,000 | **100** | 100 | Property holding for rental purposes |

## 44. PARTICULARS OF SUBSIDIARIES (continued)

| Name | Place of incorporation/ registration and operations | Nominal value of issued ordinary share paid-up capital | Percentage of equity attributable to the Group 2004 | 2003 | Principal activities |
|---|---|---|---|---|---|
| **Held indirectly (continued)** | | | | | |
| Lee Fung Hong (Cheung's) Bullion Limited | Hong Kong | HK$1,000,000 | **100** | 100 | Metal broking and trading |
| Serrano Enterprises Limited | Hong Kong | HK$20,000 | **100** | 100 | Property holding |
| Simsen Capital Finance Limited | Hong Kong | HK$1,000 | **100** | 100 | Loan financing |
| Simsen Metals Company Limited | Hong Kong | Ordinary HK$100 Deferred HK$300,000* | **100** | 100 | Investment holding and provision of management services |
| Simsen Metals Trading Limited | Hong Kong | HK$1,000 | **100** | 100 | Metals trading |
| Simsen Services Company Limited | Hong Kong | HK$10,000 | **100** | 100 | Provision of management services |
| Topmost Resources Limited | British Virgin Islands/ Hong Kong | US$100 | 100 | 100 | Investment holding |

* The non-voting deferred shares have no rights to dividends (other than a fixed non-cumulative dividend at a rate of 5% per annum for any financial year in respect of which the net profit available for dividend exceeds HK$1,000,000,000) and no rights to vote at general meetings, but carry the rights to receive the balances of any surplus in return of capital in a winding-up after the holders of the ordinary shares have received a total return of HK$100,000,000,000.

## 45. POST BALANCE SHEET EVENT

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

Pursuant to an agreement dated 27 July 2004 entered into between Broadbased Developments Limited (the "Vendor"), a wholly-owned subsidiary of the Company, and Dalian Tiantu Cable Television Network Co., Ltd. (大連天途有線電視網絡股份有限公司, the "Purchaser"), a 7% equity interest in Dalian Tian Pin Technology Development Company Limited (大連天頻科技開發有限公司, the "Investee Company") held by the Vendor was disposed to the Purchaser at a cash consideration of RMB3,873,000 (equivalent to HK$3,620,000) which shall be satisfied within 20 days from the date of the agreement. The Purchaser is a company incorporated in the PRC and currently owns a 45% equity interest in the Investee Company. The proceeds of the disposal will be used to reduce the short term liabilities of the Group. The transaction constituted a discloseable transaction under Chapter 14 of the Listing Rules. Further details of the transaction are set out in a circular to shareholders of the Company dated 17 August 2004.

## 46. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of revised SSAP 12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 August 2004.