

REPORT OF THE DIRECTORS

The directors hereby present their report together with the audited financial statements of Oriental Metals (Holdings) Company Limited (the “Company”) and its subsidiaries (the “Group”) for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

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

An analysis of the Group’s turnover by principal activity and geographical location, together with their respective contributions to profit from operations for the year ended 31st December, 2000 is set out in Note 5 to the accompanying financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers for the year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	12%	–
Five largest customers in aggregate	30%	–
The largest supplier	–	36%
Five largest suppliers in aggregate	–	72%

Yantai Penghui Copper Industry Company Limited, being one of the Group’s five largest customers, and Yinxing Company Limited, being the Group’s largest supplier, are associates of the Group.

Save as disclosed above, none of the directors, their associates as defined in the Rules Governing the Listing of Securities 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 largest customers and suppliers.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2000 are set out in the accompanying financial statements on page 28.

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\$520,366,000 as at 31st December, 2000 be carried forward.

RESERVES

Movements in the reserves of the Company and the Group during the year are set out in Note 29 to the accompanying financial statements.

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 15 to the accompanying financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in Note 28 to the accompanying financial statements. By a members' ordinary resolution on 28th June, 2000, the authorised share capital of the Company was increased from HK\$150,000,000 to HK\$300,000,000 by the creation of an additional 1,500,000,000 ordinary shares of HK\$0.10 each, ranking pari passu with the then existing shares in all respects. During the year, the Company had not issued any new shares.

DIRECTORS

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

Executive directors

Gao De Zhu	(Chairman)
Lau Yat Ching	
Xun Gao	
Wang Xing Dong	(Appointed on 30th March, 2001)
Cui Gui Sheng	(Resigned on 30th March, 2001)
Wang Bang Xian	(Resigned on 30th November, 2000)

Non-executive directors

Xu Kai Xing
Chan Fat Chu, Raymond
Ng Ching Wo
Woo Wai See, Alice

In accordance with Article 101 of the Company's Articles of Association, Messrs. Xun Gao and Xu Kai Xing will retire by rotation and, being eligible, offer themselves for re-election. In accordance with Article 85 of the Company's Articles of Association, Mr. Wang Xing Dong will retire and being eligible, offers himself for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors has 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, 2000, 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

No contracts 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 pages 21 and 22 and Note 30 to the accompanying financial statements, no significant contracts concerning the management and administration of the Company were entered into or existed during the year.

SHARE OPTION SCHEME

Pursuant to 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 directors are authorised to grant options to directors and employees of the Company and any of its subsidiaries to subscribe for shares not exceeding in total 10% of the Company's issued share capital at the date of the grant of the options.

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.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31st December, 2000, 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 ("CNCL")	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%

* *The relevant PRC government commission/authority is in the course of restructuring the nonferrous metals industry in the PRC. The representative of the State Economic and Trade Commission, in a press conference held in February 2001, announced the dissolution of SNMIA, the ultimate controlling shareholder of the Company. CNMG (HK), the controlling shareholder of the Company, has informed the Company that CNMG (HK) is making enquiry with the relevant PRC governmental authority regarding the finalization of the ultimate controlling shareholder.*

Note: Given (a) Mazar Limited is a wholly owned subsidiary of CNMG(HK), (b) CNMG(HK) is a wholly owned subsidiary of CNCL, and (c) CNCL is 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31st December, 2000, 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 and other borrowings of the Company and the Group as at 31st December, 2000 are set out in Note 27 to the accompanying financial statements. Interest capitalised by the Group during the year was approximately HK\$1,136,000 (1999 : Nil).

RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in Note 31 to the accompanying financial statements.

CODE OF BEST PRACTICE

The directors of the Company are aware of that the Company is or was for any part of the accounting period covered by the annual accounts, in compliance with the Code of Best Practice as set out in Appendix 14 of Listing Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except that 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.

AUDIT COMMITTEE

Pursuant to the requirements of the Listing Rules, an audit committee of the Company was established in July 1999. The principal duties of the Committee include the review and supervision of the Company's financial reporting process and internal controls. The independent non-executive directors of the Company, Mr. Ng Ching Wo and Miss Woo Wai See, Alice, were appointed as the chairman and member of the committee respectively. During the last 12 months, the committee held three meetings.

CONNECTED PARTY TRANSACTIONS

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

- (a) During the year, the Group sold nonferrous metals of approximately HK\$85 million (1999 : HK\$74 million) to and purchased nonferrous metals of approximately HK\$277 million (1999 : HK\$310 million) from connected persons (as defined in the Listing Rules) of the Group, representing approximately 6% (1999 : 7%) and 19% (1999 : 28%) of the total turnover of the Group respectively.
- (b) The Company and CNMG(HK) entered into an agreement on 12th May, 2000 (the "Future 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 (the "On-Going Connected Transaction"). 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 year 2000, 2001 and 2002 respectively. The amount shared by the Company for the year was approximately HK\$2.5 million (1999 : HK\$3.2 million). The outstanding balance due to CNMG(HK) as at 31st December, 2000 was approximately HK\$7.3 million (1999 : HK\$7.8 million).
- (c) As at 31st December, 2000, an amount (which was granted in 1994 and was disclosed in the Company's Prospectus dated 1st December 1994) of approximately HK\$89 million (1999 : HK\$88 million) was due from Oriental Shipping and Transportation Company Limited ("OST"), a wholly owned subsidiary of SNMIA.

Following the dissolution of SNMIA in February 2001, OST ceased to be a connected party of the Company.

- (d) As at 31st December, 2000, a loan (which was granted in 1991 and was disclosed in the Company's Prospectus dated 1st December 1994) of approximately HK\$35 million (1999 : HK\$35 million) was due from Southwest Aluminium Fabrication Plant ("SAF").

Prior to early July 2000, SAF was a subsidiary of China Aluminium Corporation ("CHALCO"). As a result, SAF was an associate of a substantial shareholder of a non-wholly owned Sino-foreign equity joint venture of the Group. In early July 2000, SAF ceased to be a subsidiary of CHALCO and thus ceased to be a connected party of the Company.

- (e) As at 31st December, 2000, a trade receivable of approximately HK\$151 million (1999 : HK\$154 million) was due from Huludao Zinc Factory ("HZF").

Prior to early July 2000, HZF was a subsidiary of China Copper Lead Zinc Corporation ("CCLZ"). As a result, HZF was an associate of a substantial shareholder of a non-wholly owned Sino-foreign equity joint venture of the Group. In early July, HZF ceased to be a subsidiary of CCLZ and thus ceased to be a connected party of the Company.

CONNECTED PARTY TRANSACTIONS (cont'd)

- (f) As at 31st December, 2000, an amount of approximately HK\$37 million (1999 : HK\$37 million) was due from a related company, China National Nonferrous Metals Industry Trading Group Corporation ("CNTG").

Prior to October 2000, CNTG was a wholly owned subsidiary of SNMIA. In October 2000, CNTG ceased to be the subsidiary of SNMIA and thus ceased to be a connected party of the Company.

In respect of the connected transactions in Note (a) above and pursuant to the waiver granted by the Stock Exchange on 22nd February 2000, such connected transactions have been reviewed by the directors of the Company (including independent non-executive directors) and have confirmed that (i) the Transactions were (a) entered into in the ordinary and usual course of business; (b) entered into on normal commercial terms or on terms no less favorable than terms available to (or from) independent third parties; and (c) fair and reasonable as far as the shareholders of the Company are concerned; and (ii) the respective annual aggregate value for each of the said sales and the said purchases during the financial year of 2000 had not exceeded 30% and 35% of the total turnover of the Group for the year.

In respect of the connected transaction in Note (b) above and pursuant to the waiver granted by the Stock Exchange on 6th July, 2000, the directors of the Company (including independent non-executive directors) have reviewed the said connected transaction and have confirmed that (i) it was carried out (a) in accordance with the terms of the Future Service Agreement; (b) on normal commercial terms or on terms that are no less favorable than terms available from independent third parties; and (c) are fair and reasonable as far as the shareholder of the Company are concerned; and (ii) the aggregate consideration payable by the Company had not exceeded 3% of the consolidated net tangible assets of the Group as disclosed in the financial statements.

In respect of the connected transactions in Note (c) to (f) above, the directors (including the independent non-executive directors) considered that they were carried out in the ordinary course of business and on normal commercial terms.

Certain of the above connected party transactions also constitute related party transactions are disclosed in Note 30 to the accompanying financial statements.

DISCLOSURE UNDER PRACTICE NOTE 19**(i) Advance to an entity**

As at 31st December, 2000, the amounts due from related companies were approximately HK\$313 million, representing approximately 62% of the net assets value of the Group as at 31st December, 2000. The related companies were the subsidiaries of SNMIA. Details of such amounts due from related companies are set out as follows:

	Amounts due from related companies HK\$'000	Interest bearing at prevailing market rates HK\$'000	Non-interest bearing HK\$'000
China National Nonferrous Metals Industry Trading Group Corporation	37,468	4,350	33,118
China National Nonferrous Metals Import & Export Corporation	129,887	–	129,887
Oriental Shipping and Transportation Co. Ltd.	101,044	88,578	12,466
China National Nonferrous Metals Industry Supply Marketing Transportation Corporation	33,269	–	33,269
Orienmet Properties Co. Ltd.	1,989	–	1,989
Guangzhou Tian He Dong Xin Property Development Co. Ltd.	2,354	–	2,354
Guangzhou Oriental Metals Corporation	5,180	–	5,180
Jordan Worldwide Ltd.	1,186	–	1,186
Others	1,017	–	1,017
	313,394	92,928	220,466

The amounts due from related companies, which were mainly resulted from normal trading activities and ordinary course of business between the Group and these related companies, are unsecured, have no fixed terms of repayment and interest free except for the balance of HK\$92,928,000 which bears interest at prevailing market rates.

DISCLOSURE UNDER PRACTICE NOTE 19 (cont'd)**(ii) Financial assistance and guarantees to associates**

As at 31st December, 2000, the Group's financial assistance to, and guarantees given for bank loans granted to its associates amounted to, in aggregate, approximately HK\$157 million, representing approximately 31% of the net assets value of the Group as of 31st December, 2000.

A proforma combined balance sheet of the above mentioned associates as at 31st May, 2001 (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	535	216
Current assets	730	287
Current liabilities	765	312
Net current liabilities	35	25
Non-current liabilities	232	80
Net assets	268	111
Share capital	355	124
Reserves	(87)	(13)
	268	111

All the above figures are unaudited.

DIRECTORS AND MANAGEMENT

Particulars of directors and management are set out on pages 12 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 69 and 70 of this Annual Report.

AUDITORS

The Company's former auditors resigned during the year and the directors appointed Arthur Andersen & Co to fill the casual vacancy.

The financial statements have been audited by Arthur Andersen & Co. A resolution for their reappointment as auditors for the ensuing year is to be proposed at the forthcoming annual general meeting.

By order of the Board

Lau Yat Ching

Director and Executive Vice President

Hong Kong,
29th June, 2001