



Interim Report 2004 - 2005

SIMSEN INTERNATIONAL
C O R P O R A T I O N L I M I T E D
(incorporated in Bermuda with limited liability)

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HONORARY CHAIRMAN

Mr. CHEUNG Yan Lung CBE, OStJ, JP

DIRECTORS

Executive Directors

Mr. Haywood CHEUNG (*Chairman & Managing Director*)

Mr. Felipe TAN (*Deputy Managing Director*)

Mr. SO Pak Kwai

Dr. CHANG Si-Chung

Independent Non-Executive Directors

Mr. CHAN Ka Ling, Edmond

Mr. WONG Yu Choi

Mr. HONG Po Kui, Martin

COMPANY SECRETARY

Ms. KO Yuen Kwan

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

3rd Floor
Cameron Commercial Centre
468 Hennessy Road
Causeway Bay
Hong Kong

RESIDENT REPRESENTATIVE

Codan Services Limited
Clarendon House
Church Street
Hamilton HM11
Bermuda

PRINCIPAL BANKERS

Bank of Communications, Hong Kong Branch
Bank of China (Hong Kong) Limited
Industrial and Commercial Bank of
China (Asia) limited
Wing Lung Bank Limited

SOLICITORS

Chiu & Partners

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor Hutchison House
10 Harcourt Road
Central
Hong Kong

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Tengis Limited
Ground Floor
BEA Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Condensed Consolidated Profit and Loss Account – unaudited

For the six months ended 31 October 2004

HK\$'000	Notes	2004	2003
Turnover	2	21,008	71,551
Cost of sales		(5,775)	(47,542)
Gross profit		15,233	24,009
Other revenue and gains		1,545	1,569
Selling and distribution costs		(340)	(864)
Administrative expenses		(17,328)	(20,996)
Impairment loss on investments in securities		–	(210)
Gain/(loss) on disposal of a subsidiary		(4)	–
Gain on disposal of investments in securities		1,111	–
Other operating expenses		(76)	(3,194)
Profit/(Loss) from operating activities	3	141	314
Finance costs, net	4	(1,434)	(2,775)
Share of results of:			
Jointly-controlled entities		260	2,736
Associates		10,721	–
Amortisation of goodwill		(625)	–
Gain on disposal of associates		181	–
Profit/(Loss) before tax		9,244	275
Tax	5	(2,255)	(1,554)
Profit/(Loss) before minority interests		6,989	(1,279)
Minority interests		–	549
Profit/(Loss) attributable to shareholders		6,989	(730)
Profit/(Loss) per share	6		
– Basic (cents)		1.69	(0.18)
– Diluted (cents)		1.08	N/A

Condensed Consolidated Balance Sheet – unaudited



31 October 2004

HK\$'000	Notes	(Unaudited) At 31 October 2004	(Audited) At 30 April 2004
NON-CURRENT ASSETS			
Fixed assets		40,332	41,833
Investment properties		135,366	135,366
Interests in jointly-controlled entities		4,920	6,841
Interests in associates		36,942	29,822
Intangible assets		2,235	2,307
Investments in securities	7	3,278	5,292
Other long term assets		2,807	2,807
		225,880	224,268
CURRENT ASSETS			
Investments in securities	7	6,074	5,462
Trade receivables	8	36,607	36,140
Prepayments, deposits and other receivables		2,922	3,149
Gold on hand		241	201
Bank trust account balances		12,712	12,391
Pledged bank deposits		21,017	20,743
Cash and cash equivalents		12,813	5,093
		92,386	83,179
CURRENT LIABILITIES			
Trade payables	9	51,509	48,596
Tax payable		9,153	8,753
Other payables and accrued liabilities		10,343	8,242
Due to related companies		–	1
Interest-bearing bank loans and other borrowings		9,534	1,474
Convertible note and bonds	10c	150,000	8,000
		230,539	75,066
NET CURRENT ASSETS/(LIABILITIES)		(138,153)	8,113
TOTAL ASSETS LESS CURRENT LIABILITIES		87,727	232,381
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings		8,404	8,802
Convertible bonds	10c	–	150,000
Provision for long service payments		3,535	3,485
Deferred tax		1,773	1,773
Due to directors		170	1,390
		13,882	165,450
		73,846	66,931
CAPITAL AND RESERVES			
Share capital	10	4,126	4,126
Reserves		69,720	62,805
		73,846	66,931

Condensed Consolidated Cash Flow Statement – unaudited

For the six months ended 31 October 2004

HK\$'000	2004	2003
Net cash inflow from operating activities	2,213	1,830
Net cash inflow from investing activities	6,236	2,960
Net cash outflow from financial activities	(729)	(1,503)
Increase in cash and cash equivalents	7,720	3,287
Cash and cash equivalents at beginning of period	6,093	(1,758)
Cash and cash equivalents at end of period	13,813	1,529
Analysis of balances of cash and cash equivalents		
Cash and bank balances	12,813	13,823
Time deposits with original maturity of less than three months when acquired, pledged as security for bank overdraft facilities	1,000	1,000
Bank overdrafts, secured	–	(13,294)
	13,813	1,529

Condensed Consolidated Statement of Changes in Equity – unaudited



For the six months ended 31 October 2004

HK\$'000	Issued capital	Share premium account	General reserve	Currency translation reserve	Non-trading investment revaluation reserve	Accumulated losses	Sub-total	Total
At 1 May 2004	4,126	254,516	1,478	55	60	(193,304)	62,805	66,931
Release of reserve upon disposal of interest in an associate	-	-	(102)	19	-	-	(83)	(83)
Movement in fair value	-	-	-	-	9	-	9	9
Net profit for the period	-	-	-	-	-	6,989	6,989	6,989
At 31 October 2004	4,126	254,516	1,376	74	69	(186,315)	69,720	73,846
At 1 May 2003	4,126	254,516	1,117	222	31	(192,147)	63,739	67,865
Movement in fair value	-	-	-	-	28	-	28	28
Net loss for the period	-	-	-	-	-	(730)	(730)	(730)
At 31 October 2003	4,126	254,516	1,117	222	59	(192,877)	63,037	67,163

Notes to Interim Financial Statements

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These interim financial statements are unaudited, but have been reviewed by the Company's Audit Committee. The unaudited interim financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and in compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The basis of preparation and accounting policies adopted in preparing these interim financial statements are the same as those adopted in preparing the Company's annual financial statements for the year ended 30 April 2004.

2. SEGMENTAL INFORMATION

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

Summary details of the Group's business segments are as follows:

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

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

Notes to Interim Financial Statements



2. SEGMENTAL INFORMATION (continued)

(a) Business segments

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

For the six months ended 31 October

HK\$'000	Securities		Shipment sales		Mining		Corporate and Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
Revenue:										
Sales to external customers	15,096	16,030	5,810	35,559	-	18,240	102	1,722	21,008	71,551
Other revenue and gains	1,090	464	13	171	-	17	442	848	1,545	1,500
Total revenue	16,186	16,494	5,823	35,730	-	18,257	544	2,570	22,553	73,051
Segment results	769	3,821	(76)	(552)	-	2,022	585	(4,989)	1,278	302
Unallocated gains									76	69
Unallocated expenses									(1,213)	(57)
Profit/(Loss) from operating activities									141	314
Finance costs, net									(1,434)	(2,775)
Share of results of:										
- jointly-controlled entities									260	2,736
- associates									10,721	-
Amortisation of goodwill									(625)	-
Gain/(Loss) on disposal of associates									181	-
Profit/(Loss) before tax									9,244	275
Tax									(2,255)	(1,554)
Profit/(Loss) before minority interests									6,989	(1,279)
Minority interests									-	549
Net Profit/(Loss) attributable to shareholders									6,989	(730)

(b) Geographical segments

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

For the six months ended 31 October

HK\$'000	Mainland China		Hong Kong		Others		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
Segment revenue:								
Sales to external customers	-	19,110	24,546	42,429	(3,538)	10,012	21,008	71,551
Segment results	1,111	1,995	3,705	(1,407)	(3,538)	(286)	1,278	302

Notes to Interim Financial Statements

3. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

HK\$'000	For the six months ended 31 October	
	2004	2003
Amortisation of intangible assets	72	2,525
Cost of inventories sold and services provided	6	47,542
Depreciation	1,766	2,666
Dividend income from listed investments	1	1
Exchange losses	(8)	(7)
Net rental income	(102)	705
Profit on disposal of fixed assets	(13)	–
Profit on disposal of interest in securities	(1,111)	–
Provision for bad and doubtful debts	4	–
Provision for loss on other long term assets	–	210
Staff costs	7,965	8,872
Unrealised holding (profit)/loss on trading investments	(612)	(4,734)

4. FINANCE COSTS

HK\$'000	For the six months ended 31 October	
	2004	2003
Interest on bank loans, overdrafts and other loans wholly repayable within five years	92	921
Interest on convertible note	80	80
Interest on convertible bonds	3,188	3,188
Expenses in relation to issue of convertible bonds	750	750
Rental income pledged against the convertible bonds interests	(2,676)	(2,164)
	1,434	2,775

Notes to Interim Financial Statements



5. TAXATION

HK\$'000	For the six months ended 31 October	
	2004	2003
Hong Kong Profit Tax		
Current taxation	625	–
Underprovision in prior period	–	94
Elsewhere than Hong Kong	165	689
	790	783
Share of tax attributable to jointly-controlled entities	1,387	771
Share of tax attributable to associates	78	–
	2,255	1,554

Hong Kong profit tax is calculated at 17.5% (2003: 17.5%) of the estimated of assessable profit for the period. The underprovision in prior period in respect of Hong Kong profit tax is calculated at 16% of the assessable profit arising in Hong Kong before 1 May 2003. 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.

6. EARNINGS/(LOSS) PER SHARE

HK\$'000	For the six months ended 31 October	
	2004	2003
The calculation of earnings/(loss) per share is based on the following data:		
Earnings/(Loss) for the purposes of basic earnings/(loss) per share	6,989	(730)
Effect of dilutive potential shares in respect of convertible bonds	3,938	–
	10,927	(730)
Weighted average number of shares for the purpose of basic earnings/(loss) per share	412,566,000	412,566,000
Effect of dilutive potential shares in respect of convertible bonds	600,000,000	–
	1,012,566,000	412,566,000
Earnings/(Loss) per share		
Basic (cents)	1.69	(0.18)
Diluted (cents)	1.08	N/A

Notes to Interim Financial Statements

7. INVESTMENTS IN SECURITIES

HK\$'000	At 31 October 2004	At 30 April 2004
Non-trading investments:		
Listed equity investments in Hong Kong, at market value	79	70
Unlisted equity investments in Hong Kong, at fair value	278	278
Unlisted equity investments outside Hong Kong, at fair value	3,000	5,014
	3,357	5,362
Less: Portion classified as current assets	(79)	(70)
Investment in securities classified as non-current assets	3,278	5,292
Trading investments:		
Listed equity investments in Hong Kong, at market value	5,995	5,392
Investment in securities classified as current assets:		
Non-trading investments	79	70
Trading investments	5,995	5,392
	6,074	5,462

8. TRADE RECEIVABLES

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

- (a) cash before or upon delivery; or
- (b) open credit of 31-90 days.

An aged analysis of trade receivables is as follows:

HK\$'000	At 31 October 2004	At 30 April 2004
0 – 30 days	21,693	34,715
31 – 60 days	10,029	971
61 – 90 days	75	551
Over 90 days	8,475	4,168
	40,272	40,405
Provision for bad and doubtful debts	(3,665)	(4,265)
	36,607	36,140



9. TRADE PAYABLES

An aged analysis of trade payables is as follows:

HK\$'000	At 31 October 2004	At 30 April 2004
0 – 30 days	51,453	48,553
31 – 60 days	–	9
61 – 90 days	–	–
Over 90 days	56	34
	51,509	48,596

10. SHARE CAPITAL

(a) Shares

HK\$'000	At 31 October 2004	At 30 April 2004
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

(b) Share options

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

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

Under the New Share Option Scheme the directors may, on or before 3 March 2012, grant options to eligible participants, including the Company's directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, and any minority shareholder in the Company's subsidiaries. The New Share Option Scheme became effective on 4 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

Notes to Interim Financial Statements

10. SHARE CAPITAL (continued)

(b) Share options (continued)

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

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

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

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

Notwithstanding the termination of the Previous Share Option Scheme, the share options previously outstanding thereunder remain valid. Pursuant to the Previous Share Option Scheme, there were 7,200,000 share options outstanding as at 31 October 2004, which if fully exercised, would represent approximately 1.75% of the Company's shares in issue as at that date.



10. SHARE CAPITAL (continued)

(b) Share options (continued)

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

Name or category of participant	Number of shares in respect of options			Date of grant of share options*	Exercise price of share options** HK\$	Exercise period of share options outstanding
	At 1 May 2004	Lapsed during the period	At 31 October 2004			
Directors						
Mr. Haywood Cheung	2,500,000	–	2,500,000	02/03/1998	2.8	02/09/1998 to 01/03/2008
Mr. Felipe Tan	500,000	–	500,000	20/01/1997	8.0	20/07/1997 to 19/01/2007
	1,750,000	–	1,750,000	02/03/1998	2.8	02/09/1998 to 01/03/2008
Mr. So Pak Kwai	30,000	–	30,000	20/01/1997	8.0	20/07/1997 to 19/01/2007
	4,780,000	–	4,780,000			
Other employees in aggregate	20,000	–	20,000	20/01/1997	8.0	20/07/1997 to 19/01/2007
	5,700,000	3,300,000	2,400,000	02/03/1998	2.8	02/09/1998 to 01/03/2008
	<u>10,500,000</u>	<u>3,300,000</u>	<u>7,200,000</u>			

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

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

Notes to Interim Financial Statements

10. SHARE CAPITAL (continued)

(c) Convertible note and bonds

HK\$'000	Notes	At 31 October 2004	At 30 April 2004
2% convertible note	(i)	–	8,000
4.25% convertible bonds	(ii)	150,000	150,000
		150,000	158,000

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

Pursuant to a subscription agreement dated 28 August 2002 entered into between the Company and 立億投資股份有限公司 (the “Noteholder”), which is a Taiwanese company owned by Helix Technologies Inc., a 2% convertible note due 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 proceeds from the issue of the Note have been utilised to provide working capital for the Group’s operations.

The Note is convertible into ordinary shares of HK\$0.01 each of the Company at a conversion price equivalent to an arithmetic average of the closing prices of the shares of the Company during the 10 consecutive trading days immediately prior to (and excluding) the maturity date of the Note, i.e. 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 expired on the Maturity Date.



10. SHARE CAPITAL (continued)

(c) Convertible note and bonds (continued)

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

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

The Bonds are convertible into ordinary shares of HK\$0.01 each of the Company, in units of HK\$2,000,000, at a conversion price of HK\$0.25 (subject to adjustments). The conversion in full of the Bonds would, under the present capital structure of the Company, result in the issue of 600,000,000 shares of the Company. No Bonds were converted into shares of the Company during the six months ended 31 October 2004.

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

The interest payments of the Bonds are secured by bank deposits of the Group and rental income, rental deposits and insurance proceeds on certain properties which were sold by the Group on 13 December 2004. The Bonds have been technically defaulted and the proceeds from the sale of the said properties have been deposited with the Guarantor and shall be used to redeem the Bonds. Sums deposited with the Guarantor are sufficient to repay the principal outstanding amount of the Bonds in full on redemption.

Notes to Interim Financial Statements

11. RELATED PARTY TRANSACTIONS

- (a) In addition to those disclosed in other notes to these financial statements, the Group had the following material transactions with related parties during the period:

HK\$'000	Notes	For the six months ended 31 October	
		2004	2003
Loan interest paid to a related company	(i)	–	64
Net interest paid to a related company	(ii)	–	7
Management fee received from:			
– a jointly-controlled entity	(iii)	234	140
– a related company	(iii)	–	522
– associates	(iii)	40	160
Rental expense paid to related companies	(iv)	79	323
Services fees paid to related companies	(v)	9	31
Purchases of goods from a jointly-controlled entity	(vi)	–	28,744

- (i) The interest paid to a related company arose from a loan from a related company which is unsecured, bears interest at the London Interbank Offered Rate plus 2% per annum and is repayable within the period up to 30 September 2005.
- (ii) The interest paid to a related company arose from an amount due to a related company to whom a futures account is maintained. The interest is charged at prime rate plus 1% per annum.
- (iii) The management and administrative fees paid and received were based on actual costs incurred for the services provided.
- (iv) The monthly rental payable was based on the actual cost incurred.
- (v) The service fees were based on the actual cost incurred for the services provided.
- (vi) The directors consider that the purchases were made according to terms and conditions comparable to those offered to other customers of the jointly-controlled entity.
- (b) Cheung's Enterprise Holdings Limited, a shareholder of the Company, has provided a corporate guarantee and undertakings in relation to its shareholding in a company which was a substantial shareholder of the Company for banking facilities granted to a subsidiary of the Company totalling HK\$56,328,000 as at 31 October 2004 (30 April 2004: HK\$56,328,000).
- (c) Mr. Haywood Cheung, a director of the Company, has guaranteed banking facilities granted to a subsidiary of the Company totalling HK\$32,000,000 (30 April 2004: HK\$32,000,000). As at 31 October 2004 and 30 April 2004 the Group had not utilised any of the banking facilities.





12. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties under operating arrangements, with leases negotiated for terms of two to five 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 31 October 2004, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	(Unaudited) At 31 October 2004	(Audited) At 30 April 2004
HK\$'000		
Within one year	132	5,784
In the second to fifth years, inclusive	–	5,371
	132	11,155

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from 2 to 5 years.

At 31 October 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	(Unaudited) At 31 October 2004	(Audited) At 30 April 2004
HK\$'000		
Within one year	1,334	7,754
In the second to fifth years, inclusive	1,276	2,467
	2,610	10,221

Notes to Interim Financial Statements

13. COMMITMENTS

In addition to the operating lease commitments detailed in note 12 above, the Group had commitments of HK\$194,278,430 and HK\$6,002,425 in respect of in-warehouse purchases and sales of bullion contracts undertaken in the ordinary course of business existing at 31 October 2004.

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 as set out in note 14 below.

Save as disclosed above, the Group and the Company did not have any other significant commitments as at 31 October 2004.

14. POST BALANCE SHEET EVENTS

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

1. Pursuant to a conditional sale and purchase agreement dated 26 March 2004 between the Company and Mr. Haywood Cheung, who is a director and substantial shareholder of the Company, 50% of the equity interest of Lee Fung Hong (Cheung's) Forex Dealers Limited was acquired by the Company from Mr. Haywood Cheung for a consideration of HK\$17,160,000.00 (the "Acquisition"), which was satisfied (i) as to HK\$8,360,000 in cash and (ii) as to HK\$8,800,000 by the issue and allotment by the Company of a total of 100,000,000 new ordinary shares of HK\$0.01 each in the share capital of the Company. The Acquisition constituted a connected transaction of the Company under the Listing Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. The Acquisition was completed on 10 November 2004. Further details of the Acquisition are set out in the circular to the shareholders of the Company dated 20 April 2004.
2. Pursuant to a conditional placing agreement dated 26 March 2004 between the Company and Karl-Thomson Securities Company Limited (the "Placing Agent"), the Placing Agent agreed to procure placees to subscribe for 95,000,000 new ordinary shares of HK\$0.01 each in the share capital of the Company at the placing price of HK\$0.088 per placing share (the "Placing"). The Placing was completed on 10 November 2004. The proceeds from the Placing for HK\$8,360,000 was used to fund the cash consideration of the Acquisition as stated in 1 above. Further details of the Placing are set out in the circular to the shareholders of the Company dated 20 April 2004.



14. POST BALANCE SHEET EVENTS (continued)

3. Pursuant to a provisional sale and purchase agreement dated 26 August 2004 between Serrano Enterprises Limited, a wholly-owned subsidiary of the Company, as vendor (the "Vendor") and Invest Champion Limited as purchaser (the "Purchaser"), the Vendor agreed to dispose the property at Basement, Shops 1 and 2 on Ground Floor, First Floor and Second Floor of Cameron Commercial Centre, Nos. 458-468 Hennessy Road, Causeway Bay, Hong Kong (the "Disposal") to the Purchaser for a consideration of HK\$129,800,000. The Disposal was completed on 13 December 2004. The proceeds from the Disposal have been deposited with Bank of Communications, Hong Kong Branch, and shall be used to redeem the convertible bonds due 2006 in the principal sum of HK\$150,000,000 issued by the Company on 20 January 2003, which have been technically defaulted due to the Disposal. Sums deposited with Bank of Communications are sufficient to repay the principal outstanding amount of the convertible bonds in full on redemption. Further details of the Disposal are set out in the circular to the shareholders of the Company on 22 September 2004.

4. Pursuant to a provisional sale and purchase agreement dated 8 October 2004 between Serrano Enterprises Limited, a wholly-owned subsidiary of the Company, as vendor (the "Vendor") and Lucky Harbour International Limited as purchaser (the "Purchaser"), the Vendor agreed to dispose the property at Third Floor of Cameron Commercial Centre, Nos. 458-468 Hennessy Road, Causeway Bay, Hong Kong (the "Disposal") to the Purchaser for a consideration of HK\$12,350,000. The Disposal will be completed on 1 March 2005 or such other date as the parties to the sale and purchase agreement may agree in writing. Further details of the Disposal are set out in the circular to the shareholders of the Company on 29 October 2004.

15. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim financial statements were approved by the Board of Directors on 17 January 2005.

Management Discussion and Analysis

BUSINESS REVIEW

Profit for the Group was HK\$6,989,000 for the period under review while the loss between May and October 2003 was HK\$730,000. Turnover for the period under review was HK\$21,008,000, while it was HK\$71,551,000 for the same period in 2003.

Financial Services

Hong Kong economy remained strongly ignited by the V shaped rebound since May 2003. Current third quarter GDP increased by 7.2% in real terms when compared to the same period of last year. With business investment continued to grow, fewer households saddled with negative equity mortgage and unemployment bottomed out, local consumer spending was able to hold firm, benefiting the whole retail sector and the property market at large.

However, some of the looming uncertainties like rising US interest rate and surging commodity prices, including crude oil, and metals had sporadically depressed the performances of most of the world's major financial markets, and Hong Kong was no exception. Were it not for a plummeting US Dollar and a red hot China's economy came to the rescue, the 6 years long deflation that began in November 1998 might resurface in Hong Kong again.

For the period under review, Hong Kong securities market was in an uptrend most of the time. The few exceptions were probably the results of spiking oil price that had happened occasionally. Notwithstanding, hot money from Europe and US continued to pump into Hong Kong asset market, alleviating interest rate rising pressure and solidifying an ascending equity market.

The Group's stock broking division, however, was unable to benefit from such upsurge. Total revenue for the current interim reporting period ended 31 October 2004 registered a decline of 11.5% compared with the same period of last year. A breakdown of the division's revenue revealed that among other things, relatively low commission earning and a drop of the division's investment profit were possibly the two main culprits to be blamed.

Nonetheless, earning growth from bullion trading division was explosive. While operational costs decreased by 13% over the same period of last year, total revenue including commission and trading profit had experienced phenomenal growth of 102% and 1,679% respectively. Undoubtedly, strong demand from Asian jewelers, rising commodity prices and depreciation risk of the Dollar were able to free bullion from its "secular bear market" once and for all, exactly what the division had predicted in 2003. In the face of such a volatile bullion market, hot money and speculative interests began to play the market in droves, so much so that the division was able to harvest handsomely from such a sudden surge of trading demand.



BUSINESS REVIEW (continued)

Base Metals

Following the policy of the Group to reduce the exposure to the metal market, the turnover of the metal operations reduced by more than 80%. Due to more restrictive environmental requirements, increased costs had reduced the contribution of the Aluminium smelter to the Group.

PROSPECT

By comparing the revenue mix of the securities and bullion divisions between the interim reporting period of 2003 and 2004, one can easily conclude that an increasing number of retail investors tend to have a more diversified investment portfolio than before. On top of holding traditional securities, they also opt for unit trusts or more exotic financial products, such as foreign exchange, bullion, or derivatives.

To cater to such a shift of interest, the Group has already re-activated the trading right of its Futures operation, hoping that it would compliment its closely related equity broking division. By early next year, its Futures broking division is expected to fully resume its operation for the public. In addition, the Group may branch out to the leveraged foreign currency exchange market as well. The main purpose is to increase market shares and become more competitive by providing more investment vehicles for our existing or potential customers to choose from. Furthermore, by combining all those investment products under one roof, the Group hopes to maximize the resulting synergic effect in terms of cross selling, allocation of financial resources and cost control.

The Group is of the opinion that as consumer taste never stop to evolve with respect to different economic cycle, its financial division will have to keep up or risk losing its market share. Accordingly, the Group has always tried to tailor more alternative financial products to meet the needs of its clientele. Looking back, if the Group had not strengthened its bullion division beginning two years ago, it would not have had enough resources to digest the abrupt upsurge of market demand. This perhaps can exemplify why it is so important to monitor market needs and plan in advance. The Group is confident that by consolidating Securities, Bullion, Futures and perhaps leveraged foreign currency trading under its associated company, its financial service will emerge as a stronger and better profit centre.

On the other hand, fewer resources will be put in the volatile metal market and the metal operations will be further trimmed down.

Management Discussion and Analysis

OTHER SEGMENT

The corporate and other segment comprises the holding of investment properties, provision of consultancy, accounting and secretarial services as well as loan financing, together with corporate income and expense items. The results in this segment mainly comprised of the gain on disposal of long term investment in securities.

CAPITAL STRUCTURE

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

The interest payments of the convertible bonds are secured by bank deposits of the Group and rental income, rental deposits and insurance proceeds on certain properties which were sold (the “Disposal”) by the Group on 13 December 2004. The convertible bonds have been technically defaulted. The proceeds from the Disposal have been deposited with Bank of Communications, Hong Kong Branch (the “Guarantor”) and shall be used to redeem the convertible bonds. Sums deposited with the Guarantor are sufficient to repay the principal outstanding amount of the convertible bonds in full on redemption.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 October 2004, the current ratio of the Group was at approximately 40% and the net current liabilities were approximately HK\$138,153,000. The Group’s gearing ratio, which was derived by dividing the aggregate amount of bank borrowings, convertible bonds and other interest-bearing loan by the amount of shareholder’s equity, was approximately 227%. The liquidity position of the Group was significantly improved upon the completion of the disposal of the properties which took place in December 2004.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

The management of the Company periodically reviews the return on all investment in order to adjust the investment portfolio by disposing investments that only generate limited cash flow or even have negative contribution and acquire investments that can improve the Group’s financial position.

CURRENCY STRUCTURE

The Group had limited exposure to foreign exchange rate fluctuations as most of the transactions, including borrowings, were conducted in US Dollar, HK Dollar or Renminbi. The exchange rates of these currencies were relatively stable for the year. Hence, there is no significant exchange risk.





CHARGES ON GROUP ASSETS

As at 31 October 2004, the total bank loans amounted to HK\$5,452,000, which were secured by the investment properties held by the Group.

EMPLOYEE AND REMUNERATION POLICY

As at 31 October 2004, the Group employed a total of about 80 employees. The Group recruits and promotes individuals based on merit and their development potentials for the positions offered. When formulating staff remuneration and benefit policies, primary considerations are given to their performance and prevailing salary levels in the market. Benefits provided to the employees by the Group include training, provident funds and medical coverage. Through the share option scheme established for the senior personnel, it is intended to integrate their responsibilities, authority and benefits.

Other Information

INTERIM DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 31 October 2004 (2003: Nil).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

At 31 October 2004, the interests and short positions of the directors in the issued share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)), which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in shares of the Company

Name of Director	Notes	Number of issued ordinary shares of HK\$0.01 each in the Company			Total interest	Approximate % of shareholding
		Interest as beneficial owner	Interest of controlled corporation	Other interest		
Mr. Haywood Cheung	(a)		61,370,000	100,000,000	161,370,000	39.11%
Mr. Felipe Tan	(b)	1,008,600	2,900,000		3,908,600	0.95%
Mr. So Pak Kwai		10,000			10,000	0.01%
Mr. Chan Ka Ling, Edmond	(c)		50,000		50,000	0.01%

Notes:

(a) The shares under “Interest of controlled corporation” comprised:

- (1) 39,886,000 shares held by Haywood Shares Holding Limited, which is 99.99% owned by Mr. Haywood Cheung;
- (2) 8,684,000 shares held by Cheung’s Enterprise Holdings Limited, which is 75% owned by Mr. Haywood Cheung; and
- (3) 12,800,000 shares held by iWin Limited, which is 75% owned by Mr. Haywood Cheung.

The shares under “Other interest” refers to the 100,000,000 shares issued to Mr. Haywood Cheung on 10 November 2004 as partial consideration of acquisition of 50% equity interest by the Company from Mr. Haywood Cheung in Lee Fung Hong (Cheung’s) Forex Dealers Limited, details of which are set out in the Company’s circular dated 20 April 2004.





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

Notes: (continued)

- (b) The shares under "Interest of controlled corporation" were owned by Mr. Felipe Tan through his personal investment company, Join Rich Investments Limited.
- (c) The shares under "Interest of controlled corporation" were owned by Mr. Chan Ka Ling, Edmond through his personal investment company, E-Source Holdings Limited.

Save as disclosed above and in the section under the heading "Directors' rights to acquire shares or debentures" below, as at 31 October 2004, none of the directors had any short positions in the equity or debt securities of the Company or its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

Other Information

SUBSTANTIAL SHAREHOLDERS

As at 31 October 2004, the following persons (other than directors of the Company) had an interest in the shares and the underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of shareholder	Notes	Number of ordinary shares interested	Number of underlying shares interested	Approximate percentage of shareholding
Haywood Shares Holding Limited	1	39,886,000		9.67%
NanoMag Investment Co., Ltd (立億投資股份有限公司)	2	60,000,000		14.54%
Helix Technology Inc.	2	60,000,000		14.54%
Industrial and Commercial Bank of China (Asia) Limited	3		600,000,000	145.43%
The Industrial and Commercial Bank of China	3		600,000,000	145.43%

Notes:

1. The shares held by Haywood Shares Holding Limited also represent the "Interest of controlled corporation" held by Mr. Haywood Cheung in the Company, details of which are set out in the sub-section headed "Interests in shares of the Company" under the section "Directors' Interests and Short Positions in Shares" above.
2. NanoMag Investment Co., Ltd (立億投資股份有限公司) is a subsidiary of Helix Technology Inc. and, accordingly, the shares held by NanoMag Investment Co., Ltd (立億投資股份有限公司) represent the same interest held by Helix Technology Inc. in the Company.
3. Industrial and Commercial Bank of China (Asia) Limited is a subsidiary of The Industrial and Commercial Bank of China and, accordingly, the interests in the underlying shares held by Industrial and Commercial Bank of China (Asia) Limited represent the same interest therein held by The Industrial and Commercial Bank of China. The underlying shares refer to the 4.25% Convertible Bonds due 2006 issued by the Company to Industrial and Commercial Bank of China (Asia) Limited, which is convertible into shares at a conversion price of HK\$0.25, subject to adjustments. Details of such Convertible Bonds are contained in the circular of the Company dated 30 December 2002.

Save as disclosed above, as at 31 October 2004, there was no person (other than the directors of the Company) who (i) had an interest or short position in the shares and underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein; or (ii) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of any other member of the Group (other than the Company) or any options in respect of such capital.





PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

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

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 October 2004, in compliance with the Code of Best Practice set out in Appendix 14 of the Listing Rules, except that independent non-executive directors of the Company are not appointed for specific terms but they are subject to retirement by rotation in accordance with the Company's bye-laws.

AUDIT COMMITTEE

The audit committee has discussed and reviewed with management the accounting principles and practices adopted by the Group and the financial reporting matters, including the review of the unaudited interim financial results for the six months ended 31 October 2004.

By Order of the Board

Haywood Cheung

Chairman & Managing Director

Hong Kong, 17 January 2005

Executive Directors:

Mr. Haywood Cheung (*Chairman & Managing Director*)

Mr. Felipe Tan (*Deputy Managing Director*)

Mr. So Pak Kwai

Dr. Chang Si-Chung

Independent Non-Executive Directors:

Mr. Chan Ka Ling, Edmond

Mr. Wong Yu Choi

Mr. Hong Po Kui, Martin