



東方鑫源集團有限公司
Oriental Metals (Holdings) Company Limited

Oriental Metals (Holdings) Company Limited

2002

ANNUAL REPORT

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BOARD OF DIRECTORS

Executive Directors

GAO Dezhu (*Chairman*)

XU Huizhong

LAU Yat Ching

XUN Gao

WANG Xingdong

DENG Weihua

Independent Non-executive Directors

CHAN Wai Dune

TING Leung Huel, Stephen

COMPANY SECRETARY

LEUNG Suet Kam, Lucia

REGISTERED OFFICE AND HEAD OFFICE

18th Floor, China Minmetals Tower

79 Chatham Road South

Tsimshatsui

Kowloon

Hong Kong

PRINCIPAL BANKERS

The Hongkong & Shanghai Banking

Corporation Limited

Bank of China (Hong Kong) Limited

Sumitomo Mitsui Banking Corporation

Standard Bank London Limited

LEGAL ADVISERS

Deacons

AUDITORS

PricewaterhouseCoopers

Certified Public Accountants

SHARE REGISTRARS

Computershare Hong Kong Investor

Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

During the year 2002, Oriental Metals (Holdings) Company Limited ("the Company") and its subsidiaries (together "the Group") managed to turn the corner from losses into profitability by achieving a profit of approximately HK\$20,000,000.

In doing so, the Group faced some considerable challenges, as 2002 was indeed a year of difficulties. Its controlling shareholder, China Nonferrous Metals Group (Hong Kong) Limited, received a winding up order from the High Court of Hong Kong on 8th May, 2002. As such, John Lees and Desmond Chiong were appointed as its liquidators. In addition, the Group's financial position remained difficult, making it impossible to raise additional financing. The prices of nonferrous metals continued to fall, which prevented the Group from exploiting further trading opportunities. Furthermore, legal proceedings were initiated as a result of a default in the repayment of substantial overdue bank loans.

Despite all such difficulties, the Group has acted decisively to clear up these historical issues. We have taken measures to ensure our operating cash flow by collecting various receivables. To further reduce overall expenditure, we also implemented payroll adjustments, streamlined our headcount, and closed certain representative offices in the PRC.

2003 will be a decisive year in the Group's development. The liquidation of its former controlling shareholder is now underway; and it is hoped that progress can be made in determining its future controlling shareholder. The prices of nonferrous metals have now stabilised and gradually picked up. In particular, the price of alumina, one of the Group's core trading products, surged in the earlier part of 2003. All these factors point to an overall improvement in the Group's business environment. The Group will take advantage of these more favourable market conditions to increase the profitability of its trading operations.

Finally, on behalf of the Board, I would like to extend my sincere thanks to our management and staff for their dedication and hard work. With the continued support of our shareholders, customers and suppliers, we look forward to a brighter future for the Group.

By order of the Board

Gao Dezhu

Chairman

17th April, 2003

RESULTS

In the year 2002, all aspects of management of the Company showed remarkable improvement. Management team has put more effort in streamlining and reforming works. Administrative costs were strictly controlled and expenses were sharply reduced. However, due to the heavy burden of overdue borrowings, the Company encountered financial difficulties in expanding its trade business. As a result, the Group's turnover decreased to approximately HK\$876,000,000. During the year, the Group turned from losses to profits, achieving a profit of approximately HK\$20,000,000. It was mainly attributable to the reversal of provisions previously made and a gain on deconsolidation of a subsidiary under liquidation.



BUSINESS REVIEW

Trade Business

In the year 2002, due to the drastic decrease in the prices of the Group's major nonferrous metals products and raw materials and the continual fall in the spot price of alumina (a product which the Group has entered into a long term purchase contract) as well as the financial difficulties encountered by the Company, the Group could not start its trading operations as usual. After negotiation with the supplier, certain shipments of alumina under the long term contract can be deferred to the year 2004. The payment of compensation for the loss in relation to the remaining undelivered shipments can also be deferred to the year 2003. From the end of year 2002 onwards, the price of alumina has been rising continuously. In 2003, the Company's alumina trading business has been resumed and started earning profits.



DIRECT INDUSTRIAL INVESTMENTS

During the year, there was no significant improvement in the performance of the Group's industrial investments. Since full provision had already been made for all major, except one, associated companies in previous years, their losses no longer have effect on the Group's result. The Group's share of profit of the remaining enterprises amounted to approximately HK\$11,000,000 for the year.

Aluminium Refinery

North China Aluminium Company Limited, 51% owned by the Group, is one of the largest aluminium foil refineries in the PRC. Its products are supplied to the packaging, transportation, home appliances and the publishing sectors. In 2002, its production capacity was about 40,000 tons, representing a slight increase when compared to last year. Its operating results were also improved. A project of total investment cost of HK\$185,000,000 for the modernization and upgrade of aluminium cold mill was started in 2002 and it is expected that the project will be completed by the end of 2003.

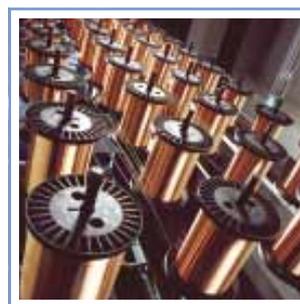
The Group operated its aluminium can production and sales business through Zhangzhou International Aluminium Container Company Limited ("Zhangzhou Aluminium"), its 60% owned subsidiary, and Qingdao M.C. Packaging Limited ("Qingdao MC"), its 20% owned associated company. In recent years, the supply has largely outstripped demand for aluminium cans in the PRC, making the whole industry loss-making. In 2002, after discussion and negotiation, major producers of aluminium cans established certain cartel policies to restrict production and reduce competition. The selling price of aluminium cans has already rebounded. Qingdao MC therefore turned from loss into profit.

Copper Refinery and Smelter

The Group's primary investment in copper refinery is mainly made through Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan"), of which 25% is directly owned by the Group, Changzhou OrienMet Copper Company Limited ("Changzhou OrienMet"), of which 50% is owned by the Group, Yixing Jinfeng Copper Materials Company Limited ("Yixing Jinfeng"), of which 58% is owned by the Group and Shanghai Jing Bao Copper Foil Limited ("Shanghai Jing Bao"), of which 25% is owned by the Group. Changzhou Jinyuan, Changzhou OrienMet, and Yixing Jinfeng are engaged in copper wires and copper rods businesses. Shanghai Jing Bao is engaged in copper foils business.

Affected by the increase in materials costs and decrease in profit margin, Changzhou Jinyuan's net profit decreased by 38% for the year.

Because of cash flow problem, Yixing Jinfeng's turnover sharply decreased and a loss was recorded.



Changzhou OrienMet has been incurring losses for many years. Its operating performance was very unsatisfactory. Its production has been suspended since 2001. The Group had already made full provision for the investment in and receivables from Changzhou OrienMet. However, in order to safeguard the Group's interest, the Group applied to the court in the PRC in late 2001 to wind up Changzhou OrienMet with a view to collecting the receivables partially and minimizing the loss. In March 2002, the court rejected the application. In May 2002, the Group submitted an objection to a higher court. In Oct 2002, the objection was accepted and the case was returned to the original court to handle. The application is still in processing.

Shanghai Jing Bao defaulted in repaying certain bank loans in July 2002. As a result, the court has taken possession of all its fixed assets. In September 2002, its PRC's shareholder, Shanghai Smelter applied to court for a voluntary winding up (i.e. winding up of Shanghai Smelter itself). Shanghai Smelter was declared bankrupt in November 2002.

However, as the Group had made full provision for the investments in and the receivables from Changzhou OrienMet and Shanghai Jing Bao, and also no guarantee or unfilled capital commitments had been given by the Group, the above situation no longer has an impact on the Group's results.

The Group owns 42% and 30% of Yantai Penghui Copper Industry Company Limited ("Yantai Penghui") and Huludao OrienMet Copper Company Limited ("Huludao OrienMet") respectively. In 2002, the supply shortage of copper in PRC and other countries led to an increase in purchasing costs and the continual loss in operation.

Administrative Expenses

During the year, the Group adopted various cost-saving measures, including streamlining of structure and adjustment on payroll, reducing administrative expenses significantly by 27%.

Other Operating Income

Other operating income of approximately HK\$53,000,000 was mainly arising from the decrease in various provisions and the gain on deconsolidation of a subsidiary under liquidation.

Decrease in Provision for a Long-term Purchase Contract

In 2001, a provision of approximately HK\$56,000,000 was made in respect of a long-term alumina contract. However, as a result of the growing demand and the upswing in the price of alumina in current months, it was expected that positive contribution will be generated from the future shipments of the contract, therefore the remaining unused provision of approximately HK\$44,000,000 was written back.

Gain on Deconsolidation of a Subsidiary under Liquidation

Da Hua Non-Ferrous Metals Company Limited ("Da Hua"), a wholly-owned subsidiary of the Company, received a winding up order in October 2002 as a result of its default in the settlement of a compensation of approximately HK\$21,000,000. The compensation was related to a trading transaction made in 1995.

Since Da Hua has ceased trading for many years and the Company does not have guarantee or unfulfilled capital commitment to it, the liquidation of which would not cause any material adverse impact to the Group. On the contrary, as its net liabilities had already been consolidated into the Group's accounts in previous years, the deconsolidation of Da Hua in current year as a result of its liquidation brought an accounting profit of approximately HK\$30,000,000 to the Group.

Interest Expense

During the year, interest expense decreased by 11% because of the fall in interest rates.

Financial Resources and Cash Flow

During the year, the net cash generated by the Group from operating activities amounted to approximately HK\$35 million (2001: HK\$22 million). The net cash used in investing activities amounted to approximately HK\$58 million (2001: HK\$33 million). The net cash generated from financing activities amounted to approximately HK\$62 million (2001: HK\$4 million). The cash and cash deposits of the Group increased by approximately HK\$39 million (2001: decreased by HK\$6 million).

As at 31st December, 2002, the Group had cash in hand and cash deposits of HK\$99,000,000 (all are unpledged except for a Renminbi deposit of HK\$3,000,000), of which 27% and 72% were denominated in US dollars and Renminbi respectively, and the remaining was in Hong Kong dollars. The Renminbi deposits of the Group were mainly used for the operations of the industrial investments in Mainland China, particularly for the modernization and upgrade of the aluminium cold mill. The total investment of the project is approximately HK\$185,000,000. A total sum of HK\$43,000,000 was already incurred in 2002. It is estimated that the project will be completed by the end of 2003. The remaining investment cost will be financed by bank borrowings and internal funds. As a result of the resumption of the Group's alumina trading business in 2003, the liquidity problem can be gradually improved. During the negotiation period of the debt restructuring, on the condition that no repayment of the overdue bank loans and interest is made, the Group can have sufficient funds to meet its daily operation.

As at 31st December, 2002, the Group's total outstanding bank loans amounted to HK\$808,000,000 (HK\$404,000,000 at floating interest rate and the remaining at fixed interest rate), of which approximately HK\$176,000,000 was repayable after one year. Of the total bank loans, 46% was denominated in US dollars and the remainder in Renminbi. The total bank loans increased by approximately HK\$48,000,000 when compared to 2001. The increase was mainly from the bank loans in Mainland China. The proceeds were used as working capital and for machinery modernization.

As at 31st December, 2002, the Group's overdue bank loans amounted to approximately HK\$389,000,000, which included a syndicated loan of approximately HK\$111,000,000. In July 2002, all the bank creditors of the Company in Hong Kong formed a steering committee, with The Hong Kong and Shanghai Banking Corporation Limited ("HSBC") acted as the liaison bank, to consider debt restructuring matters of the Group. In January 2003, the banks of the syndicated loan have obtained a judgement from the court in respect of their claims for a sum of approximately HK\$115,000,000 (including loan principal and interest). They are now in discussion with other Hong Kong banks of the Group regarding the debt restructuring. No further legal action has yet been taken. HSBC indicated that the banks are still considering the debt restructuring proposal. However, no further information can be disclosed at the present moment.

The Group's bank loans amounting to HK\$389,000,000 were secured by the Group's fixed assets with a net book value of HK\$213,000,000 as at 31st December, 2002.

The Group has not entered into any foreign exchange contracts or related hedges as the foreign currency risk exposure is minimal. The Group will continue to adhere to its prudent policy on financial risk management of currency exposures.

Since 31st December, 2001, the Group was in net liability position, the bank debt to equity ratio, which is measured as total bank loans (net of cash balances) as a proportion of shareholders' equity, has not been presented.

Contingent Liabilities

As at 31st December, 2002, the Company provided corporate guarantees to a financial institution in respect of banking facilities extended to an associated company amounting to approximately HK\$24,000,000 (2001: HK\$24,000,000). The guarantee is valid up to the end of 2003.

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As at 31st December, 2002, the Company had unsettled tax payables in respect of certain properties in the Mainland China which may result in potential additional charges. No provision has been made by the Group since the amount of additional charges, if any, cannot be reliably determined. However, the potential additional charges are not expected to exceed HK\$4,000,000 (2001: HK\$12,000,000).

Employees

As at 31st December, 2002, the Group employed 2,261 staff (not including the staff of the associated companies). The total staff cost (including the directors' emoluments) for the year was HK\$45,000,000. The Group adopted a pay policy in line with market practice, and remuneration was determined with reference to the performance and experience of individual employees. In addition, share option scheme and discretionary bonuses are granted to eligible staff based on their performance.

The Group is also aware of the importance of quality management and specialist expertise as key factors in achieving corporate success. Various forms of professional training are provided to employees at different levels as and when required.

By Order of the Board

Xu Huizhong

Director and President

Hong Kong, 17th April, 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Annual General Meeting of Oriental Metals (Holdings) Company Limited ("the Company") will be held at Kowloon Room I, M/F, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on 30th May, 2003 at 3:00 p.m. for the following purposes:

1. To receive and consider the Audited Consolidated Accounts and the Reports of the Directors and Auditors for the year ended 31st December, 2002:
2. To re-elect the retiring Directors and to authorize the Board of Directors to fix the remuneration of Directors;
3. To appoint Auditors and to authorize the Board of Directors to fix their remuneration;
4. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such power after the end of the Relevant Period;
- (c) the aggregate nominal value of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined) or (ii) an issue of shares upon the exercise of the subscription rights under any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries of shares or rights to acquire shares of the Company shall not exceed 20 per cent of the aggregate nominal value of the share capital of the Company in issue as at the date of this Resolution and the said approval shall be limited accordingly; and

(d) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (i) the conclusion of the next Annual General Meeting of the Company;
- (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by Hong Kong law or the Articles of Association of the Company to be held; and
- (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution; and

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

5. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an Ordinary Resolution:

“THAT

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase securities of the Company on The Stock Exchange of Hong Kong Limited or on any other stock exchange on which the securities of the Company may be listed and is recognised by the Securities and Futures Commission and The Stock Exchange of Hong Kong Limited for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal value of securities of the Company repurchased by the Company pursuant to paragraph (a) above during the Relevant Period shall not exceed 10 per cent of the aggregate nominal value of the share capital of the Company in issue as at the date of this Resolution and the authority pursuant to paragraph (a) above shall be limited accordingly; and

- (c) for the purpose of this Resolution, "Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:
- (i) the conclusion of the next Annual General Meeting of the Company;
 - (ii) the expiration of the period within which the next Annual General Meeting of the Company is required by Hong Kong law or the Articles of Association of the Company to be held; and
 - (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution."
6. As special business, to consider and, if thought fit, pass with or without amendments the following resolution as an Ordinary Resolution:

"THAT power be given to the Directors to add the number of shares purchased by the Company pursuant to the general mandate referred to in Resolution 5 set out in this notice to the 20 per cent general mandate to issue new shares referred to in Resolution 4 set out in this notice."

By Order of the Board

Leung Suet Kam, Lucia

Company Secretary

Hong Kong, 17th April, 2003

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, vote on his/her behalf. A proxy need not be a member of the Company.
2. To be valid, a form of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, must be deposited at the registered office of Computershare Hong Kong Investor Services Limited, the Registrars of the Company, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or adjourned Meeting.
3. The Transfer Books and Register of Members will be closed from 27th May, 2003 to 30th May, 2003, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for attending the Meeting convened by the above notice, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Registrars of the Company, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 26th May, 2003.
4. Concerning Resolution No. 4, the Directors wish to state that they have no immediate plans to issue any new shares in the Company. The Ordinary Resolution is being sought from members as a general mandate in compliance with the provisions of the Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
5. Concerning Resolution No. 5, there is no immediate plan for the Directors to exercise the right of the Company to repurchase its own shares. The Ordinary Resolution is being sought from members as a general mandate in compliance with the provisions of the Companies Ordinance and the Listing Rules.

DIRECTORS

Executive Directors

GAO Dezhu, aged 63, Chinese, was appointed as the Chairman of the Company in June 1998. He is also an Executive Director and Chairman of Onfem Holdings Limited ("OHL") and the Vice Minister of the previous State Nonferrous Metals Industry Administration. Mr. Gao graduated from the Fushun College of Education, the P.R.C. and is a qualified senior economist in the P.R.C.. Prior to joining the Group, he was the Deputy General Manager of Bank of China. Mr. Gao has over 41 years of experience in financial management and extensive experience in operation administration.

XU Huizhong, aged 45, Chinese, was appointed as an Executive Director of the Company in April 2002 and became the President of the Company in May 2002, responsible for the operation of and strategic planning for the Company. Mr. Xu graduated from the University of International Business and Economics, the P.R.C. in 1979 and is a qualified economist in the P.R.C.. Prior to joining the Group, he held senior management positions with corporations carrying on trading of metals and property development in the P.R.C., Japan and New Zealand for over 16 years. Mr. Xu has extensive experience in international metals trading, property development and investment, investment strategies and corporate management.

LAU Yat Ching, aged 58, Chinese, was appointed as the Executive Vice President of the Company in August 1998. He graduated from the Dongbei University, the P.R.C. in 1968. Prior to joining the Group, he was the General Manager of Qingtongxia Aluminium Plant of the previous China National Nonferrous Metals Industry Corporation.

XUN Gao, aged 59, Chinese, was appointed as the Vice President of the Company in August 1998. Mr. Xun graduated from the University of International Business and Economics, the P.R.C.. He was the Vice President of China National Nonferrous Metals Import and Export Corporation from 1986 to 1997. He has extensive experience in trading, business operation and administration.

WANG Xingdong, aged 42, Chinese, was appointed as an Executive Director of the Company in March 2001. He is also an Executive Director and the Managing Director of OHL and a Non-executive Director of China Merchants China Direct Investments Limited. Mr. Wang graduated from the Xiamen University, the P.R.C. in 1982 with a Bachelor of Arts degree. He then furthered his studies in business management between 1987 and 1989 in the Faculty of Management of Business Administration of Long Island University in New York, U.S.A.. Prior to joining the Group, he has been a member of senior management of both U.S.A. and German corporations carrying on trading business of metals and mineral products for many years. Mr. Wang has extensive experience in international metals trading, investment strategies and corporate management.

DIRECTORS (cont'd)

Executive Directors (cont'd)

DENG Weihua, aged 32, Chinese, joined the Company in January 2000. Mr. Deng graduated from the Central South University of Technology, the P.R.C. in 1994 with a Master's degree in Corporate Management. Mr. Deng joined the Finance Department of the previous China National Nonferrous Metals Industry Corporation in 1994. He has over 8 years of experience in the financial management.

Non-executive Directors

XU Kaixing, aged 65, was appointed as a Non-executive Director of the Company in July 1995 and tendered his resignation in February 2003. He graduated from the Central China University of Technology, the P.R.C. with a Bachelor's degree in Engineering Physics. He was the Director and General Manager of the North China Aluminium Company Limited.

CHAN Fat Chu, Raymond, aged 49, was appointed as a Non-executive Director of the Company in May 1994 and tendered his resignation in August 2002. He is the Chairman of RNA Holdings Limited.

Independent Non-executive Directors

Chan Wai Dune, aged 50, was appointed as an Independent Non-executive Director of the Company in May 2002. Mr. Chan has over 21 years of experience in the finance sector, particularly in auditing and taxation area. He is a certified public accountant and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Society of Accountants and the Taxation Institute of Hong Kong. He sits on the boards of a number of private and publicly listed companies in Hong Kong.

TING Leung Huel, Stephen, aged 49, was appointed as an Independent Non-executive Director of the Company in June 2002. Mr. Ting is an accountant in public practice. He is the Managing Partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants.

MANAGEMENT

CHU Charn Fai, Daniel, aged 33, joined the Company in 1998 and was appointed as the Financial Controller of the Company in August 2002. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants. Prior to joining the Company, Mr. Chu worked in an international accounting firm. He has over 10 years of experience in financial management and auditing.

LEUNG Suet Kam, Lucia, aged 41, is the Company Secretary of the Company. She joined the Company in 1993. She holds a Bachelor's degree in Economics from the University of London, the United Kingdom and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong. Miss Leung is an Associate member of both The Institute of Chartered Secretaries and Administrators in United Kingdom and the Hong Kong Institute of Company Secretaries. She has over 10 years of experience in company secretarial affairs and over 17 years of experience in administration.

TANG Xiaojin, aged 41, is the General Manager of OrienMet Industry Company Limited and the Deputy Director of the Company's Beijing Office. He joined the Group in 1995. Mr. Tang graduated from the Faculty of Mechanical Engineering of the Southern Industry Institute of Metallurgy, the P.R.C. in 1983 with a Bachelor's degree in Engineering. He then furthered his studies in corporate management between 1993 to 1994 in Massey University of New Zealand. He joined Beijing General Research Institute for Mining and Metallurgy in 1983, as Assistant Engineer and later as Engineer. In 1989, he joined the Personnel Department of the previous China National Nonferrous Metals Industry Corporation. Mr. Tang has over 20 years of experience in nonferrous metals industry.

The directors hereby present their report together with the audited accounts of Oriental Metals (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. Its subsidiaries and associates are principally engaged in trading of nonferrous metals and industrial investments relating to nonferrous metals.

An analysis of the Group's revenue by business and geographical segments, together with their respective contributions to profit from operations for the year ended 31st December, 2002 is set out in Note 3 to the accounts.

MAJOR CUSTOMERS

In the year under review, sales to the five largest customers accounted for less than 30% of the total sales of the Group for the year.

MAJOR SUPPLIERS

Purchases from the largest supplier, Yinxing Company Limited (an associate of the Group), accounted for approximately 13% of the total purchases of the Group for the year.

Purchases from the five largest suppliers combined accounted for approximately 46% of the total purchases of the Group for the year.

Save as disclosed above, none of the directors, their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("the Stock Exchange")) or any shareholders of the Company (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five large suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 are set out in the accounts on page 26.

No interim dividend was declared during the year. The Directors do not recommend the payment of a final dividend, and recommend that the consolidated accumulated losses of approximately HK\$1,366,467,000 at 31st December, 2002 (2001: HK\$1,385,108,000) be carried forward.

RESERVES

Movements in reserves of the Company and of the Group during the year are set out in Note 28 to the accounts.

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 13 to the accounts.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 27 to the accounts.

DIRECTORS

The directors who held office during the year and up to the date of this report are as follows:

Executive Directors

Gao Dezhu *(Chairman)*
Xu Huizhong
Lau Yat Ching
Xun Gao
Wang Xingdong
Deng Weihua

Non-executive Directors

Chan Wai Dune
Ting Leung Huel, Stephen
Ng Ching Wo *(Resigned on 1st February, 2002)*
Woo Wai See, Alice *(Resigned on 1st February, 2002)*
Chan Fat Chu, Raymond *(Resigned on 2nd August, 2002)*
Xu Kaixing *(Resigned on 27th February, 2003)*

In accordance with Article 101 of the Company' Articles of Association, Messrs. Xun Gao and Wang Xingdong will retire by rotation and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors have service contracts with the Group which are not determinable by the Group within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS IN SECURITIES AND RIGHTS TO ACQUIRE SECURITIES

As at 31st December, 2002, other than certain nominee shares in the subsidiaries held by the directors in trust for the Company, none of the directors had any personal, family, corporate or other interests in any equity or debt securities of the Company or any of its associated corporations which are required to be notified to the Company and the Stock Exchange pursuant to section 28 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") (including interests which any such director is deemed or taken to have under section 31 of, or Part I of the Schedule to, the SDI Ordinance), or which are required to be entered into the register maintained by the Company under section 29 of the SDI Ordinance or which are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange.

During the year, none of the directors of the Company nor their spouses or children under 18 years of age was granted or had exercised any rights to subscribe for any equity and debt securities of the Company or any of its associated corporations.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note (b) under connected party transactions on page 21 of which Messrs. Gao Dezhu, Lau Yat Ching, Xun Gao and Wang Xingdong are both the directors of the Company and China Nonferrous Metals Group (Hong Kong) Limited, the immediate controlling shareholder of the Company and are deemed to have interest in the transaction, there was no contract of significance to which the Company, its holding companies, subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

Save as disclosed in note (b) under connected party transactions on page 21, no significant contract concerning the management and administration of the Company was entered into or existed during the year.

SHARE OPTION SCHEME

Pursuant to the resolutions passed at an extraordinary general meeting of the Company held on 25th November, 1994, a share option scheme ("the Scheme") was approved and adopted by the Company.

The following is a summary of the Scheme disclosed in accordance with the requirements of the Listing Rules:

1. The Scheme is established to recognise and acknowledge the contributions that eligible participants had made or may make to the Group in order to attract and retain high calibre employees of the Group.
2. The Company's board of directors may at its discretion grant options to any employees including directors of the Group.
3. The number of shares available for issue under the Scheme is 93,392,695 shares representing 7.08% of the issued share capital of the Company at 31st December, 2002.

SHARE OPTION SCHEME (cont'd)

4. The maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.
5. An option may be exercised in whole or in part at any time after the date on which the option is deemed to be granted and from time to time or before the date which is three years after such date.
6. A non-refundable remittance of HK\$10.00 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.
7. The exercise price is determined by the Company's board of directors and will not be less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five business days immediately preceding the date of granting of options or the nominal value of the shares, whichever is the higher.
8. The life of the Scheme is until 24th November, 2004.

During the year, no options to subscribe for shares of the Company were outstanding and no options to subscribe for shares were granted by the Company.

The Stock Exchange has introduced a number of changes to the Listing Rules on share option scheme. These new rules came into effect on 1st September, 2001. The Company shall amend, in due course, the terms of the Scheme to comply with the new requirements of the Listing Rules on share option scheme.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL OF THE COMPANY

As at 31st December, 2002, according to the register kept by the Company under section 16(1) of the SDI Ordinance, the Company was notified of the following interests in the Company's issued share capital amounting to 10% or more of the issued share capital of the Company:

Name	Number of Ordinary Shares held	Percentage of total issued shares
The State Nonferrous Metals Industry Administration ("SNMIA")*	596,044,203	45.16%
China Nonferrous Metals Holdings (Cook Islands) Limited ("CNCI")	596,044,203	45.16%
China Nonferrous Metals Group (Hong Kong) Limited ("CNMG(HK)")**	596,044,203	45.16%
Mazar Limited	288,028,520	21.82%

SUBSTANTIAL INTERESTS IN SHARE CAPITAL OF THE COMPANY (cont'd)

- * *On 19th February, 2001, the State Economic and Trade Commission of The People's Republic of China (the "PRC") promulgated that the Company's ultimate controlling shareholder, SNMIA, was dissolved in the course of restructuring of the nonferrous metals industry in the PRC.*
- ** *The High Court of the Hong Kong Special Administrative Region issued an order for the winding up of CNMG(HK), the controlling shareholder of the Company, on 8th May, 2002 and ordered that John Lees and Desmond Chiong be appointed as the liquidators of CNMG(HK) on 19th June, 2002.*

Note: Given (a) Mazar Limited is a wholly-owned subsidiary of CNMG (HK), (b) CNMG (HK) is a wholly-owned subsidiary of CNCI, and (c) CNCI was a wholly-owned subsidiary of SNMIA, these companies are deemed to be interested in the above shares.

Save as disclosed above, no other person was recorded in the register as having an interest in 10% or more of the issued share capital of the Company as at 31st December, 2002.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31st December, 2002, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Company and the Group as at 31st December, 2002 are set out in Note 26 to the accompanying accounts. Interest of approximately HK\$1,620,000 (2001: HK\$906,000) was capitalised by the Group during the year.

RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in Note 30 to the accounts.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice (the "Code of Best Practice") as set out in Appendix 14 to the Listing Rules on the Stock Exchange throughout the year ended 31st December, 2002, except that the Company had not had a minimum of two independent non-executive directors to establish an audit committee for the period from 1st February, 2002 to 4th June, 2002 pursuant to Paragraph 14 of the Code of Best Practice and also the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 101 and 85 of the Company's articles of association.

AUDIT COMMITTEE

The Company established an audit committee with written terms of reference consisting of two independent non-executive directors in July 1999 pursuant to the Code of Best Practice. The principal duties of the audit committee include the review and supervision of the Company's financial reporting process and internal controls. During the year, the committee held two meetings.

CONNECTED PARTY TRANSACTIONS

During the year, the Group entered into the following connected transactions as defined under the Listing Rules:

- (a) Yixing Jinfeng Copper Materials Company Limited ("Yixing Jinfeng"), a non-wholly owned subsidiary of the Company, sold copper wires in the aggregate sum of approximately HK\$ 1.5 million to Yixing City Yida Copper Company Limited ("Yida") during the year. Yida is a substantial shareholder of Yixing Jinfeng and holds 42% of its interest.

The above transaction was entered into in the ordinary and usual course of business and on normal commercial terms.

- (b) The Company and CNMG(HK) entered into an agreement on 12th May, 2000 (the "Service Agreement") in respect of the sharing of administrative costs for administration services rendered by CNMG(HK) for the period from 1st January, 2000 to 31st December, 2002. Based on the amounts estimated as specified in the cash flow forecast of CNMG(HK) for the year 2000, the maximum amounts to be paid by the Company were expected to be not more than approximately HK\$4.1 million, HK\$4.5 million and HK\$5 million for the years 2000, 2001 and 2002, respectively.

CNMG(HK) received a winding up order in May 2002 and is now in the process of liquidation. No amount of administrative costs was charged by CNMG (HK) to the Company in respect of the Service Agreement during the year (2001: HK\$2.3 million). The outstanding balance due to CNMG(HK) as at 31st December, 2002 was approximately HK\$5 million (2001: HK\$7.8 million).

DE-MINIMIS CONCESSION

On 1st August, 2002, the Stock Exchange has approved the Company's application for the De-minimis Concession for the purpose of determining the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions) of the Company.

As such, the "assets test" and the "consideration test" will not apply to each transaction (other than connected transaction) carried out in the ordinary course of business of the Group, which is entered into on normal commercial terms, and where the aggregate consideration or value of the transaction does not exceed HK\$ 1,000,000, and such transaction will not be subject to shareholders' approval and disclosure requirements.

DE-MINIMIS CONCESSION (cont'd)

The Stock Exchange's approval for the use of the De-minimis Concession will remain valid from 1st August, 2002 until publication or the due date of publication of the Company's next annual report for the year ended 31st December, 2002, whichever is earlier.

As at 31st December, 2002, the Company had an audited consolidated net deficit of approximately HK\$351,000,000. Hence, the Company will make another application to the Stock Exchange for a De-minimis Concession in accordance to the Listing Rules.

FINANCIAL ASSISTANCE AND GUARANTEE TO ASSOCIATES

As at 31st December, 2002, the Group's financial assistance to, and guarantee given for a bank loan granted to its associates amounted to, in aggregate, approximately HK\$54 million (net of provision of approximately HK\$119 million), representing more than 25% of the net assets value of the Group as at 31st December, 2002 (the Group was in net liabilities). Disclosure should be made in accordance with the Practice Note Number 19 of the Listing Rules.

A proforma combined balance sheet of the above mentioned associates as at 31st March, 2003 (being the latest practicable date for this report) is set out below:

	Proforma combined balance HK\$ million	The Group's attributable interest HK\$ million
Non-current assets	131	33
Current assets	237	59
Current liabilities	(254)	(63)
Net current liabilities	(17)	(4)
Net assets	114	29
Share capital	94	24
Reserves	20	5
	114	29

All the above figures are unaudited.

DIRECTORS AND MANAGEMENT

Particulars of directors and management are set out on pages 13 to 15 of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 77 and 78 of this Annual Report.

AUDITORS

The accounts for the years ended 31st December, 2000 and 2001 were audited by Arthur Andersen & Co. The accounts for the year ended 31st December, 2002 have been audited by PricewaterhouseCoopers (having previously been appointed by the board to fill the casual vacancy arising by reason of the resignation of Arthur Andersen & Co on 9th October, 2002) who retire and being eligible offer themselves for re-appointment.

By order of the Board

Xu Huizhong

Director and President

Hong Kong, 17th April, 2003



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

**TO THE SHAREHOLDERS OF
ORIENTAL METALS (HOLDINGS) COMPANY LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 26 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

FUNDAMENTAL UNCERTAINTY RELATING TO A GOING CONCERN BASIS OF PRESENTATION

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2(a)(i) to the accounts concerning the Group's default on repayment of its bank borrowings and related interest payable totalling approximately HK\$414 million as at 31st December, 2002, whether the Group's debt restructuring work will be accepted by its banks and creditors, and can be successfully implemented, and whether the Group will be able to obtain new financing to meet its financial obligations as they fall due. The accounts have been prepared on the going concern basis, the validity of which depends upon future funding being available and the success of the Group's future operations. The accounts do not include any adjustments relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that would result from the failure to obtain such funding and should the Group's future operations not be successful. We consider that appropriate disclosures have been made. However, we consider this fundamental uncertainty to be so extreme that we have disclaimed our opinion in respect of the appropriateness of adopting the going concern basis for the preparation of the accounts.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY ACCOUNTS

Because of the fundamental uncertainty relating to the Company's and the Group's ability to continue as a going concern, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December, 2002 and of the profit and cash flows of the Group for the year then ended. In all other aspects, in our opinion the accounts have been prepared in accordance with the Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 17th April, 2003

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	Note	2002 HK\$'000	2001 HK\$'000
Turnover	3	875,676	1,234,277
Cost of sales	35	(767,196)	(1,170,487)
Gross profit		108,480	63,790
Other revenues	3 & 35	3,009	4,442
Other income, net		1,400	3,642
		112,889	71,874
Selling expenses		(31,047)	(48,714)
Administrative expenses		(61,220)	(83,455)
Other operating income/(expenses)	4	53,115	(717,083)
Profit/(Loss) from operations	5	73,737	(777,378)
Finance costs	6 & 35	(52,084)	(58,325)
Share of profits less losses of associates		5,851	(41,965)
Profit/(Loss) before taxation		27,504	(877,668)
Taxation	7	(2,487)	(3,233)
Profit/(Loss) after taxation		25,017	(880,901)
Minority interests		(5,341)	17,893
Profit/(Loss) attributable to shareholders	8	19,676	(863,008)
Dividends	9	-	-
Basic earnings/(loss) per share	10	1.49 cents	(65.39 cents)
Profit/(Loss) for the year is retained as follows:			
– By the Company and its subsidiaries		14,133	(819,824)
– By associates		5,543	(43,184)
		19,676	(863,008)

CONSOLIDATED BALANCE SHEET

As at 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Fixed assets	13	331,871	367,231
Construction in progress	14	84,892	44,891
Interests in associates	16	64,981	90,380
Investment securities	17	2,146	2,047
Long-term receivables	18	6,226	6,226
		490,116	510,775
Current assets			
Inventories	19	208,155	250,340
Trade receivables, prepayments and other receivables	20	201,090	143,335
Taxation recoverable		1,516	–
Pledged bank deposits		3,056	–
Cash and bank deposits		95,810	56,417
		509,627	450,092
Current liabilities			
Trade payables and accrued charges	21	211,154	192,748
Bills payable		29,245	7,547
Amount due to a shareholder	22	4,478	7,316
Amounts due to related companies	22	50,056	50,395
Amounts due to associates	16	12,381	9,100
Amounts due to minority investors	23	30,187	36,435
Taxation payable	24	9,721	11,573
Provisions	25	9,315	92,845
Bank loans	26	631,551	613,244
		988,088	1,021,203
Net current liabilities		(478,461)	(571,111)
Total assets less current liabilities		11,655	(60,336)

CONSOLIDATED BALANCE SHEET

As at 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	Note	2002 HK\$'000	2001 HK\$'000
Financed by:			
Share capital	27	131,973	131,973
Reserves	28	(483,042)	(495,381)
Deficit on shareholders' funds		(351,069)	(363,408)
Minority interests		158,007	155,902
Non-current liabilities			
Bank loans	26	176,415	147,170
Deferred income	29	28,302	–
		11,655	(60,336)

Xu Huizhong, President and Director

Lau Yat Ching, Executive Vice President and Director

BALANCE SHEET

As at 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	Note	2002 HK\$'000	2001 HK\$'000
Non-current assets			
Fixed assets	13	6,177	7,819
Investments in subsidiaries	15	122,753	138,963
Investment securities	17	108	9
Amount due from an associate		-	26
Long-term receivables	18	-	-
		129,038	146,817
Current assets			
Trade receivables, prepayments and other receivables		378	15,095
Cash and bank deposits		6,207	8,889
		6,585	23,984
Current liabilities			
Trade payables and accrued charges		36,630	19,595
Amount due to a shareholder	22	4,478	7,316
Amounts due to related companies	22	39,633	40,347
Taxation payable	24	1,174	1,837
Bank loans	26	377,752	373,668
		459,667	442,763
Net current liabilities		(453,082)	(418,779)
Total assets less current liabilities		(324,044)	(271,962)
Financed by:			
Share capital	27	131,973	131,973
Reserves	28	(456,017)	(403,935)
Deficit on shareholders' funds		(324,044)	(271,962)

Xu Huizhong, President and Director

Lau Yat Ching, Executive Vice President and Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	2002	2001
	HK\$'000	HK\$'000
Total (deficit)/equity as at 1st January	(363,408)	505,728
Exchange differences on translation of the accounts of PRC subsidiaries for consolidation	-	368
Impairment in value of land and buildings charged to revaluation reserve	-	(6,496)
Net loss not recognised in the profit and loss account	-	(6,128)
Profit/(Loss) attributable to shareholders	19,676	(863,008)
Capital reserve transferred to profit and loss account upon deconsolidation of a subsidiary under liquidation	(7,337)	-
Total deficit as at 31st December	(351,069)	(363,408)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	Note	2002 HK\$'000	2001 HK\$'000
Operating activities			
Cash generated from operations	32(a)	70,095	74,722
Interest paid		(32,556)	(53,890)
PRC taxes (paid)/refund		(2,341)	1,599
Net cash inflow from operating activities		35,198	22,431
Investing activities			
Purchase of fixed assets		(2,822)	(5,142)
Proceeds from disposal of fixed assets		223	1,065
Payment for additions to construction in progress		(59,651)	(46,375)
Deconsolidation of a subsidiary under liquidation, net cash disposed	32(c)	(27)	–
Investment in an associate		–	(326)
Proceed from liquidation of an associate		–	1,391
Dividends received from an associate		6,952	10,362
Purchase of investment securities		–	(98)
Proceeds on disposal of investment securities		–	3,905
Dividends received from investment securities		–	27
Interest received		391	2,555
Increase in pledged bank deposits		(3,056)	–
Net cash outflow from investing activities		(57,990)	(32,636)
Net cash outflow before financing		(22,792)	(10,205)
Financing activities			
Dividend paid to minority shareholders		(3,236)	(3,231)
Proceeds from new bank loans		87,292	43,870
Repayment of bank loans		(39,740)	(51,378)
Decrease in amount due to a shareholder (Decrease)/Increase in amounts due to related companies		(2,838)	(19)
(Decrease)/Increase in amounts due to minority investors		(1,349)	8,158
Proceeds from government grant		(6,248)	6,963
		28,302	–
Net cash inflow from financing		62,183	4,363

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December, 2002
(Amounts expressed in Hong Kong dollars)

	Note	2002 HK\$'000	2001 HK\$'000
Increase/(Decrease) in cash and cash equivalents		39,391	(5,842)
Cash and cash equivalents at 1st January		56,417	62,199
Effect of foreign exchange adjustments		2	60
Cash and cash equivalents at 31st December		95,810	56,417
Analysis of balances of cash and cash equivalents			
Cash and bank deposits		95,810	56,417

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

1. ORGANISATION AND OPERATIONS

Oriental Metals (Holdings) Company Limited (the "Company") was incorporated in Hong Kong on 29th July, 1988.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the trading of nonferrous metals and investments relating to nonferrous metals.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"), the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules. They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, certain land and buildings are stated at fair value.

(i) *Going concern basis*

As at 31st December, 2002, the Group had net current liabilities of approximately HK\$478,461,000 and deficit on shareholders' funds of approximately HK\$351,069,000. In addition, the Group has defaulted on repayment of bank loans of approximately HK\$389 million as described in more detail in Note 26 and interest on its bank borrowings of approximately HK\$25 million which was recorded under trade payables and accrued charges as at 31st December, 2002. Several banks of the Group have taken various actions including, but not limited to, the issuance of demand notices and writs of summons to request for repayment of the Group's bank loans of approximately HK\$111 million (equivalent to approximately US\$14 million). On 27th January, 2003, the High Court of the Hong Kong Special Administrative Region ("HKSAR"), made a judgement in the favour of the relevant banks. The relevant banks are now in discussion with other Hong Kong bank creditors regarding the debt restructuring of the Group. In view of aforementioned factors, there is doubt about the Group's ability to continue as a going concern.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(a) Basis of preparation (cont'd)

(i) *Going concern basis* (cont'd)

In determining the basis of preparation of the accounts, the directors and management are optimistic about the progress of the Group's debt restructuring. If the Group's restructuring can be successfully implemented, the Group's future operations can be secured and new funding can be obtained to meet the Group's financial obligations as they fall due. Accordingly, the accounts have been prepared on a going concern basis.

(ii) *Adoption of new/revised accounting standards*

In the current year, the Group adopted the following Statements of Standard Accounting Practice ("SSAP") issued by the HKSA which are effective for accounting periods commencing on or after 1st January, 2002:

SSAP1 (revised):	Presentation of financial statements
SSAP11 (revised):	Foreign currency translation
SSAP15 (revised):	Cash flow statements
SSAP34 (revised):	Employee benefits

The Group has also adopted SSAP35 "Government grants and disclosure of government assistance" which is effective for periods commencing on or after 1st July, 2002 in advance of its effective date.

The adoption of these new and revised accounting standards did not have material impact on the accounts for the year ended 31st December, 2002 and the previous years except for the reclassifications in the consolidated cash flow statement and the presentation of the consolidated statement of changes in equity.

(b) Group accounting

(i) *Consolidation*

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31st December.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Group accounting (cont'd)

(i) Consolidation (cont'd)

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill and related accumulated foreign currency translation difference taken to reserves and which were not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associates

An associate is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associates for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associates and goodwill/ negative goodwill (net of accumulated amortisation) on acquisition.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(b) Group accounting (cont'd)

(ii) Associates (cont'd)

In the Company's balance sheet, investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

Equity accounting is discontinued when the carrying amount of the investment in an associate reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associate.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associates expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Goodwill/Negative goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

Goodwill on acquisitions occurring on or after 1st January, 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful life.

Goodwill on acquisitions that occurred prior to 1st January, 2001 was eliminated against reserves. Any impairment arising on such goodwill is accounted for in the profit and loss account.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(c) Goodwill/Negative goodwill (cont'd)

For acquisition after 1st January, 2001, negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the profit and loss when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognized in the profit and loss over the remaining useful lives of those assets; negative goodwill in excess of the fair values of those non-monetary assets is recognised in the profit and loss immediately.

For acquisitions prior to 1st January, 2001, negative goodwill was taken directly to reserves on acquisition.

(d) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownerships, which generally coincides with the time when the goods are delivered to customers and title has passed.

Income from the provision of sub-contracting and other engineering services is recognised when related services are rendered.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and interest rates applicable.

(e) Fixed assets

(i) Properties

Properties are interests in land and buildings and are stated at cost or their revalued amounts, being their fair value at the date of revaluation, less accumulated depreciation and accumulated impairment losses.

The Group has taken advantage of the transitional provisions set out in paragraph 80 of SSAP17, "Property, Plant and Equipment" issued by the HKSA, with the effect that certain land and buildings are stated at their revalued amounts, which were determined prior to 30th September, 1995 and have not been updated to reflect their fair values at the balance sheet date.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets (cont'd)

(ii) Other fixed assets

Other fixed assets, comprising leasehold improvements, plant and machinery, office equipment, furniture and fixtures and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(iii) Construction in progress

Construction in progress is stated at cost. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to fixed assets when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

(iv) Depreciation

Leasehold land is stated at cost or revalued amount less accumulated impairment losses and is amortised over the remaining period of the lease. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% – 5%
Leasehold improvements	20%
Plant and machinery	6% – 14%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	33%

Major costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(e) Fixed assets (cont'd)

(v) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease.

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

(f) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(g) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

(i) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment and bank overdrafts.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Government grants

A government grant is initially recognised as deferred income, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate. Grants relating to assets are recognised in the profit and loss account, on a systematic basis over the useful life of the asset.

Government grants relating to the purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected useful lives of the related assets.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(l) Deferred taxation

Deferred taxation is provided under the liability method in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group participates in a number of defined contribution pension plans, the assets of which are generally held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution pension scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(n) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(o) Contingencies

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure mainly comprises additions to fixed assets and construction in progress, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the manufacturing and distribution of aluminum and copper products. Revenues recognised during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Turnover		
Sales of goods, net of value-added tax, returns and discounts	875,676	1,234,277
Other revenues		
Sales of by-products	635	758
Service income	1,983	1,129
Interest income	391	2,555
	3,009	4,442
Total revenue	878,685	1,238,719

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(a) Primary reporting format – Business segments

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group's operations comprise the following main business segments:

Trading:	Trading of nonferrous metals
Aluminium refinery:	Production and sale of aluminum foil, extrusions, and production and sale of aluminium cans and containers and packaging products
Copper refinery and smelters:	Production and sale of plica tubes, copper rods, copper wires, copper cathodes and copper blisters

There are no sales or other transactions between the business segments.

	Trading		Aluminium refinery		Copper refinery and smelters		Corporate and others		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
REVENUES										
Sales of nonferrous metals	-	246,736	827,015	853,830	48,661	137,076	-	-	875,676	1,237,642
Net loss on metals future trading	-	(3,365)	-	-	-	-	-	-	-	(3,365)
									875,676	1,234,277
OTHER REVENUES	81	1,004	1,391	3,078	635	40	902	320	3,009	4,442
RESULTS										
Segment results	37,510	(308,335)	38,343	(61,765)	1,292	(35,170)	(3,408)	(372,108)	73,737	(777,378)
Finance costs									(52,084)	(58,325)
Share of profits less losses of associates	-	-	470	(6,877)	5,381	(35,088)	-	-	5,851	(41,965)
Taxation									(2,487)	(3,233)
Minority interests									(5,341)	17,893
Profit/(Loss) attributable to shareholders									19,676	(863,008)

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(a) Primary reporting format – Business segments (cont'd)

	Trading		Aluminium refinery		Copper refinery and smelters		Corporate and others		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
OTHER INFORMATION										
Segment assets	12,468	28,836	896,354	795,687	23,336	36,700	2,604	9,264	934,762	870,487
Interests in associates	-	-	7,622	6,909	57,359	83,471	-	-	64,981	90,380
Total assets									999,743	960,867
Segment liabilities	33,853	196,567	609,381	526,481	46,815	58,795	502,756	386,530	1,192,805	1,168,373
Capital expenditures incurred during the year	-	18	61,955	51,171	425	235	93	93	62,473	51,517
Depreciation and amortisation	7	25	52,924	82,867	412	4,325	157	978	53,500	88,195
Impairment losses recognised in profit and loss account	-	-	1,882	9,617	-	31,466	1,359	10,413	3,241	51,496
Impairment losses directly charged to equity	-	-	-	-	-	-	-	6,496	-	6,496

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The Group's activities are conducted predominately in Hong Kong and Mainland China (the "PRC").

In presenting information on the basis of geographical segments, segment revenues are based on the geographical location of the customers. Segment assets and capital expenditures are based on the geographical location of the assets.

There are no sales between the geographical segments.

	The PRC		Hong Kong and others		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
External revenue	851,316	1,111,163	24,360	123,114	875,676	1,234,277
Contribution to gross profit	104,764	63,519	3,716	271	108,480	63,790
Segment assets	995,631	950,335	4,112	10,532	999,743	960,867
Capital expenditure	62,380	51,406	93	111	62,473	51,517

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

4. OTHER OPERATING INCOME/(EXPENSES)

	2002	2001
	HK\$'000	HK\$'000
Reversal of provision/(provision) for foreseeable loss on a long-term purchase contract (see Note 25(i))	43,806	(56,040)
Gain on deconsolidation of a subsidiary under liquidation (Note (i))	29,754	–
Reversal of provision/(provision) for compensation in respect of outstanding claims and litigations	6,829	(16,256)
Reversal of provision/(provision) for impairment in value of investment securities	99	(594)
Provision for bad and doubtful debts		
– Amounts due from associates	(13,957)	(71,979)
– Long-term receivables	–	(200)
– Debtors and prepayments	(8,734)	(519,740)
Provision for impairment in value of fixed assets (other than land and buildings)	(1,882)	(36,745)
Provision for impairment in value of land and buildings	(1,458)	(12,544)
Provision for impairment in value of intangible assets	–	(1,613)
Others	(1,342)	(1,372)
	53,115	(717,083)

Note:

- (i) On 7th June, 2002, a creditor of Da Hua Non-ferrous Metals Company Limited ("Da Hua"), a wholly-owned subsidiary of the Company, filed a petition to the High Court ("the Court") of the HKSAR to seek an order from the Court to wind up Da Hua on the grounds that Da Hua failed to settle a sum of approximately HK\$20,661,000 due to that party. On 21st October, 2002, the Court ordered to wind up Da Hua and appointed provisional liquidators to manage the affairs of Da Hua. Since then, the Group has been unable to exercise control over Da Hua and the Group recorded a resultant gain on deconsolidation of the subsidiary under liquidation of approximately HK\$29,754,000.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

5. PROFIT/(LOSS) FROM OPERATIONS

Profit/(Loss) from operations is determined after charging and crediting the following:

	2002	2001
	HK\$'000	HK\$'000
Charging:		
Depreciation	53,500	87,315
Loss on disposal of fixed assets	769	884
Loss on disposal of construction in progress	-	7
Amortisation of intangible assets	-	880
Operating lease rentals on land and buildings	1,088	1,360
Provision for inventory obsolescence	-	8,089
Auditors' remuneration	1,200	1,800
Exchange loss, net	63	-
	63	-
Crediting:		
Reversal of provision for inventory obsolescence	338	-
Gain on disposal of investment securities	-	1,934
Dividend income from investment securities	-	27
Exchange gain, net	-	261

6. FINANCE COSTS

	2002	2001
	HK\$'000	HK\$'000
Bank loans wholly repayable within five years	52,448	57,452
Other loans wholly repayable within five years	1,256	1,779
	53,704	59,231
Less: Interest capitalised in construction in progress	(1,620)	(906)
	52,084	58,325

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

7. TAXATION

The amount of taxation charged to the consolidated profit and loss account represents:

	2002	2001
	HK\$'000	HK\$'000
Provision for PRC Enterprise Income Tax	2,179	2,014
Share of income tax of associates	308	1,219
	2,487	3,233

No provision for Hong Kong profits tax has been made for Hong Kong companies within the Group as all Hong Kong companies had no assessable profit for the year.

In accordance with relevant income tax laws and regulations applicable to Sino-foreign equity joint ventures in the PRC, the Group's PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from their first profit-making year, after offsetting tax losses brought forward from the previous five years, if any, followed by a 50% reduction in the tax rate for the immediate next three years.

The tax exemption and reduction period of one of the subsidiaries in the PRC expired in 2001, which is currently subject to Enterprise Income Tax at a tax rate of 33%. All other subsidiaries in the PRC still enjoy full tax exemption for the year.

8. PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS

Profit/(Loss) attributable to shareholders is dealt with in the accounts of the Company to the extent of loss of HK\$52,082,000 (2001: loss of HK\$699,597,000).

9. DIVIDENDS

No interim dividend was paid and the directors do not recommend the payment of a final dividend for the year ended 31st December, 2002.

10. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of approximately HK\$19,676,000 (2001: loss of HK\$863,008,000).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

10. EARNINGS/(LOSS) PER SHARE (cont'd)

The basic earnings/(loss) per share is computed based on the weighted average of 1,319,726,950 shares (2001: 1,319,726,950 shares) in issue during the year.

No disclosure of diluted earnings/(loss) per share has been made as there was no potential dilutive shares in existence in 2002 and 2001.

11. STAFF COSTS

	2002	2001
	HK\$'000	HK\$'000
Staff costs, including directors' emoluments, consist of:		
Wages and salaries	37,845	36,042
Unutilised annual leave	86	–
Long service payment	179	–
Retirement scheme contributions (see Note 30)	6,845	10,922
	44,955	46,964

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2002	2001
	HK\$'000	HK\$'000
Executive directors		
Fees	–	–
Salaries and other emoluments	3,785	3,510
Non-executive directors		
Fees	381	240
	4,166	3,750

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(a) Directors' emoluments (cont'd)

During the year, no director waived any emoluments and no emoluments were paid or payable by the Group to any director as an inducement to join or as compensation for loss of office.

Analysis of the emoluments of the directors by number of directors and emolument range is as follows:

	Number of directors	
	2002	2001
Nil – HK\$ 1,000,000	11	6
HK\$ 1,500,001 – HK\$ 2,000,000	1	2
	12	8

(b) Five highest-paid individuals

The five individuals with the highest emoluments include three (2001: two) executive directors whose emoluments are disclosed in Note 12(a) above. The emoluments in respect of the remaining two (2001: three) individuals are as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other emoluments	858	1,914
Retirement scheme contributions	40	58
	898	1,972

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

(b) Five highest-paid individuals (cont'd)

Analysis of emoluments paid to the above two (2001: three) non-director individuals by number of individuals and emolument range is as follows:

	Number of individuals	
	2002	2001
Nil – HK\$ 1,000,000	2	2
HK\$ 1,000,001 – HK\$ 1,500,000	-	1
	2	3

During the year, no emoluments were paid or payable by the Group to the five highest-paid individuals as an inducement to join or as compensation for loss of office.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

13. FIXED ASSETS

(a) The Group

	2002						
	Land and buildings	Leasehold improve- ments	Plant and machinery	Office equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation							
Beginning of year	242,403	1,164	717,227	1,337	26,593	22,330	1,011,054
Reclassification	-	-	-	6,038	(6,038)	-	-
Additions	314	20	879	117	939	553	2,822
Transfer from construction in progress	3,780	-	15,398	-	-	472	19,650
Disposals	(858)	-	(598)	(840)	(2,661)	(2,026)	(6,983)
End of year	245,639	1,184	732,906	6,652	18,833	21,329	1,026,543
Analysis of cost or valuation is as follows:							
At cost	219,489	1,184	732,906	6,652	18,833	21,329	1,000,393
At valuation - 1994	26,150	-	-	-	-	-	26,150
	245,639	1,184	732,906	6,652	18,833	21,329	1,026,543
Accumulated depreciation and impairment losses							
Beginning of year	108,295	1,164	497,897	1,287	16,964	18,216	643,823
Reclassification	-	-	-	2,695	(2,695)	-	-
Charge for the year	14,891	3	35,564	335	1,671	1,036	53,500
Disposals	(434)	-	(560)	(744)	(2,284)	(1,969)	(5,991)
Impairment charge	1,458	-	592	436	-	854	3,340
End of year	124,210	1,167	533,493	4,009	13,656	18,137	694,672
Net book value							
End of year	121,429	17	199,413	2,643	5,177	3,192	331,871
Beginning of year	134,108	-	219,330	50	9,629	4,114	367,231

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

13. FIXED ASSETS (cont'd)

(b) The Company

	2002				
	Land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation					
Beginning of year	26,073	1,163	2,419	2,223	31,878
Additions	–	19	79	–	98
Disposals	–	–	(443)	(195)	(638)
End of year	26,073	1,182	2,055	2,028	31,338
Analysis of cost or valuation is as follows:					
At cost	4,823	1,182	2,055	2,028	10,088
At valuation – 1994	21,250	–	–	–	21,250
	26,073	1,182	2,055	2,028	31,338
Accumulated depreciation and impairment losses					
Beginning of year	18,373	1,163	2,300	2,223	24,059
Charge for the year	188	4	62	–	254
Impairment charge	1,458	–	–	–	1,458
Disposals	–	–	(415)	(195)	(610)
End of year	20,019	1,167	1,947	2,028	25,161
Net book value					
End of year	6,054	15	108	–	6,177
Beginning of year	7,700	–	119	–	7,819

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

13. FIXED ASSETS (cont'd)

(c) The carrying amounts of land and buildings are analysed as follows:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Land and buildings				
Held in Hong Kong on				
– long-term leases (over 50 years)	292	300	292	300
Held in the PRC on				
– medium-term leases (10 – 50 years)	109,369	112,338	5,762	7,400
– short-term leases (less than 10 years)	11,768	21,470	–	–
	121,429	134,108	6,054	7,700

(d) Certain land and buildings of the Group and of the Company were revalued at 30th September, 1994 on an open market basis by Debenham Tie Leung, an independent firm of registered professional surveyors and valuers. The Group has taken advantage of the transitional provisions set out in paragraph 80 of SSAP 17, "Property, Plant and Equipment" issued by the HKSA, with the effect that such land and buildings are stated at their revalued amounts, which were determined prior to 30th September, 1995 and have not been updated to reflect their fair values at the balance sheet date, less accumulated depreciation and any impairment losses.

The carrying amounts of land and buildings of the Group and the Company that would have been included in the accounts had the assets been carried at cost less accumulated depreciation and accumulated impairment losses are as follows:

	2002 HK\$'000	2001 HK\$'000
The Group	112,752	127,998
The Company	6,054	7,700

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

13. FIXED ASSETS (cont'd)

- (e) Certain fixed assets of the Group with a net book value of approximately HK\$213 million (2001: HK\$219 million) are mortgaged to banks to secure certain banking facilities of the Group.

14. CONSTRUCTION IN PROGRESS

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Beginning of year	44,891	22,562
Additions	59,651	46,375
Transfer to fixed assets	(19,650)	(24,071)
Disposals	-	(7)
Exchange adjustments	-	32
End of year	84,892	44,891

During the year, interest expense of approximately HK\$1,620,000 (2001: HK\$906,000) was capitalised and included in additions to assets in the course of construction.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

15. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2002	2001
	HK\$'000	HK\$'000
Non-current assets		
Unlisted shares/ investments, at cost	18,943	20,407
Less: Provision for impairment in value	(18,858)	(16,071)
	85	4,336
Amounts due from subsidiaries (Note (i))	1,304,210	1,315,333
Less: Provision for amounts due from subsidiaries	(1,114,322)	(1,115,294)
	189,888	200,039
Amounts due to subsidiaries (Note (i))	(67,220)	(65,412)
	122,753	138,963

Notes:

- (i) The amounts due from/to subsidiaries are unsecured and not repayable within one year. Except for certain amounts due from/to subsidiaries of approximately HK\$1,118,400,000 (2001: HK\$879,352,000) and HK\$12,585,000 (2001: Nil) respectively which bear interest at prevailing market rates, all amounts due from/to subsidiaries are interest-free.
- (ii) The directors are of the opinion that the underlying values of the subsidiaries are not less than their carrying values as at 31st December, 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

The following is a list of the principal subsidiaries:

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued or paid-up capital*	Proportion of issued capital held by the Company	
				Directly	Indirectly
OrienMet Aluminium Company Limited	Hong Kong	Nonferrous metals trading	28,800 shares of HK\$100 each	100%	–
Oriental Copper Company Limited	Hong Kong	Nonferrous metals trading	28,800 shares of HK\$100 each	100%	–
OrienMet Minerals Company Limited	Hong Kong	Nonferrous metals trading	1,880,000 shares of HK\$1 each	100%	–
Point Good Limited	Hong Kong	Property holding	2 shares of HK\$1 each	100%	–
Taiway Enterprises Limited	Hong Kong	Property holding	2 shares of HK\$1 each	100%	–
OrienMet Industry Company Limited	Hong Kong	Investment holding	5,000,000 shares of HK\$1 each	100%	–
Oriental Metals Shipping and Transportation Company Limited	Liberia/ Hong Kong	Investment holding	1,000 shares of US\$100 each	100%	–
Goldfair Hong Kong Limited	Hong Kong	Investment holding	10,000 shares of HK\$1 each	–	100%
Golden Hong Kong Limited	Hong Kong	Investment holding	10,000 shares of HK\$1 each	–	100%
Lontic (Hong Kong) Limited	Hong Kong	Investment holding	2 shares of HK\$1 each	–	100%
Parkfield Far East Limited	Hong Kong	Investment holding	10,000 shares of HK\$1 each	–	100%

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued or paid-up capital*	Proportion of issued capital held by the Company	
				Directly	Indirectly
Topstart Limited	British Virgin Islands/ Hong Kong	Investment holding	50,000 shares of US\$1 each	–	100%
North China Aluminium Company Limited #	PRC	Production and sale of aluminium foil and extrusions	Rmb344,800,000	–	51%
Yinkou OrienMet Plica Tube Company Limited #	PRC	Production and sale of copper plica tubes	US\$4,000,000	–	51%
Yixing Jinfeng Copper Materials Company Limited #	PRC	Production and sale of copper wires	US\$2,619,048	–	58%
Zhangzhou International Aluminium Container Company Limited #	PRC	Production and sale of aluminium cans, container and packaging products	US\$20,000,000	–	60%

* The class of shares held is ordinary.

These are Sino-foreign equity joint ventures registered under the laws of the PRC and their statutory accounts are not audited by PricewaterhouseCoopers.

Note:

On 7th June, 2002, a creditor of Da Hua, a wholly-owned subsidiary of the Company, filed a petition to the Court of the HKSAR to seek an order from the Court to wind up Da Hua on the grounds that Da Hua failed to settle a sum of approximately HK\$20,661,000 due to that party. On 21st October, 2002, the Court ordered to wind up Da Hua and appointed provisional liquidators to manage the affairs of Da Hua. Since then, the Group has been unable to exercise control over Da Hua and Da Hua has been deconsolidated from the consolidated accounts of the Group (see Note 4(i)).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

15. INVESTMENTS IN SUBSIDIARIES (cont'd)

Supplementary financial information of Da Hua is as follows:

	2002 HK\$'000	Previous years since acquisition HK\$'000
Losses dealt with in the consolidated accounts	502	33,947
Losses not dealt with in the consolidated accounts	-	-

16. INTERESTS IN ASSOCIATES AND AMOUNTS DUE TO ASSOCIATES

	The Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	34,671	36,780
Amounts due from associates (Note (i))	149,349	125,579
Less: Provision for doubtful debts	(119,039)	(71,979)
	30,310	53,600
	64,981	90,380
Amounts due to associates (Note (i))	12,381	9,100

Note:

- (i) The balances with associates are unsecured and have no fixed terms of repayment. Except for certain amounts due from associates of approximately HK\$97 million (2001: HK\$107 million) which bear interest at prevailing market rates, all balances with associates are interest-free.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

16. INTERESTS IN ASSOCIATES AND AMOUNTS DUE TO ASSOCIATES

(cont'd)

The Group's share of the post-acquisition losses of associates as at 31st December, 2002 was approximately HK\$254 million (2001: HK\$262 million).

Supplementary financial information of the major associate is as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Balance sheet		
Non-current assets	133,399	141,962
Current assets	188,546	208,521
Current liabilities	209,960	230,995
Profit and loss account		
Turnover	1,271,955	1,575,250
Profit before taxation	21,524	37,425
Profit after taxation	20,292	32,658

The directors are of the opinion that the underlying values of the associates are not less than their carrying values as at 31st December, 2002.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

16. INTERESTS IN ASSOCIATES AND AMOUNTS DUE TO ASSOCIATES

(cont'd)

The following is a list of the principal associates:

Name of company	Place of/ incorporation operation	Principal activities	Particulars of issued or paid up capital	Proportion of issued capital held by the Company	
				Directly	Indirectly
Changzhou Jinyuan Copper Company Limited	PRC	Production and sale of copper rods	Rmb100,000,000	–	47.5%
Changzhou OrienMet Copper Company Limited*	PRC	Production and sale of copper rods and copper cathodes	Rmb79,000,000	–	50%
Huludao OrienMet Copper Company Limited*	PRC	Production and sale of copper blisters	US\$46,600,000	–	30%
Qingdao M.C. Packaging Limited*	PRC	Production and sale of aluminium cans	US\$25,000,000	–	20%
Shanghai Jing Bao Copper Foil Limited*	PRC	Production and sale of copper foil	Rmb29,450,000	–	25%
Yantai Penghui Copper Industry Company Limited*	PRC	Production and sale of copper cathodes	Rmb132,000,000	–	42%
Yinxing Company Limited*	PRC	Sale of aluminum ingots	Rmb14,322,600	–	34%

* *Statutory accounts of these companies are not audited by PricewaterhouseCoopers.*

All of the above associates are Sino-foreign equity joint ventures registered under the laws of the PRC.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

17. INVESTMENT SECURITIES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Unlisted investments, at cost	2,538	3,821	-	-
Less: Provision for impairment in value	(500)	(1,783)	-	-
	2,038	2,038	-	-
Listed investments, at cost	64,443	64,443	64,443	64,443
Less: Provision for impairment in value	(64,335)	(64,434)	(64,335)	(64,434)
	108	9	108	9
	2,146	2,047	108	9
Listed in Hong Kong at carrying value	108	9	108	9
Quoted market value of listed securities	108	2	108	2

18. LONG-TERM RECEIVABLES

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Long-term receivables	6,426	6,426	200	200
Less: Provision for doubtful debts	(200)	(200)	(200)	(200)
	6,226	6,226	-	-

Long-term receivables of the Group and of the Company are unsecured, interest-free and not repayable within one year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

19. INVENTORIES

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	58,497	65,704
Work in progress	61,572	84,442
Finished goods	94,842	108,283
	214,911	258,429
Less: Provision for inventory obsolescence	(6,756)	(8,089)
	208,155	250,340

Included in finished goods are inventories of approximately HK\$9 million (2001: HK\$21 million) that are stated at their net realisable values.

20. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 30 days to 90 days to its trade customers. Included in the Group's trade receivables, prepayments and other receivables are trade receivable balances, net of provision for doubtful debts, of approximately HK\$174,974,000 (2001: HK\$117,343,000). An aging analysis of such trade receivables is shown as follows:

	The Group			
	2002		2001	
	HK\$'000	%	HK\$'000	%
Less than 6 months	172,302	98	111,865	95
6 months – 1 year	2,553	2	2,893	2
1-2 years	119	-	1,035	1
Over 2 years	-	-	1,550	2
	174,974	100	117,343	100

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

21. TRADE PAYABLES AND ACCRUED CHARGES

Included in the Group's trade payables and accrued charges are trade payable balances of approximately HK\$76,305,000 (2001: HK\$58,803,000). An aging analysis of such trade payables is shown as follows:

	The Group			
	2002		2001	
	HK\$'000	%	HK\$'000	%
Less than 6 months	64,100	84	47,766	81
6 months – 1 year	1,671	2	702	1
1 – 2 years	4	–	417	1
Over 2 years	10,530	14	9,918	17
	76,305	100	58,803	100

22. AMOUNTS DUE TO A SHAREHOLDER AND RELATED COMPANIES

The amounts due to a shareholder and related companies are unsecured and repayable on demand. Except for amounts due to a related company by the Group of approximately HK\$27,336,000 (2001: HK\$27,600,000) and amounts due to a related company by the Company of approximately HK\$16,920,000 (2001: HK\$17,600,000) which bear interest rate at prevailing market rate, all outstanding balances are interest-free.

23. AMOUNTS DUE TO MINORITY INVESTORS

The amounts due to minority investors are unsecured, interest-free and are repayable on demand.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

24. TAXATION PAYABLE

(a) Taxation payable represents:

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Provision for Hong Kong profits tax relating to prior years	512	512	-	-
Provision for PRC taxes	9,209	11,061	1,174	1,837
	9,721	11,573	1,174	1,837

(b) Deferred taxation

The Group has potential deferred tax assets of approximately HK\$123 million (2001: HK\$136 million) in respect of all material timing differences between the accounting and tax treatment of income and expenditure. These potential deferred tax assets have not been recognised in the accounts as the directors consider that the realisation of the benefit in future years is uncertain.

25. PROVISIONS

	Compensation in respect of outstanding claims and litigations HK\$'000	The Group Foreseeable loss on a long-term purchase contract (Note (i)) HK\$'000	Total HK\$'000
As at 1st January, 2002	36,805	56,040	92,845
Less: Amount utilised	-	(12,234)	(12,234)
Unused amounts reversed	(6,829)	(43,806)	(50,635)
Deconsolidation of a subsidiary under liquidation	(20,661)	-	(20,661)
As at 31st December, 2002	9,315	-	9,315

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

25. PROVISIONS (cont'd)

Note:

- (i) The Group entered into a long-term contract with an overseas supplier for the purchase of alumina, which extends to 2004. During the year ended 31st December, 2001, the Group made a provision of approximately HK\$56,040,000, which was the total expected loss, computed on the market price of alumina, in fulfilling the purchase commitment. As a result of the rise in the market price of alumina, the unutilised provision of approximately HK\$43,806,000 was reversed during the year ended 31st December, 2002.
- (ii) The provisions have not been discounted as the effect of discounting is not expected to be material.

26. BANK LOANS

	The Group		The Company	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Within one year or on demand				
Secured bank loans	212,405	163,952	-	-
Unsecured bank loans	419,146	449,292	377,752	373,668
Included under current liabilities	631,551	613,244	377,752	373,668
After one year but within two years				
Secured bank loans	23,585	93,396	-	-
After two years but within five years				
Secured bank loans	152,830	53,774	-	-
Included under non-current liabilities	176,415	147,170	-	-
	807,966	760,414	377,752	373,668

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

26. BANK LOANS (cont'd)

- (a) Certain bank loans of the Company are secured by a corporate guarantee given by a shareholder of the Company.
- (b) Certain bank loans of the Group are secured by (i) a corporate guarantee given by a shareholder of the Company; (ii) certain fixed assets of the Group; and (iii) corporate guarantees given by certain minority investors and a third party.
- (c) Certain bank loans of the Group and of the Company of approximately HK\$389 million (2001: HK\$399 million) and HK\$378 million (2001: HK\$374 million), respectively, are already overdue as at the date of the approval of the accounts by the directors and have been included under current liabilities as at 31st December, 2002.

27. SHARE CAPITAL

	Number of shares			
	2002 '000	2001 '000	2002 HK\$'000	2001 HK\$'000
Authorised:				
Ordinary shares of \$0.1 each	3,000,000	3,000,000	300,000	300,000
Issued and fully paid:				
Ordinary shares of \$0.1 each	1,319,727	1,319,727	131,973	131,973

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

28. RESERVES

(a) The Group

	Share premium	Revaluation reserve	General reserve	Capital reserve	PRC statutory reserves (Notes (c) & (d))	Exchange translation reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January, 2001	800,030	6,992	15,600	7,337	61,653	2,509	(520,366)	373,755
Transfer to PRC statutory reserves	-	-	-	-	1,093	-	(1,093)	-
Reclassification of reserves	-	-	-	-	641	-	(641)	-
Impairment in value of land and buildings	-	(6,496)	-	-	-	-	-	(6,496)
Exchange differences on consolidation	-	-	-	-	-	368	-	368
Loss for the year	-	-	-	-	-	-	(863,008)	(863,008)
At 31st December, 2001	800,030	496	15,600	7,337	63,387	2,877	(1,385,108)	(495,381)
Transfer to PRC statutory reserves	-	-	-	-	1,035	-	(1,035)	-
Deconsolidation of a subsidiary under liquidation	-	-	-	(7,337)	-	-	-	(7,337)
Profit for the year	-	-	-	-	-	-	19,676	19,676
At 31st December, 2002	800,030	496	15,600	-	64,422	2,877	(1,366,467)	(483,042)
At 31st December, 2001								
Company and subsidiaries	800,030	496	15,600	7,337	63,387	2,877	(1,131,108)	(241,381)
Associated companies	-	-	-	-	-	-	(254,000)	(254,000)
	800,030	496	15,600	7,337	63,387	2,877	(1,385,108)	(495,381)
At 31st December, 2002								
Company and subsidiaries	800,030	496	15,600	-	64,422	2,877	(1,104,467)	(221,042)
Associated companies	-	-	-	-	-	-	(262,000)	(262,000)
	800,030	496	15,600	-	64,422	2,877	(1,366,467)	(483,042)

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

28. RESERVES (cont'd)

(b) The Company

	Share premium HK\$'000	Revaluation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st January, 2001	800,030	4,951	15,600	(519,968)	300,613
Impairment in value of land and buildings	-	(4,951)	-	-	(4,951)
Loss for the year	-	-	-	(699,597)	(699,597)
At 31st December, 2001	800,030	-	15,600	(1,219,565)	(403,935)
Loss for the year	-	-	-	(52,082)	(52,082)
At 31st December, 2002	800,030	-	15,600	(1,271,647)	(456,017)

The Company had no reserve (2001: Nil) available for distribution as at 31st December, 2002.

- (c) According to the Articles of Association of PRC subsidiaries of the Group, they are required to transfer 5% of their net profits as stated in the accounts prepared under PRC accounting regulations to the statutory enterprise expansion reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividend to shareholders.

The statutory enterprise expansion reserve shall only be used to make up losses, to expand the PRC subsidiaries' production operations, or to increase the capital of the subsidiaries. Upon approval by a resolution of shareholders' general meeting, the subsidiaries may convert their statutory enterprise expansion reserve into share capital and issue bonus shares to existing shareholders in proportion to their existing shareholdings or increase the nominal value of each share. After converting the subsidiaries' statutory enterprise expansion reserve into capital, the balance of such reserve must not be less than 25% of the registered capital.

- (d) According to the Articles of Association of PRC subsidiaries of the Group, they are required to transfer 5% of their net profits as stated in the accounts prepared under PRC accounting regulations to the statutory general reserve. The transfer to this reserve must be made before the distribution of dividend to shareholders.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

29. DEFERRED INCOME

Deferred income of the Group represents government grants obtained from PRC government of approximately HK\$28,302,000 (2001: Nil) for the purchase of certain plant and machinery of the Group.

30. RETIREMENT SCHEMES

The Group provides retirement benefits to all Hong Kong eligible employees under the Mandatory Provident Fund (the "MPF Scheme"). Under the MPF Scheme, the Group and their employees make monthly contributions to the MPF Scheme at 5% of the employees' salaries as defined under the Mandatory Provident Fund legislation. Contributions of both the Hong Kong subsidiaries and their employees are subject to a maximum of HK\$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation. The MPF Scheme is administered by an independent trustee and its assets are held separately from those of the Group.

The employees of the Company's subsidiaries in the PRC are members of retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their employees' salaries to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to these schemes during the year ended 31st December, 2002 amounted to approximately HK\$6,845,000 (2001: HK\$10,922,000). The amount of forfeited contributions for the year amounted to approximately HK\$144,000 (2001: HK\$Nil).

31. SHARE OPTION SCHEME

Pursuant to members' resolutions passed at an extraordinary general meeting of the Company held on 25th November, 1994, a share option scheme was approved and adopted by the Company. The Board of Directors is authorised to grant options to directors and employees of the Company and any of its subsidiaries to subscribe for shares not exceeding in total of 10% of the Company's issued share capital at the date of the grant of the options. The Company is now in the process of revising the terms of the scheme to ensure compliance of the new requirements on share option schemes introduced by The Stock Exchange of Hong Kong Limited on 1st September, 2001.

There were no options granted or outstanding during the year.

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before taxation to net cash generated from operating activities

	2002	2001
	HK\$'000	HK\$'000
Profit/(Loss) before taxation	27,504	(877,668)
Share of profits and losses of associates	(5,851)	41,965
Depreciation	53,500	87,315
Amortisation of intangible assets	-	880
Interest income	(391)	(2,555)
Interest expense	52,084	58,325
Dividend income from investment securities	-	(27)
Gain on liquidation of an associate	-	(1,391)
Loss on disposal of fixed assets	769	884
Loss on disposal of construction in progress	-	7
Gain on disposal of investment securities	-	(1,934)
Gain on deconsolidation of a subsidiary under liquidation	(29,754)	-
Provision for impairment in value of fixed assets (other than land and buildings)	1,882	36,745
Provision for impairment in value of land and buildings	1,458	12,544
(Reversal of provision)/Provision for impairment in value of investment securities	(99)	594
Provision for impairment in value of intangible assets	-	1,613
Provision for bad and doubtful debts	22,691	591,919
(Reversal of provision)/Provision for compensation in respect of outstanding claims and litigations	(6,829)	16,256
(Reversal of provision)/Provision for foreseeable loss on a long-term purchase contract	(43,806)	56,040
(Reversal of provision)/Provision for inventory obsolescence	(338)	8,089
(Decrease)/Increase in provision for taxation	(3,206)	2,244
Exchange adjustments	-	289
Operating profit before working capital changes	69,614	32,134
Decrease in net amounts due from associates	13,313	28,073
Decrease/(Increase) in inventories	42,523	(5,504)
(Increase)/Decrease in trade receivables, prepayments and other receivables	(66,489)	49,255
Increase/(Decrease) in trade payables and accrued charges	1,670	(18,130)
Utilisation of provision for foreseeable loss on a long-term purchase contract	(12,234)	-
Increase/(Decrease) in bills payable	21,698	(11,106)
Net cash inflow generated from operations	70,095	74,722

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing

	2002						
	Bank loans		Amount due to a shareholder	Amounts due to related companies	Amounts due to minority investors	Deferred income	Total
	Short-term	Long-term					
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st January	613,244	147,170	7,316	50,395	36,435	-	854,560
Proceeds from new bank loans	8,990	78,302	-	-	-	-	87,292
Repayment of bank loans	(39,740)	-	-	-	-	-	(39,740)
Reclassification of bank loans	49,057	(49,057)	-	-	-	-	-
Decrease in amount due to a shareholder	-	-	(2,838)	-	-	-	(2,838)
Decrease in amounts due to related companies	-	-	-	(1,349)	-	-	(1,349)
Interest accrued on an amount due to a related company	-	-	-	1,010	-	-	1,010
Decrease in amounts due to minority investors	-	-	-	-	(6,248)	-	(6,248)
Proceeds from government grants	-	-	-	-	-	28,302	28,302
At 31st December	631,551	176,415	4,478	50,056	30,187	28,302	920,989

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Deconsolidation of a subsidiary under liquidation

	2002	2001
	HK\$'000	HK\$'000
Net liabilities disposed		
Cash and bank deposits	27	–
Creditors and accrued charges	(1,783)	–
Provisions	(20,661)	–
	(22,417)	–
Negative goodwill	(7,337)	–
Gain on deconsolidation of a subsidiary under liquidation	(29,754)	–
	2002	2001
	HK\$'000	HK\$'000
Analysis of the net outflow in respect of the deconsolidation of a subsidiary under liquidation:		
Cash and bank deposits disposed	(27)	–

33. CONTINGENT LIABILITIES

- (a) As at 31st December, 2002, the Company provided corporate guarantees to a financial institution in respect of banking facilities extended to an associate amounting to approximately HK\$23,585,000 (2001: HK\$23,585,000).
- (b) As at 31st December, 2002, the Company had unsettled tax payables in respect of certain properties in the PRC which may result in additional charges. No provision has been made by the Group since the amount of additional charges, if any, cannot be reliably determined. The directors are of the opinion that the potential additional charges will not exceed HK\$4,000,000 (2001: HK\$12,000,000).

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

34. COMMITMENTS

(a) Operating leases

As at 31st December, 2002, the Group's commitments in respect of rented premises under non-cancellable operating leases amounted to approximately HK\$520,000 (2001: HK\$1,205,000). Details of the total future minimum lease payments under non-cancellable operating leases are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Total future minimum lease payments payable:		
Within one year	260	646
After one year but within five years	260	559
	520	1,205

(b) Capital commitments in respect of purchase of plant and machinery are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Authorised and contracted for	134,675	14,223
Authorised but not contracted for	79,027	240,462
	213,702	254,685

NOTES TO THE ACCOUNTS

(Amounts expressed in Hong Kong dollars)

35. RELATED PARTY TRANSACTIONS

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.

Other than as disclosed in note 22, material transactions with related parties during the year are as follows:

	The Group	
	2002	2001
	HK\$'000	HK\$'000
Sales of nonferrous metals to an associate	–	23,201
Purchases of nonferrous metals from an associate	91,654	138,679
Interest expense paid to related companies	1,010	1,416
Management fees paid to a shareholder	–	2,291
Rental income received from an associate	283	–

In the opinion of the directors, the related party transactions described above were carried out in the ordinary course of business.

36. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Board of Directors on 17th April, 2003.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited accounts, is set out below:

	Year ended 31st December				
	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000	1998 HK\$'000
RESULTS					
Turnover	875,676	1,234,277	1,442,523	1,115,625	1,638,753
Profit/(Loss) from operations	73,737	(777,378)	(94,582)	(62,875)	(39,895)
Finance costs	(52,084)	(58,325)	(70,901)	(79,864)	(101,811)
Share of profits less losses of associates	5,851	(41,965)	(58,446)	(58,078)	(68,935)
Profit/(Loss) before tax	27,504	(877,668)	(223,929)	(200,817)	(210,641)
Taxation	(2,487)	(3,233)	(2,185)	(1,511)	(1,551)
Profit/(Loss) after tax	25,017	(880,901)	(226,114)	(202,328)	(212,192)
Minority interests	(5,341)	17,893	60,983	8,062	14,311
Profit/(Loss) attributable to shareholders	19,676	(863,008)	(165,131)	(194,266)	(197,881)
Dividends	-	-	-	-	-
Profit/(Loss) for the year	19,676	(863,008)	(165,131)	(194,266)	(197,881)

FIVE-YEAR FINANCIAL SUMMARY

As at 31st December

	2002	2001	2000	1999	1998
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Fixed assets	331,871	367,231	482,425	611,152	514,827
Construction in progress	84,892	44,891	22,562	16,563	176,230
Interests in associates	64,981	90,380	234,421	318,877	404,366
Long-term receivables	6,226	6,226	6,418	11,090	6,381
Other non-current assets	2,146	2,047	7,004	33,794	42,347
Net current (liabilities)/assets	(478,461)	(571,111)	91,043	91,502	10,201
Total assets less current liabilities	11,655	(60,336)	843,873	1,082,978	1,154,352
Non-current liabilities	(204,717)	(147,170)	(131,889)	(138,556)	(110,798)
Minority interests	(158,007)	(155,902)	(206,256)	(274,863)	(250,142)
Net (liabilities)/assets	(351,069)	(363,408)	505,728	669,559	793,412
Share capital	131,973	131,973	131,973	131,973	121,973
Reserves	(483,042)	(495,381)	373,755	537,586	671,439
	(351,069)	(363,408)	505,728	669,559	793,412

All of the above are consolidated figures.