

# REPORT OF THE DIRECTORS

The directors of the Company present their report and the audited financial statements of the Company and of the Group for the year ended 30 April 2005.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of bullion, securities, futures and options contracts broking and trading, the provision of margin and loan financing, the holding of investment properties in Hong Kong and strategic investments through its associates in mining operations in Xinjiang, Mainland China.

During the year, in addition to the abandonment of its shipment sales operations, a subsidiary of the Group entered into a conditional agreement with a third party to dispose of its entire interest in mining operations. Further details of the disposal are set out in a circular to the shareholders of the Company dated 15 March 2005. Upon completion of the disposal, the Group will cease to engage in any mining business.

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.

## RESULTS AND DIVIDENDS

The loss of the Group for the year ended 30 April 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 23 to 95.

The directors of the Company do not recommend the payment of any dividend in respect of the year.

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## SUMMARY FINANCIAL INFORMATION

The following is a summary of the results, assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified where appropriate. This summary does not form part of the audited financial statements.

### RESULTS

	Year ended 30 April				
	2005 HK\$'000	2004 HK\$'000 (Restated)	2003 HK\$'000 (Restated)	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)
Turnover					
Continuing operations	23,413	27,203	16,972	20,526	32,738
Discontinued operations	5,810	39,876	39,674	190,379	1,597,389
Discontinuing operations	–	24,329	24,257	13,826	13,753
	<b>29,223</b>	91,408	80,903	224,731	1,643,880
Profit/(loss) before tax					
Continuing operations	(16,501)	(5,295)	(90,919)	(463,539)	(269,360)
Discontinued operations	(1,870)	(4,000)	(4,331)	(8,863)	(12,931)
Discontinuing operations	14,690	13,165	(528)	(37,145)	(356)
	<b>(3,681)</b>	3,870	(95,778)	(509,547)	(282,647)
Tax	<b>(1,478)</b>	(3,549)	(1,458)	(847)	(134)
Profit/(loss) before minority interests	<b>(5,159)</b>	321	(97,236)	(510,394)	(282,781)
Minority interests	–	(506)	(128)	128	17
Net profit/(loss) attributable to shareholders	<b>(5,159)</b>	(185)	(97,364)	(510,266)	(282,764)

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## SUMMARY FINANCIAL INFORMATION (continued)

### ASSETS, LIABILITIES AND MINORITY INTERESTS

	As at 30 April				
	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000
Fixed assets	31,174	41,833	47,222	61,670	84,103
Investment properties	6,650	135,366	123,194	148,570	181,150
Interests in associates and jointly-controlled entities	53,953	36,663	26,442	40,364	38,044
Intangible assets	2,163	2,307	49,756	52,156	95,747
Investments in securities	278	5,292	7,399	19,727	42,589
Other long term assets	4,307	2,807	2,907	3,100	33,699
Current assets	60,229	83,179	132,578	138,121	190,044
<b>Total assets</b>	<b>158,754</b>	<b>307,447</b>	<b>389,498</b>	<b>463,708</b>	<b>665,376</b>
Current liabilities	72,310	75,066	152,530	166,699	161,988
Non-current liabilities	7,775	165,450	168,975	163,704	166,977
<b>Total liabilities</b>	<b>80,085</b>	<b>240,516</b>	<b>321,505</b>	<b>330,403</b>	<b>328,965</b>
Minority interests	–	–	128	–	128
<b>Net assets</b>	<b>78,669</b>	<b>66,931</b>	<b>67,865</b>	<b>133,305</b>	<b>336,283</b>

### FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group during the year are set out in notes 16 and 17 to the financial statements, respectively. Further details of the Group's investment properties are set out on page 96.

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## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the share capital and share options of the Company during the year, together with the reasons therefor, are set out in notes 35 and 36 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

The Company has not redeemed any of its listed securities during the year. Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the year.

## RESERVES

Details of movements in the reserves of the Company and of the Group are set out in note 37 to the financial statements and in the consolidated statement of changes in equity on pages 27 and 28, respectively.

## DISTRIBUTABLE RESERVES

At 30 April 2005, the Company had no retained profits available for cash distribution and/or distribution in specie. Under the Companies Act 1981 of Bermuda (as amended), the Company's contributed surplus of HK\$25,760,000 is currently not available for distribution. The Company's share premium account with a balance of approximately HK\$269,608,000 as at 30 April 2005 may be distributed in the form of fully paid bonus shares.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, the turnover attributable to the five largest customers of the Group accounted for less than 30% of the Group's total turnover for the year. During the year, the Group purchased from only two suppliers and the purchases from the largest supplier accounted for 98% of the total purchases for the year.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers and suppliers.

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## DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

### Executive directors:

Mr. Cheung Yan Lung CBE, OStJ, JP (resigned as executive director and appointed as Honorary Chairman on 28 September 2004)

Mr. Haywood Cheung (*Chairman and 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. Hong Po Kui, Martin (appointed on 26 November 2004)

Mr. Wong Yu Choi (appointed on 26 November 2004)

Mr. Chiu Pak Yue, Leo (resigned on 28 September 2004)

Mr. Tse Kwok Wai (appointed on 28 September 2004 and resigned on 26 November 2004)

Ms. Ma Lee Yee (appointed on 28 September 2004 and resigned on 26 November 2004)

Independent non-executive directors are not appointed for a specific term as all of the directors of the Company are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with bye-law no. 86(2) of the Company's bye-laws, Mr. Hong Po Kui, Martin and Mr. Wong Yu Choi, being directors of the Company appointed after the 2004 annual general meeting, will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-law no. 87(1) and 87(2) of the Company's bye-laws, Mr. Chan Ka Ling, Edmond will retire by rotation and, being eligible, will offer himself for re-election at the forthcoming annual general meeting.

# REPORT OF THE DIRECTORS



## DIRECTORS' BIOGRAPHIES

Mr. Haywood CHEUNG, aged 52, is the son of Mr. Cheung Yan Lung, the Honorary Chairman of the Company. He joined the Company in July 1997 as an executive director and is now the Chairman and Managing Director of the Company. He has over 23 years' experience in metals trading, securities and futures brokerage and forex dealing in Hong Kong. Mr. Cheung also has extensive business connections in Hong Kong and Mainland China. He has served as the President of the New Territories General Chamber of Commerce, and the Vice President of the Executive and Supervisory Committee of the Chinese Gold & Silver Exchange Society. He is also a director of a number of subsidiaries of the Company and Haywood Shares Holding Limited, a company interested in the shares of the Company which is discloseable under the provision of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance.

Mr. Felipe TAN, aged 50, joined the Group in 1988. He is the Deputy Managing Director of the Company and a director of a number of subsidiaries of the Company. He has over 29 years' experience in metals trading and related businesses in Hong Kong and Mainland China. Mr. Tan is responsible for the strategic planning and day-to-day management of the Group.

Mr. SO Pak Kwai, aged 65, joined the Group in 1988. He is an executive director of the Company and a director of a number of subsidiaries of the Company. Mr. So is in charge of project development and strategic investment in the Mainland China. He has over 41 years' experience in non-ferrous metals trading, gained mostly in Mainland China.

Dr. CHANG Si-Chung, aged 44, is a well-known serial entrepreneur and industry leader in the field of LCD components. He is also the founder of two public companies in Taiwan, namely Helix Technology, Inc. and Sin Tek Photronic Corporation. Prior to the founding of Helix and Sin Tek, Dr. Chang was an Associate Professor at the National Tsing Hua University and a Senior Research Chemist at Dow Chemical Corporation in the United States of America. Dr. Chang was appointed as an executive director of the Company in July 2003.

Mr. CHAN Ka Ling, Edmond, aged 46, is a certified public accountant in Hong Kong and a partner of Chan and Chan, a firm of certified public accountants practicing in Hong Kong. Mr. Chan is now the independent non-executive director of Tack Hsin Holdings Limited (stock code: 611) and Gay Giano International Group Limited (stock code: 686), companies listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Chan was appointed as an independent non-executive director of the Company in September 2001.

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## **DIRECTORS' BIOGRAPHIES (continued)**

Mr. HONG Po Kui, Martin, aged 56, has been practicing as a solicitor of the High Court of Hong Kong for over 27 years and is a notary public in Hong Kong. Mr. Hong is now the senior partner of the solicitors firm of Lau, Chan & Ko. Mr. Hong is also the Chairman of The Hong Kong Football Association and the Commissioner of Hong Kong Road Safety Patrol. Mr. Hong is now the non-executive director of Tse Sui Luen Jewellery (International) Limited (stock code: 417) and an independent non-executive director of Sau San Tong Holdings Limited (stock code: 8200), companies listed on the Main Board and the GEM Board of The Stock Exchange of Hong Kong Limited respectively. Mr. Hong was appointed as an independent non-executive director of the Company in November 2004.

Mr. WONG Yu Choi, aged 48, is a member of the Board of Directors of the New Territories General Chamber of Commerce and is currently a Councillor of Yuen Long District Council, the Chairman of the Committee of Tin Shui Wai North District, a member of the Board of Directors of China Development and Services Fund and a Commander of Civil Aid Service of Hong Kong. He has also participated in various charitable institutes and organizations. Mr. Wong was appointed as an independent non-executive director of the Company in November 2004.

## **DIRECTORS' SERVICE CONTRACTS**

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 43 to the financial statements and under the heading "Connected transactions" below, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

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## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 April 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "SEHK") 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 SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of director	Notes	Number of issued ordinary shares of HK\$0.01 each in the Company			Approximate % of total shareholding
		Personal interest	Corporate interest	Total	
Mr. Haywood Cheung	(a)	–	315,125,127	315,125,127	51.87%
Mr. Felipe Tan	(b)	1,008,600	2,900,000	3,908,600	0.64%
Mr. So Pak Kwai		10,000	–	10,000	0.002%
Mr. Chan Ka Ling, Edmond	(c)	–	50,000	50,000	0.008%

Notes:

- (a) The shares under "Corporate interest" comprised:
- (i) 293,641,127 shares held by Haywood Shares Holding Limited, which is 99.99% owned by Mr. Haywood Cheung;
  - (ii) 8,684,000 shares held by Cheung's Enterprise Holdings Limited, which is 75% owned by Mr. Haywood Cheung; and
  - (iii) 12,800,000 shares held by iWin Limited, which is 75% owned by Mr. Haywood Cheung.
- (b) The shares under "Corporate interest" were owned by Mr. Felipe Tan through his personal investment company, Join Rich Investments Limited.
- (c) The shares under "Corporate interest" were owned by Mr. Chan Ka Ling, Edmond through his personal investment company, E-Source Holdings Limited.



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## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Save as disclosed above and in the Section under the heading "Directors' rights to acquire shares or debentures" below, as at 30 April 2005, none of the directors or the chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures 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 SEHK 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 SEHK pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the share option scheme disclosures in note 36 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER THE SFO

As at 30 April 2005, the following persons (other than the 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 SEHK pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name of shareholder	Notes	Number of ordinary shares held	Approximate % of total shareholding
Haywood Shares Holding Limited	(a)	293,641,127	48.33%
立億投資股份有限公司	(b)	60,000,000	9.88%
Helix Technology Inc.	(b)	60,000,000	9.88%

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## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS UNDER THE SFO (continued)

Notes:

- (a) These interests are also included as corporate interests of Mr. Haywood Cheung, as disclosed under the heading "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above.
- (b) 立億投資股份有限公司 is a subsidiary of Helix Technology Inc. and, accordingly, the interests of 立億投資股份有限公司 were included in the interests held by Helix Technology Inc..

Save as disclosed above, as at 30 April 2005, 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 SEHK 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.

## CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions:

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 Lee Fung Hong (Cheung's) Forex Dealers Limited (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 which acted 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 was 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) with the balance of HK\$8,360,000 in cash. The net proceeds from the Placing were HK\$7,360,000 which were used to fund part of the consideration of the Acquisition.

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## CONNECTED TRANSACTIONS (continued)

As the Acquisition constituted a discloseable and connected transaction of the Company under the then 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. The Acquisition and the Placing were completed on 10 November 2004.

## DISCLOSURES PURSUANT TO RULES 13.15 AND 13.16 OF THE LISTING RULES

In accordance with the disclosure requirements of Rule 13.15 and 13.16 of the Listing Rules, details in respect of financial assistance given to affiliated companies are set out in note 21 to the financial statements.

## CORPORATE GOVERNANCE

In the opinion of the directors, the Company complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) in force prior to any accounting period commencing on 1 January 2005 throughout the accounting period covered by the annual report, except that the independent directors of the Company are not appointed for specific terms, but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company’s bye-laws.

The Company had received from each of the independent non-executive directors an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all the independent non-executive directors are independent.

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. The Company had made specific enquiries of all directors of the Company regarding any non-compliance with the Model Code during the year, and received confirmations from all directors of the Company that they had fully complied with the Model Code.

The Code of Best Practice as set out in Appendix 14 of the Listing Rules was replaced by the Code of Corporate Governance Practices, effective for accounting periods commencing on or after 1 January 2005. The Company is taking appropriate actions to comply with the code.

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## AUDIT COMMITTEE

The audit committee of the Company was established in accordance with the requirements of Rule 3.21 of the Listing Rules, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls systems, and compliance with the relevant rules and regulations. The audit committee comprises the three independent non-executive directors of the Company.

## AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

**Haywood Cheung**

*Chairman of the meeting*

Hong Kong, 23 August 2005