

# MANAGEMENT DISCUSSION AND ANALYSIS



## Liquidity and Financial Resources

As at 30 April 2005, the current ratio of the Group was approximately 83% and the net current liabilities were approximately HK\$12 million. The Group's gearing ratio, which was derived by dividing the aggregate amount of bank borrowings and other interest-bearing loan by the amount of shareholder's equity, was approximately 23%.

## Capital Structure

Up to the maturity date on 16 October 2004, the 2% HK\$8,000,000 Convertible Note due 2004 (the "Note") issued by the Company to the noteholder on 16 October 2002 had not been converted into shares of the Company. Upon the expiry of the Note, the Group entered into an agreement with the noteholder to restructure the Note into a loan of the same amount with a repayment date of 16 October 2005. As at 30 April 2005, the loan was recorded as unsecured other loans and regarded as current liabilities of the Group.

The Company issued 4.25% HK\$150,000,000 Convertible Bonds due 2006 (the "Bonds") to the bondholder on 20 January 2003. The Bank of Communications, Hong Kong Branch (the "Guarantor") guaranteed the Company's obligation to repay the outstanding principal amount of the Bonds up to HK\$150,000,000 (the "Guarantee"). No Bonds were converted into shares of the Company since its issuance up to the date of repayment on 28 January 2005. Certain properties (the "Properties") disposed by the Group on 13 December 2004 were used as security for the Bonds and the Guarantee. The disposal of the Properties triggered an event of default under the Bonds and all amount outstanding under the Bonds have been repaid on 28 January 2005.

As at 30 April 2005, the Group had secured bank loans of about HK\$4.7 million bearing interest at 4.125% per annum, which was repaid subsequent to the balance sheet date. The Group also had unsecured loan of HK\$8 million which was interest-free and repayable in October 2006 and of about HK\$4.4 million bearing interest at London Interbank Offered Rate plus 2% per annum repayable within 1 year.

## Significant Investments, Material Acquisitions and Disposals

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

During the year under review, the Group disposed of its 7% equity interest in an associated company engaging in the business of development of Internet information resources, platform technique and broadband network application in October 2004. It also disposed of its 45.02% equity interest in an investee company engaging in trading of precious metal products in August 2004 and 7.1% equity interest in another investee company engaging Aluminum smelter business in December 2004. These disposals resulted in a gain on disposal of about HK\$3.8 million in aggregate.

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## **Significant Investments, Material Acquisitions and Disposals (continued)**

The Group completed the disposal of certain properties on 13 December 2004 and 1 March 2005, which resulted in a gain on disposal of approximately HK\$5.4 million in aggregate. Details of such disposals are set out in the circulars to the shareholders of the Company dated 22 September 2004 and 29 October 2004 respectively.

The Group acquired 50% of the equity interest of Lee Fung Hong (Cheung's) Forex Dealers Limited from Mr. Haywood Cheung for a consideration of HK\$17,160,000 (the "Acquisition"), which were 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 cash consideration of HK\$8,360,000 was funded by the proceeds from the placing for 95,000,000 new shares of the Company at the placing price of HK\$0.088 per share (the "Placing"). The Acquisition and the Placing were completed on 10 November 2004. As a result of the Acquisition, the Group recorded the goodwill of approximately HK\$3.7 million. The entire amount of goodwill was written off during the year. Details of the Acquisition and the Placing are set out in the circulars to the shareholders of the Company dated 20 April 2004.

The Group entered into a conditional sale and purchase agreement dated 7 February 2005 to dispose of 49.44% of the total issued share capital of Alexis Resources Limited and an interest-free shareholder loan in the principal amount of HK\$12,999,000 advanced by or on behalf of the Group to it. The proceeds of the Disposal will be retained as general working capital and general corporate expenses. Details of such disposal are set out in a circular to the shareholders of the Company dated 15 March 2005. As at 30 April 2005, the Disposal was not completed.

## **Currency Structure**

The Group had limited exposure to foreign exchange rate fluctuations as most of the transactions including borrowings were conducted, and the cash and cash equivalents were held, in Hong Kong dollars or Renminbi. The exchange rates of these currencies were relatively stable for the year. Hence, there is no significant exchange risk.

## **Charges on Group Assets**

As at 30 April 2005, the total bank loans amounted to about HK\$4.7 million, which were secured by the investment properties held by the Group.

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## **Employee and Remuneration Policy**

As at 30 April 2005, 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.

## **Contingent Liabilities**

As at 30 April 2005, the Group has no material contingent liabilities.

## **Commitments**

As at 30 April 2005, the Group had commitments of HK\$62,553,000 in respect of the net open position of bullion contracts undertaken in the ordinary course of business existing at the balance sheet date.

## **Public Float**

Based on the information that is publicly available to the Company and within the knowledge of the directors of the Company, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules as at the latest practicable date of the issue of the annual report for 2004/2005 of the Company.