



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

Interim Report 2004

The directors of Oriental Metals (Holdings) Company Limited (the "Company") are pleased to announce the unaudited consolidated financial results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2004 (the "period"). These interim results have not been audited but have been reviewed by the audit committee of the Company.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Six months ended 30 June | |
|--|------|---------------------------------|-------------|
| | | 2004 | 2003 |
| | | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| | Note | | |
| Turnover | 2 | | |
| Continuing operations | | 640,139 | 605,769 |
| Discontinuing operations | 3 | 30,008 | 38,158 |
| | | 670,147 | 643,927 |
| Cost of sales | | (570,655) | (545,966) |
| Gross profit | | 99,492 | 97,961 |
| Other revenues | 2 | 791 | 1,487 |
| Other (expenses)/income, net | | (1,786) | 1,684 |
| | | 98,497 | 101,132 |
| Selling expenses | | (20,809) | (20,483) |
| Administrative expenses | | (31,025) | (31,163) |
| Gain on deconsolidation of a subsidiary | 3 | 91,645 | - |
| Other operating income/(expenses) | 4 | 10,750 | (10,741) |
| Profit from operations | 2 | | |
| Continuing operations | | 77,917 | 35,771 |
| Discontinuing operations | 3 | 71,141 | 2,974 |
| | | 149,058 | 38,745 |
| Finance costs | | (9,441) | (21,962) |
| Share of profits less losses of associated companies | | 3,455 | 3,625 |
| Profit before taxation | 5 | | |
| Continuing operations | | 74,210 | 19,877 |
| Discontinuing operations | 3 | 68,862 | 531 |
| | | 143,072 | 20,408 |
| Taxation | 6 | (5,742) | 12,048 |
| Profit after taxation | | 137,330 | 32,456 |
| Minority interests | | (6,354) | (4,693) |
| Profit attributable to shareholders | | | |
| Continuing operations | | 62,114 | 27,232 |
| Discontinuing operations | 3 | 68,862 | 531 |
| | | 130,976 | 27,763 |
| Interim dividend | 7 | - | - |
| Basic earnings per share | 8 | HK\$0.23 | HK\$0.21 |
| Additional basic earnings per share | 8 | HK\$0.11 | HK\$0.21 |

CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | 30 June 2004 (Unaudited) HK\$'000 | 31 December 2003 (Audited) HK\$'000 |
|--|------|--|--|
| Non-current assets | | | |
| Fixed assets | 9 | 266,921 | 286,337 |
| Construction in progress | 9 | 222,061 | 202,381 |
| Interests in associated companies | | 43,436 | 48,121 |
| Investments in securities | | 259 | 2,217 |
| Long-term receivables | | 5,189 | 5,392 |
| Deferred tax assets | 10 | 10,829 | 12,916 |
| | | 548,695 | 557,364 |
| Current assets | | | |
| Inventories | | 202,360 | 170,620 |
| Trade receivables, prepayments and other receivables | 11 | 219,087 | 230,962 |
| Pledged bank deposits | | 9,011 | 9,892 |
| Cash and bank deposits | | 171,917 | 140,879 |
| | | 602,375 | 552,353 |
| Current liabilities | | | |
| Trade payables and accrued charges | 12 | 203,899 | 280,006 |
| Bills payable | | 43,727 | 11,321 |
| Amount due to a shareholder | | – | 4,930 |
| Amount due to a related company | | – | 51,630 |
| Amounts due to associated companies | | 11,219 | 7,250 |
| Amounts due to minority investors | | 3,099 | 31,730 |
| Taxation payable | | 12,029 | 8,389 |
| Provisions | | 6,792 | 7,501 |
| Bank loans | 13 | 213,180 | 638,514 |
| | | 493,945 | 1,041,271 |
| Net current assets/(liabilities) | | 108,430 | (488,918) |
| Total assets less current liabilities | | 657,125 | 68,446 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | | 30 June 2004 (Unaudited) HK\$'000 | 31 December 2003 (Audited) HK\$'000 |
|--------------------------------------|-------------|--|--|
| | <i>Note</i> | | |
| Financed by: | | | |
| Share capital | 14 | 30,367 | 131,973 |
| Reserves | | 304,742 | (393,778) |
| Shareholders' funds/(deficit) | | 335,109 | (261,805) |
| Minority interests | | 171,072 | 165,157 |
| Non-current liabilities | | | |
| Bank loans | 13 | 122,642 | 136,792 |
| Deferred income | | 28,302 | 28,302 |
| | | 150,944 | 165,094 |
| | | 657,125 | 68,446 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2004 (Unaudited) HK\$'000 | 2003 (Unaudited) HK\$'000 |
| Net cash from operating activities | 59,227 | 39,531 |
| Net cash used in investing activities | (13,592) | (75,182) |
| Net cash (used in)/from financing activities | (14,597) | 31,120 |
| | <hr/> | <hr/> |
| Net increase/(decrease) in cash and cash equivalents | 31,038 | (4,531) |
| Cash and cash equivalents at 1 January | 140,879 | 95,810 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 30 June | 171,917 | 91,279 |
| | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Six months ended 30 June 2004 (Unaudited)

| | Share capital | Share premium | Special capital reserve (Note 15) | Revaluation reserve | General reserve | PRC statutory reserves | Exchange translation reserve | Accumulated losses | Total |
|---|------------------|------------------|--|------------------------|--------------------|------------------------------|------------------------------------|-----------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 1 January 2004 | 131,973 | 800,030 | - | 558 | 15,600 | 69,614 | 2,877 | (1,282,457) | (261,805) |
| Transfer to special capital reserve as a result of capital reduction | (125,374) | - | 125,374 | - | - | - | - | - | - |
| Issue of new shares | 23,768 | 394,563 | - | - | - | - | - | - | 418,331 |
| Debts waived by a major shareholder of the Company | - | 48,380 | - | - | - | - | - | - | 48,380 |
| Deconsolidation of a subsidiary | - | - | - | - | - | - | (773) | - | (773) |
| Net profit for the period | - | - | - | - | - | - | - | 130,976 | 130,976 |
| Transfer to PRC statutory reserves | - | - | - | - | - | 521 | - | (521) | - |
| 30 June 2004 | 30,367 | 1,242,973 | 125,374 | 558 | 15,600 | 70,135 | 2,104 | (1,152,002) | 335,109 |

Six months ended 30 June 2003 (Unaudited)

| | Share capital | Share premium | Revaluation reserve | General reserve | PRC statutory reserves | Exchange translation reserve | Accumulated losses | Total |
|---------------------------------------|------------------|------------------|------------------------|--------------------|------------------------------|------------------------------------|-----------------------|-----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| 1 January 2003 | 131,973 | 800,030 | 496 | 15,600 | 64,422 | 2,877 | (1,366,467) | (351,069) |
| Net profit for the period | - | - | - | - | - | - | 27,763 | 27,763 |
| Transfer to PRC statutory reserves | - | - | - | - | 970 | - | (970) | - |
| 30 June 2003 | 131,973 | 800,030 | 496 | 15,600 | 65,392 | 2,877 | (1,339,674) | (323,306) |

NOTES:**1. Accounting Policies and Basis of Preparation**

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the applicable disclosure requirements set out in Appendix 16 of the Rules Governing the Listing of Securities (“Listing Rules”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). These condensed accounts should be read in conjunction with the 2003 annual accounts. The accounting policies and basis of preparation used in preparing these condensed accounts are consistent with those used in the audited accounts for the year ended 31 December 2003.

2. Segment Information*(a) By Business Segments*

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

| | | |
|--|---|---|
| Trading | : | Trading of nonferrous metals |
| Aluminium refinery | : | Production and sales of aluminium foil and extrusions, aluminium cans and containers and packing products |
| Copper refinery and plica tubes production | : | Production and sales of plica tubes, copper rods, copper wires, copper cathodes and copper blisters |

Six months ended 30 June (Unaudited)
Continuing operations

| | Continuing operations | | | | | | | | Discontinuing operations | | | | Total | |
|--|-----------------------|------------------|--------------------|------------------|--|------------------|----------------------|------------------|--------------------------|------------------|------------------|------------------|------------------|------------------|
| | Trading | | Aluminium refinery | | Copper refinery and plica tubes production | | Corporate and others | | Sub-total | | | | | |
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Revenue | | | | | | | | | | | | | | |
| Sales of nonferrous metals | 85,640 | 116,708 | 538,657 | 476,603 | 15,842 | 12,458 | - | - | 640,139 | 605,769 | 30,008 | 38,158 | 670,147 | 643,927 |
| Other revenues | - | 1 | 116 | 920 | 120 | 410 | 543 | 31 | 779 | 1,362 | 12 | 125 | 791 | 1,487 |
| Results | | | | | | | | | | | | | | |
| Segment results | 45,422 | 37,854 | 21,589 | 13,790 | 4,566 | 3,843 | 6,340 | (19,716) | 77,917 | 35,771 | 71,141 | 2,974 | 149,058 | 38,745 |
| Finance costs | - | (4,728) | (6,090) | (7,388) | (454) | (512) | (618) | (6,891) | (7,162) | (19,519) | (2,279) | (2,443) | (9,441) | (21,962) |
| Share of profits less losses of associated companies | - | - | 285 | 898 | 3,170 | 2,727 | - | - | 3,455 | 3,625 | - | - | 3,455 | 3,625 |
| Taxation | (2,927) | 10,281 | (2,978) | 2,278 | 163 | (511) | - | - | (5,742) | 12,048 | - | - | (5,742) | 12,048 |
| Minority interests | | | | | | | | | | | | | (6,354) | (4,693) |
| Profit attributable to shareholders | | | | | | | | | | | | | 130,976 | 27,763 |

2. Segment Information (Continued)

(b) By Geographical Segments

The Group's activities are conducted predominately in Mainland China, except that a small portion of its turnover is derived from other countries. There are no sales between the geographical segments.

| | Six months ended 30 June (Unaudited) | | | |
|----------------|---|-------------------------|-------------------------------------|-------------------------|
| | Turnover | | Contribution to gross profit | |
| | 2004 HK\$'000 | 2003 <i>HK\$'000</i> | 2004 HK\$'000 | 2003 <i>HK\$'000</i> |
| Mainland China | 552,735 | 550,905 | 54,122 | 68,518 |
| Singapore | 85,640 | – | 40,053 | – |
| Others | 31,772 | 93,022 | 5,317 | 29,443 |
| | 670,147 | 643,927 | 99,492 | 97,961 |

3. Discontinuing Operations

On 15 April 2004, the Company announced that certain investors of Zhangzhou International Aluminium Container Company Limited ("ZIAC"), a 60% owned subsidiary of the Group engaging in the manufacturing of aluminium cans, had filed an application to the relevant People's Republic of China ("PRC") government authority to wind up its business prior to the expiration of its joint venture period in September 2004. ZIAC received the winding up order from the PRC court and started its liquidation process on 28 June 2004. Since then ZIAC was deconsolidated from the Group and a gain of approximately HK\$91,645,000 was recorded in the current period accordingly. The operating results of ZIAC (up to the date of its liquidation) were reported as discontinuing operations in the condensed consolidated profit and loss account.

On 11 June 2004, the Company announced that the board of directors of Yixing Jinfeng Copper Materials Company Limited ("YJCM"), a 58% owned subsidiary of the Group engaging in the production and sale of copper wires, had passed a resolution to wind up its business prior to the expiration of its joint venture period pursuant to the termination clause stipulated in its articles of association. YJCM received the winding up order from the PRC court on 30 July 2004. Its operating results were reported as discontinuing operations in the condensed consolidated profit and loss account.

4. Other Operating Income/(Expenses)

| | Six months ended 30 June 2004 (Unaudited) HK\$'000 | 2003 (Unaudited) HK\$'000 |
|---|---|---------------------------------|
| Accounts payable waived | 9,673 | – |
| Reversal of provision for impairment in value of fixed assets | | |
| – Land and buildings | 1,146 | – |
| – Others | 3,538 | – |
| Provision for bad and doubtful debts | (1,648) | (11,854) |
| (Provision)/Reversal of provision for impairment in value of investments in securities | (1,959) | 21 |
| Reversal of provision for outstanding claims | – | 1,092 |
| | 10,750 | (10,741) |

5. Profit before Taxation

Profit before taxation is determined after charging and crediting the followings:

| | Six months ended 30 June 2004 (Unaudited) HK\$'000 | 2003 (Unaudited) HK\$'000 |
|---|---|---------------------------------|
| Charging: | | |
| Depreciation | 20,116 | 24,034 |
| Loss on disposal of fixed assets | 4,786 | – |
| Staff costs (including pension costs of HK\$4,658,000 (2003: HK\$3,499,000) and directors' emoluments) | 31,717 | 28,660 |
| Operating lease rentals on land and buildings | 816 | 329 |
| Exchange loss, net | 84 | 39 |
| Crediting: | | |
| Interest income | 658 | 356 |
| Gain on disposal of fixed assets | – | 3 |
| Waiver of director's emoluments | – | 650 |

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

In accordance with relevant income tax and regulations applicable to Sino-foreign equity joint ventures in the PRC, the Group's PRC subsidiaries are exempt 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 PRC subsidiaries expired in 2001 and it is currently subject to Enterprise Income Tax at a rate of 33%. All other PRC subsidiaries enjoy full tax exemption for the period.

The amount of taxation charged/(credited) to the consolidated profit and loss account represents:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current tax | | |
| PRC Enterprise Income Tax | 2,661 | 2,653 |
| Deferred taxation relating to the origination and reversal of temporary differences | 2,087 | (14,943) |
| Share of taxation attributable to associated companies | 994 | 242 |
| | 5,742 | (12,048) |

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of the home country of the Company as follows:

| | Six months ended 30 June | |
|---|---------------------------------|-------------|
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Profit before taxation | 143,072 | 20,408 |
| Calculated at a taxation rate of 17.5% (2003: 17.5%) | 25,038 | 3,570 |
| Effect of different taxation rates in other countries | (1,422) | 1,031 |
| Income not subject to taxation | (22,152) | (2,839) |
| Expenses not deductible for taxation purposes | 1,846 | 269 |
| Utilisation of unrecognised tax losses | (4,401) | (15,924) |
| Unrecognised tax losses | 6,431 | 2,541 |
| Effect of tax exemption | (368) | (66) |
| Others | 770 | (630) |
| Taxation charge/(credit) | 5,742 | (12,048) |

7. Interim Dividend

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2004 (2003: Nil).

8. Earnings Per Share/Additional Earnings Per Share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$130,976,000 (2003: HK\$27,763,000) and the weighted average number of 578,618,040 ordinary shares (2003: 131,972,695 ordinary shares) in issue during the period, after adjusting for the share consolidation as disclosed in Note 14.

The calculation of additional basic earnings per share is based on the Group's profit attributable to shareholders derived from continuing operations of approximately HK\$62,114,000 (2003: HK\$27,232,000) and the same denominator used in the calculation of the basic earnings per share above.

No disclosure of diluted earnings per share/additional diluted earnings per share has been made because:

- (a) the effect is anti-dilutive for the six months ended 30 June 2004 (the exercise price of the Company's options was higher than the average market price for the shares); and
- (b) there were no potential dilutive shares in existence for the six months ended 30 June 2003.

9. Capital Expenditures

| | Construction in progress (Unaudited) HK\$'000 | Fixed assets (Unaudited) HK\$'000 |
|---|--|--|
| Net book value at 1 January 2004 | 202,381 | 286,337 |
| Additions | 17,400 | 2,145 |
| Interest capitalised | 3,511 | - |
| Transferred from construction in progress to fixed assets | (1,267) | 1,267 |
| Depreciation | - | (20,116) |
| Reversal of impairment charges | 36 | 4,648 |
| Disposals | - | (7,360) |
| Net book value at 30 June 2004 | 222,061 | 266,921 |

10. Deferred Tax Assets

The movement in deferred tax assets during the period is as follows:

| | Impairment of assets | | Tax losses | | Others | | Total | |
|--|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|---------------------------------|-------------------------------|
| | 2004 (Unaudited) HK\$'000 | 2003 (Audited) HK\$'000 | 2004 (Unaudited) HK\$'000 | 2003 (Audited) HK\$'000 | 2004 (Unaudited) HK\$'000 | 2003 (Audited) HK\$'000 | 2004 (Unaudited) HK\$'000 | 2003 (Audited) HK\$'000 |
| At 1 January | 2,037 | - | 7,009 | - | 3,870 | - | 12,916 | - |
| Credited/(Charged) to profit and loss account | 1,220 | 2,037 | (2,927) | 7,009 | (380) | 3,870 | (2,087) | 12,916 |
| At 30 June 2004/ 31 December 2003 | 3,257 | 2,037 | 4,082 | 7,009 | 3,490 | 3,870 | 10,829 | 12,916 |

11. 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 receivables balance, net of provision for doubtful debts, of approximately HK\$180,798,000 (2003: HK\$179,595,000). An aging analysis of such trade receivables is shown as follows:

| | 30 June 2004 (Unaudited) | | 31 December 2003 (Audited) | |
|--------------------|-----------------------------|-----|-------------------------------|-----|
| | HK\$'000 | % | HK\$'000 | % |
| Less than 6 months | 175,605 | 97 | 177,074 | 98 |
| 6 months – 1 year | 4,424 | 2 | 2,145 | 1 |
| 1 – 2 years | 769 | 1 | 376 | 1 |
| | 180,798 | 100 | 179,595 | 100 |

12. Trade Payables and Accrued Charges

Included in the Group's trade payables and accrued charges are trade payables balance of approximately HK\$55,082,000 (2003: HK\$111,178,000). An aging analysis of such trade payables is shown as follows:

| | 30 June 2004 (Unaudited) | | 31 December 2003 (Audited) | |
|--------------------|-----------------------------|------------|-------------------------------|------------|
| | HK\$'000 | % | HK\$'000 | % |
| Less than 6 months | 39,085 | 71 | 98,953 | 89 |
| 6 months – 1 year | 12,904 | 23 | 2,226 | 2 |
| 1 – 2 years | 115 | 1 | 5 | – |
| Over 2 years | 2,978 | 5 | 9,994 | 9 |
| | 55,082 | 100 | 111,178 | 100 |

13. Bank Loans

| | 30 June 2004 (Unaudited) HK\$'000 | 31 December 2003 (Audited) HK\$'000 |
|--|--|--|
| Within one year or on demand | | |
| Secured bank loans | 198,086 | 218,558 |
| Unsecured bank loans | 15,094 | 419,956 |
| | 213,180 | 638,514 |
| Included under current liabilities | | |
| After one year but within two years | | |
| Secured bank loans | – | 14,151 |
| After two years but within five years | | |
| Secured bank loans | 122,642 | 122,641 |
| | 122,642 | 136,792 |
| Included under non-current liabilities | | |
| | 335,822 | 775,306 |

Certain bank loans of the Group are secured by certain fixed assets and construction in progress of the Group with net book value of approximately HK\$216,388,000 and HK\$193,396,000 respectively as at 30 June 2004 as well as bank deposits of approximately HK\$9,011,000.

Upon the completion of the Group's restructuring on 12 January 2004, the Company's bank loans of approximately HK\$420,428,000 were purchased by Coppermine Resources Limited ("Coppermine") (the debts purchaser in the restructuring and the Company's existing immediate holding company) and converted into new shares of the Company (see Note 14).

14. Share Capital

| | Number of shares | | 30 June 2004 (Unaudited) HK\$'000 | 31 December 2003 (Audited) HK\$'000 |
|---|-------------------------|-----------------------------|--|--|
| | 30 June 2004 '000 | 31 December 2003 '000 | | |
| <i>Authorised:</i> | | | | |
| Ordinary shares of HK\$0.05 each (2003: HK\$0.1 each) | 6,000,000 | 3,000,000 | 300,000 | 300,000 |
| <i>Issued and fully paid:</i> | | | | |
| Ordinary shares of HK\$0.05 each (2003: HK\$0.1 each) | 607,350 | 1,319,727 | 30,367 | 131,973 |

On 3 December 2003, the Company passed a resolution to combine 10 ordinary shares of HK\$0.1 each into one ordinary share of HK\$1 each (the "Share Consolidation"), and to reduce the nominal value of each ordinary share of HK\$1 each to HK\$0.05 each (the "Capital Reduction"). Immediately following the Share Consolidation and Capital Reduction, the Company increased and restored its authorised share capital to HK\$300,000,000 by the creation of an additional 5,700,000,000 ordinary shares of HK\$0.05 each. The Capital Reduction was approved by the High Court and became effective on 6 January 2004.

Pursuant to the resolution passed by the Company on 3 December 2003 and the subscription agreement signed between the Company and Coppermine, the Company issued 475,376,917 shares of HK\$0.05 each to Coppermine on 12 January 2004 for a consideration of HK\$418,331,687 (of which HK\$23,768,846 was credited to share capital and HK\$394,562,841 was credited to share premium account). The subscription consideration was settled by setting off the Company's debts acquired by Coppermine from the Company's bankers.

15. Special Capital Reserve

As a result of the Capital Reduction becoming effective on 6 January 2004, a credit of HK\$125,374,060 was transferred from the share capital account to a special capital reserve account. The Company has undertaken that the special capital reserve will be used for the purpose of elimination or reducing in future the accumulated losses of the Company.

16. Contingent Liabilities

As at 30 June 2004, the Group had contingent liabilities in respect of the following:

- (a) The Company provided corporate guarantees to a financial institution in respect of the banking facilities extended to an associated company amounting to approximately HK\$23,585,000 (2003: HK\$23,585,000).
- (b) The Group had unsettled tax payables in respect of certain properties in the PRC 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. The directors of the Company are of the opinion that the potential additional charges are not expected to exceed HK\$4,000,000 (2003: HK\$4,000,000).
- (c) The Group had contingent liabilities in respect of trade bills discounted with recourse of approximately HK\$20,173,000 (2003: Nil).

17. Commitments

(a) Operating Leases

As at 30 June 2004, the Group's commitments in respect of rented premises under non-cancellable operating leases amounted to approximately HK\$3,140,000 (2003: HK\$1,757,000). Details of the total future minimum lease payments under non-cancellable operating leases are as follows:

| | 30 June 2004 (Unaudited) HK\$'000 | 31 December 2003 (Audited) HK\$'000 |
|--|--|--|
| Total future minimum lease payments payable: | | |
| Within one year | 1,629 | 499 |
| After one year but within five years | 1,511 | 1,258 |
| | 3,140 | 1,757 |

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

| | 30 June 2004 (Unaudited) HK\$'000 | 31 December 2003 (Audited) HK\$'000 |
|-----------------------------------|--|--|
| Authorised and contracted for | 8,767 | 8,767 |
| Authorised but not contracted for | 43,564 | 80,258 |
| | 52,331 | 89,025 |

18. Related Party Transactions

During the period, the Group entered into the following material transactions with related parties in the ordinary course of business:

| | Six months ended 30 June | |
|--|---------------------------------|-------------|
| | 2004 | 2003 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Purchases of nonferrous metals from associated companies | 35,432 | 51,961 |
| Transportation fees paid to an associated company | 4,928 | 4,539 |
| Sales of nonferrous metals to an associated company | 2,624 | 3,741 |
| Purchase of construction in progress from an associated company | 2,198 | – |
| Rental expense paid to a fellow subsidiary | 348 | – |
| Rental income received from an associated company | 334 | 127 |
| Interest expense paid to a related company | 31 | 479 |
| | 35,432 | 51,961 |

In the opinion of the directors of the Company, the related party transactions described above were carried out in the ordinary course of business at terms mutually agreed by the Group and the related parties.

19. Subsequent Events

Other than as disclosed in Note 3, no significant events have taken place subsequent to 30 June 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's restructuring, which had been undertaken in the second half of 2003, was completed on 12 January 2004. It did not only resolve the Group's prolonged financial problem, but also introduce to the Group a new controlling shareholder with extensive experience in both metals trading and investment management and build a good foundation for the future development of the Group. Upon the completion of the restructuring, the Group eliminated an aggregate debts amount of approximately HK\$466.7 million and restored to a positive net asset value position.

RESULTS

Group's turnover for the six months ended 30 June 2004 amounted to approximately HK\$670.1 million, a slight increase of 4% when compared to that of the corresponding period last year. Nevertheless, consolidated profit attributable to shareholders for the period recorded a significant increase of 372% to approximately HK\$131 million. Even excluding the profit of approximately HK\$68.9 million derived from discontinuing operations (which included a gain of approximately HK\$91.6 million on the deconsolidation of a PRC subsidiary engaging in the aluminium cans production), the Group still recorded a consolidated profit of HK\$62.1 million for the period.

These remarkable results were mainly attributable to the continued improvement in the performance of trading business and direct industrial investments, the lessening of the Group's financial burdens (as a result of the Group's restructuring) and the savings from the various consolidation measures taken during the period.

BUSINESS REVIEW

Trading Operation

In the first half of 2004, trading of nonferrous metals accounted for approximately 13% of the Group's total turnover. Alumina was still the major trading product of the Group. During the period under review, price of alumina sustained a rise, soaring from about US\$320 to US\$350 per metric tonnes to about US\$445 to US\$470 per metric tonnes. The overall contribution of Group's trading operation amounted to approximately HK\$45.4 million, representing a 20% increase when compared to that of the same period in last year.

BUSINESS REVIEW *(Continued)*

Direct Industrial Investments

The Group's direct industrial investments remained as aluminium refinery, copper refinery and plica tubes production. During the period, direct industrial investments, excluding the discontinuing operations, accounted for approximately 83% of the Group's total turnover and made a contribution to profit of approximately HK\$26.2 million to the Group. The performance of the direct industrial investments, which principally affected the Group's results for the period, is analysed as follows:

Aluminium Refinery Business

North China Aluminium Company Limited ("NCA")

Benefited from the increase in aluminium price, though with no increase in sales volume (approximately 25,000 metric tonnes), NCA could still achieve a steady growth in its turnover for the period. Technological advancement in the production process of hydrophilic fin stock lowered its production costs and increased its contribution sharply. Nevertheless, severe market competition has exerted increasing pressure on the profit margins of other NCA's core products. The profit contribution from PS plate foil, beer mark foil and double rolling foil decreased substantially. In view of this, NCA has undertaken and will further investigate renovation of its manufacturing processes, variation of its product mix and other measures to raise its overall production and operational efficiency.

Copper Refinery and Plica Tubes Production

Yinkou OrienMet Plica Tube Company Limited ("YOPT")

After several years of hard work, YOPT's tight cost control measures and proactive sales and marketing strategies are beginning to take effect. The sales volume of its plica tubes increased by 20% when compared to that of the corresponding period last year. The profit contribution of YOPT to the Group also increased 62%.

Changzhou Jinyuan Copper Company Limited ("CZJY")

The operating environment of CZJY's copper wires business for the first half of 2004 was characterised by high material and operating costs. The soaring copper price means a higher funding requirement for CZJY, which in turn increased its financing cost. Together with sharp rise in transportation cost, CZJY's profit contribution to the Group changed little though its turnover recorded 90% increase over the last corresponding period.

BUSINESS REVIEW *(Continued)***Direct Industrial Investments** *(Continued)**Discontinuing Operations*

In order to optimise resources allocation and enhance return on investment, the Group has taken measures to rationalise its industrial investment portfolio. The Group announced the termination of two subsidiaries, Zhangzhou International Aluminium Container Company Limited ("ZIAC") and Yixing Jinfeng Copper Materials Company Limited ("YJCM") in April 2004 and June 2004 respectively.

ZIAC and YJCM were both in net liabilities since 2001 and persisted to incur accumulated losses. Their turnover together only accounted for approximately 4% of the Group's total turnover for the first half of 2004 (6% for the Year 2003). Under such circumstances, their termination would not have any material adverse impact on the financial and operational position of the Group but could enable the Group concentrate its resources on more competitive and promising operations.

ZIAC's liquidation process started on 28 June 2004. Since then ZIAC was deconsolidated from the Group and a gain of approximately HK\$91.6 million was recorded in current period.

YJCM received the winding up order on 30 July 2004. So, it will be deconsolidated from the Group in the second half of 2004.

The operating results of ZIAC (up to the date of its liquidation) and YJCM were disclosed as discontinuing operations in the current reporting period.

BUSINESS REVIEW *(Continued)*

Debts and Capital Restructuring

In the latter half of 2003, the Group underwent a restructuring, which principally included the disposals of certain debts of the Group, the issue of shares to a new shareholder and a capital reduction. Details of which were set out in the circular dated 6 November 2003 jointly made by the Company, Coppermine Resources Limited (“Coppermine”) and China Minmetals H.K. (Holdings) Limited (“Minmetals HK”). The Group’s restructuring was approved by shareholders in the extraordinary general meeting held on 3 December 2003 and was completed on 12 January 2004. Its major effects are as follows:

- (1) The Group restored to a positive net asset value position and eliminated an aggregate debts amount of approximately HK\$466,712,000 (comprising bank loans and accrued interest, amount due to a shareholder and amount due to a related company of approximately HK\$420,428,000, HK\$4,930,000 and HK\$41,354,000 respectively).
- (2) The issued share capital of the Company was changed to HK\$30,367,481, divided into 607,349,612 ordinary shares (of which 475,376,917 ordinary shares were issued to Coppermine on 12 January 2004) of HK\$0.05 each. The authorised share capital remained unchanged at HK\$300,000,000.
- (3) Coppermine, a wholly-owned subsidiary of Minmetals HK, became the controlling shareholder of the Company and owned approximately 78.3% interest in the Company.
- (4) Pursuant to the relevant agreement of the restructuring, Coppermine waived the Company approximately HK\$48,380,000 in respect of the bank debts it purchased from the Company’s bankers. The amount waived was credited to the Company’s share premium account during the period.

On 20 January 2004, by way of a placement, Coppermine reduced its interest in the Company to approximately 74.98%. The public float of the Company was then restored.

BUSINESS REVIEW *(Continued)*

Financial Resources and Cash Flow

The completion of the Group's restructuring symbolise a turnaround of the Group's financial position. Since 12 January 2004, the Group was no longer in net liabilities position. Its gearing also fundamentally improved. As at 30 June 2004, the bank debt to equity ratio, which is measured as total bank loans (net of cash balances) as a proportion of shareholders' equity, was 46%.

During the period, the net cash generated by the Group from operating activities amounted to approximately HK\$59,227,000 (2003: HK\$39,531,000). The net cash used in investing activities amounted to approximately HK\$13,592,000 (2003: HK\$75,182,000). The net cash used in financing activities amounted to approximately HK\$14,597,000 (2003: net cash generated of HK\$31,120,000). The cash and cash equivalents, representing cash and bank deposits, of the Group increased approximately HK\$31,038,000 (2003: decreased HK\$4,531,000).

As at 30 June 2004, the Group had cash in hand and cash deposits of approximately HK\$180,928,000 (all are unpledged except for the bank deposits of approximately HK\$9,011,000), of which 75% and 24% were denominated in US dollars and Renminbi respectively, while the remaining was in Hong Kong dollars.

As at 30 June 2004, the Group's total outstanding bank loans amounted to HK\$335,822,000, of which HK\$122,642,000 was repayable after one year. All of these bank loans were denominated in Renminbi and at fixed interest rates. Compared to the year end of 2003, the total bank loans decreased approximately HK\$439,484,000, which was mainly due to the Group's debts and capital restructuring taking effect from 12 January 2004. The finance costs of the Group for the period therefore also decreased substantially.

Change in Interests in Subsidiaries and Associated Companies

Other than the termination of ZIAC and YJCM as disclosed above, there was no material acquisition or disposal of subsidiary or associated company during the period.

Capital Expenditures

The Group's total capital expenditures were approximately HK\$19,545,000 for the period. These were mainly used for the acquisition and upgrade of manufacturing plant and machinery.

BUSINESS REVIEW *(Continued)*

Charge on Assets

Certain fixed assets and construction in progress of the Group with a net book value of approximately HK\$216,388,000 and HK\$193,396,000 respectively as at 30 June 2004 as well as bank deposits of approximately HK\$9,011,000 were pledged to banks to secure certain banking facilities of the Group.

Foreign Currency Risk

Same as previous years, the Group has not entered into any foreign exchange contracts or related hedges as the foreign currency risk exposure is minimal.

Contingent Liabilities

As at 30 June 2004, the Group had contingent liabilities in respect of trade bills discounted with recourse of approximately HK\$20,173,000. Except this, there was no material change in the Group's contingent liabilities since 31 December 2003.

Employee

As at 30 June 2004, the Group employed about 2,500 staff (not including the staff of the associated companies). The total staff costs (including the directors' emoluments) for the period was approximately HK\$31,717,000. The Group adopts a pay policy in line with market practice and will offer different training programmes to staff as and when required.

Outlook

In 2004, the Company will continue to expand its trading business, rationalise the structure and further strengthen the management of its invested enterprises. By establishing a better corporate governance structure, the Company aims to achieve a condition that can as a whole be beneficial to both the jointly invested enterprises and the Company in the long run.

While making every effort to accomplish the Company's short and mid-term goals, the management of the Company also seeks to, in the shortest time and with the support of the Company's present controlling shareholder (Minmetals HK) and its parent company, formulate and establish a long-term strategic plan in securing the sustainable and steady development of the Company.

In addition to the existing business of nonferrous metals trading and refinery, the Company will strive to further explore the opportunities in upstream resources and downstream refinery in order to achieve and strengthen its competitiveness through vertical integration, enhance the Company's profitability as well as return on assets and generate reasonable returns to the shareholders.

SHARE OPTION SCHEMES

1994 Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 25 November 1994 (“1994 Share Option Scheme”), a total number of 11,190,000 share options have been granted to certain directors and employees of the Company during the six months ended 30 June 2004.

1. Movements of share options

During the six months ended 30 June 2004, the movements of share options which have been granted under the 1994 Share Option Scheme are as follows:

| Category and name of participant | Date of grant | Exercise price per share HK\$ | Exercise period | Number of share options | | | | | Balance at 30 June 2004 |
|----------------------------------|---------------------------|----------------------------------|--------------------------------|---------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|-------------------------|
| | | | | Balance at 1 January 2004 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | |
| Directors | | | | | | | | | |
| Lin Xizhong | 15 March 2004 (Note 1) | 3.115 | 16 March 2004 to 15 March 2007 | - | 3,000,000 | - | - | - | 3,000,000 |
| Qian Wenchao | 15 March 2004 (Note 1) | 3.115 | 16 March 2004 to 15 March 2007 | - | 1,500,000 | - | - | - | 1,500,000 |
| Tang Xiaojin | 15 March 2004 (Note 1) | 3.115 | 16 March 2004 to 15 March 2007 | - | 1,500,000 | - | - | - | 1,500,000 |
| Xu Huizhong | 15 March 2004 (Note 1) | 3.115 | 16 March 2004 to 15 March 2007 | - | 2,000,000 | - | - | - | 2,000,000 |
| Employees | | | | | | | | | |
| | 15 March 2004 (Note 1) | 3.115 | 16 March 2004 to 15 March 2007 | - | 3,190,000 | - | - | 80,000 (Note 2) | 3,110,000 |
| | | | | - | 11,190,000 | - | - | 80,000 | 11,110,000 |

SHARE OPTION SCHEMES *(Continued)*

1994 Share Option Scheme *(Continued)*

1. Movements of share options *(Continued)*

Notes:

1. In respect of the share options granted on 15 March 2004, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$3.00 per share.
2. A total of 80,000 share options were lapsed due to cessation of employment.

2. Valuation of share options

The options granted are not recognised in the accounts until they are exercised. The directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders. Thus, it is more appropriate to disclose only the market price and exercise price.

2004 Share Option Scheme

At the annual general meeting of the Company held on 28 May 2004, the Company adopted a new share option scheme ("2004 Share Option Scheme") which is in compliance with the new requirements as set out in Chapter 17 to the Listing Rules. No share options had been granted under the 2004 Share Option Scheme since its adoption.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:–

Long position in underlying shares of the Company

| Name of director | Nature of interest | Number of underlying shares held <i>(Note 1)</i> | Approximate percentage of total issued shares <i>(Note 2)</i> |
|-------------------------|---------------------------|--|---|
| Lin Xizhong | Personal | 3,000,000 | 0.49% |
| Qian Wenchao | Personal | 1,500,000 | 0.25% |
| Tang Xiaojin | Personal | 1,500,000 | 0.25% |
| Xu Huizhong | Personal | 2,000,000 | 0.33% |

Notes:

1. The directors' interests in underlying shares are share options granted by the Company pursuant to the 1994 Share Option Scheme, details of which are set out under the section headed "Share Option Schemes".
2. The calculation is based on the number of underlying shares as a percentage of the total number of issued shares of the Company (i.e. 607,349,612 shares) as at 30 June 2004.

Save as disclosed above, as at 30 June 2004, other than a nominee share in a subsidiary held by a director in trust for the Company, none of the directors or the chief executive of the Company or any of their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. In addition, none of the directors or the chief executive of the Company nor their spouses or children under 18 years of age had been granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2004, the following persons had interests of 5% or more in the issued shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

Long position in shares of the Company

| Name | Capacity | Number of shares held | Approximate percentage of total issued shares |
|--|--|-----------------------|---|
| China Minmetals Corporation ("Minmetals") (Note 1) | Interest of controlled corporation (Note 2) | 455,376,917 | 74.98% |
| China Minmetals H.K. (Holdings) Limited ("Minmetals HK") | Interest of controlled corporation (Note 2) | 455,376,917 | 74.98% |
| Coppermine Resources Limited ("Coppermine") | Beneficial owner (Note 2) | 455,376,917 | 74.98% |

Notes:

1. On 18 January 2004, China National Metals & Minerals Import and Export Corporation changed its name to China Minmetals Corporation.
2. Coppermine is a wholly-owned subsidiary of Minmetals HK which in turn is a wholly-owned subsidiary of Minmetals. Accordingly, Minmetals HK and Minmetals were by virtue of the SFO deemed to be interested in the 455,376,917 shares of HK\$0.05 each of the Company held by Coppermine as at 30 June 2004.

Save as disclosed above, as at 30 June 2004, no other person was recorded in the register as having an interest or a short position in the shares and underlying shares of 5% or more of the issued shares of the Company required to be kept by the Company under section 336 of the SFO.

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

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the six months ended 30 June 2004.

AUDIT COMMITTEE

The audit committee of the Company has two members comprising two independent non-executive directors, Mr. Chan Wai Dune (Chairman) and Mr. Ting Leung Huel, Stephen. The principal duties of the audit committee are to review and supervise the financial reporting process and internal controls of the Company. The audit committee has reviewed the unaudited consolidated accounts for the six months ended 30 June 2004.

CODE OF BEST PRACTICE

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30 June 2004 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with articles 101 and 85 of the Company's Articles of Association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the revised Listing Rules which came into effect on 31 March 2004 as its code of conduct regarding securities transactions by directors ("Code of Conduct").

Having made specific enquiry of all directors, all of them confirmed that they have complied with the Code of Conduct during the six months ended 30 June 2004.

By order of the Board
Xu Huizhong
Director and President

Hong Kong, 18 August 2004