

NOTES TO THE FINANCIAL STATEMENTS

(Amounts expressed in Hong Kong dollars)

I. ORGANISATION AND OPERATIONS

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

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

2. GOING CONCERN BASIS

The financial statements have been prepared on a going concern basis, notwithstanding the current and future financing requirements of the Group as disclosed in Note 27 to the financial statements. The use of this basis assumes that certain receivables (see Note 3) will be recoverable and the directors’ negotiations with the Group’s bankers to reschedule the overdue loans will be successful. Provided that certain receivables (see Note 3) will be settled, the directors consider that the bankers will agree to reschedule the overdue loans and future funding will be available to the Group to meet its financial obligations. On this basis, the directors are of the opinion that it is appropriate to prepare the financial statements on the going concern basis.

3. CERTAIN RECEIVABLES

As at 31st December, 2000, the Group had certain related company receivables of approximately HK\$283 million and certain debtor balances of approximately HK\$188 million (the “Receivables”) included in amounts due from related companies and debtors and prepayments respectively, which had been outstanding for several years. The Receivables were mainly resulted from normal trading activities and ordinary course of business between the Group and subsidiaries of the State Nonferrous Metals Industry Administration (“SNMIA”) which was, prior to its dissolution in February 2001, the ultimate holding company of China Nonferrous Metals Group (Hong Kong) Limited, (“CNMG (HK)”), the controlling shareholder of the Company, as defined under the Rules Governing the Listing of Securities (the “Listing Rules”) of The Stock Exchange of Hong Kong Limited.

On 18th June, 2001, the Company received a comfort letter addressed to the Company’s board of directors from China National Metals & Minerals Import & Export Corporation (“China Minmetals”), a state-owned enterprise under the administration of the State Economic and Trade Commission of the PRC and the main contents of the said letter are as follows:–

“China Minmetals made the following statements to the Company’s board of directors:

- (a) China Minmetals, as directed by the relevant PRC governmental authorities, will use its best endeavor to support the Company’s PRC and overseas business development;
- (b) China Minmetals has noted precisely that the relevant PRC governmental authorities have been coordinating to resolve the problem regarding the Receivables owed to the Group by the subsidiaries of SNMIA. In this regard, China Minmetals will use its best endeavor to cooperate with the relevant governmental authorities to resolve the problem. Pursuant to the proposed plan submitted to the relevant PRC governmental authorities for approval, certain assets in form of cash or other assets will be injected to the Company in exchange for the Receivables. The fair value of the assets to be injected will not be less than the book values of the Receivables. China Minmetals is confident that the Receivables will be satisfactorily resolved and as a result, it is considered that there is no need to make any provision against the Receivables;

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

3. CERTAIN RECEIVABLES (cont'd)

- (c) China Minmetals will act proactively and prudently so as to ensure the smooth operations of the Company.”

On the above mentioned basis, the directors consider that there is no need to make any provision against the Receivables.

4. PRINCIPAL ACCOUNTING POLICIES

(a) Basis of presentation

The financial statements are prepared under the historical cost convention as modified by the revaluation and valuation of land and buildings and certain investment in securities, in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (the “Group”), together with the Group’s share of post-acquisition profit/loss and reserves of its associates under the equity method of accounting. For subsidiaries and associates acquired or disposed of during the year, their results are consolidated from or to their effective dates of acquisition or disposal. Significant intra-group transactions and balances have been eliminated on consolidation.

(c) Turnover

Turnover represents (i) gross invoiced sales, net of sales taxes and discounts; (ii) gains and losses on metals future trading; and (iii) interest income derived from trade receivables.

(d) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, turnover and other revenue are recognised on the following bases:

- (i) *Sale of goods*

Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Revenue recognition (cont'd)

(ii) *Gains and losses on metals future trading*

Gains and losses arising from trading of metals future contracts are recognised on a trade date basis. Open positions of metals future contracts are valued at market price at the balance sheet date. Gains and losses arising thereon are dealt with in the income statement.

(iii) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

(iv) *Interest income*

Interest income is recognised on a time proportion basis on the principal outstanding and at the rate applicable.

(e) Subsidiaries

A company is a subsidiary company of the Company if the Company holds, directly or indirectly, more than 50% of its issued voting capital on a long-term basis; or controls its composition of the board of directors, or controls more than half of its voting power. Investment in subsidiaries is carried at cost less provision for impairment in value where considered necessary by the directors. The results of subsidiaries are included in the Company's income statement to the extent of dividends declared by the subsidiaries.

(f) Associates

An associate is an enterprise in which the Group has significant influence, but not control or joint control, and thereby has the ability to participate in its financial and operating policy decisions.

In the consolidated financial statements, investment in associates is accounted for under the equity method of accounting, whereby the investment is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associates, distributions received from the associates and other necessary alterations in the Group's proportionate interest in the associates arising from changes in the equity of the associates that have not been included in the income statement.

Where, in the opinion of the directors, there is an impairment in value of an associate, a provision is made for such impairment in value.

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(g) Goodwill

Goodwill represents the difference between the considerations given for the acquisition of subsidiaries and associates and the Group's share of the aggregate fair values of the identifiable net assets acquired. Positive goodwill arises when the consideration given exceeds the Group's share of the aggregate fair values of the identifiable net assets acquired and is eliminated immediately against reserve. Negative goodwill arises when the Group's share of the aggregate fair values of the identifiable net assets acquired exceeds the consideration given and is credited to capital reserve.

Upon disposal of interests in subsidiaries and associates, the underlying positive goodwill previously eliminated or negative goodwill previously credited to capital reserve is reversed as investment cost in determining the gain or loss on disposals.

(h) Fixed assets and depreciation

Fixed assets, other than leasehold land and buildings, are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed asset.

Leasehold land and buildings are stated at cost or their revalued amounts, being their fair values on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation.

The Group has taken advantage of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice 17, "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, with the effect that land and buildings is stated at revalued amount, which was determined prior to 30th September, 1994 and has not been updated to reflect its fair value at the balance sheet date.

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(h) Fixed assets and depreciation (cont'd)

Depreciation is calculated on the straight-line basis at annual rates estimated to write off the cost or valuation of each asset over its expected useful life as follows:

Leasehold land	Over the shorter of the remaining period of the leases and the terms of the joint venture agreements, where applicable
Buildings	Over: <ul style="list-style-type: none"> (i) their estimated useful lives being 20 to 50 years from date of completion; and (ii) the remaining period of the leases or land use rights or the terms of the joint venture agreements, if shorter
Leasehold improvements	Over the shorter of 5 years and the remaining period of the leases
Plant and machinery	7 to 15 years
Office equipment	5 years
Furniture and fixtures	5 years
Motor vehicles	3 years

A write down will be made if the recoverable amount of fixed assets is below the carrying amount. The write down will be charged to the income statement as expense unless it reverses a previous revaluation increase, in which case, it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item.

A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back when the circumstances that led to the write-down cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write down not occurred.

When assets are sold or retired, their costs or valuation and accumulated depreciation and amortisation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(i) 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 and exchange differences 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.

(j) Investment in securities

Investment in securities other than investments in subsidiaries and associates are stated in the balance sheet at their fair values. Changes in fair value are recognised in the income statement as they arise.

Profits or losses on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

(k) Intangible assets

Intangible assets represent acquisition costs of the patent names of metals and are stated at cost and amortised on a straight-line basis over a period of fifteen years. Where appropriate, provision is made for any impairment in value with respect to the individual intangible asset.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is based on the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(m) Deferred taxation

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(n) Operating leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payments under operating leases are charged to the income statement on a straight-line basis over the period of the relevant leases.

(o) Foreign currencies

Companies with the Group maintain their books and records either in Hong Kong dollars or Renminbi (the "functional currencies"). In the financial statements of the individual companies, transactions in other currencies are translated into the respective functional currencies at exchange rates in effect at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into the respective functional currencies at rates of exchange in effect at the balance sheet date. All such exchange differences are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Hong Kong dollars. For the purpose of consolidation, all the assets and liabilities of those subsidiaries with functional currencies other than Hong Kong dollars are translated into Hong Kong dollars using the closing rate method. Under this method, assets and liabilities of these subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Income and expenses are translated at the closing exchange rates for the year. Share capital and other reserves are translated into Hong Kong dollars at historical rates. Exchange differences arising on translation are dealt with as movement in reserves.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

4. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(p) Staff retirement benefits

The costs of staff retirement benefits are recognised as an expense in the period in which they are incurred.

(q) Borrowing costs

Interest is expensed as incurred, except for interest directly attributable to the construction of plant and machinery that necessarily takes a substantial period of time to get ready for its intended use which is capitalised as part of the cost of that asset.

(r) Cash and cash equivalents

Cash represents cash on hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash without notice and which are within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

5. TURNOVER

- (a) Analysis of turnover and contribution to profit/(loss) from operations by principal activities:

	Turnover		Contribution to profit/(loss) from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Sale of nonferrous metals	1,419,457	1,078,174	210,796	97,041
Net gains on metals future trading	9,384	5,099	9,384	5,099
Interest income	13,682	32,352	13,682	32,352
	1,442,523	1,115,625	233,862	134,492
Other revenues and income less selling and administrative expenses			(122,131)	(86,753)
Other operating expenses			(206,313)	(110,614)
			(94,582)	(62,875)

- (b) Analysis of turnover and contribution to profit/(loss) from operations by geographical location:

	Turnover		Contribution to profit/(loss) from operations	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
The PRC	1,314,966	968,231	215,676	110,308
Hong Kong	72,806	106,152	5,562	18,866
United Kingdom	9,707	5,099	9,707	5,099
Others	45,044	36,143	2,917	219
	1,442,523	1,115,625	233,862	134,492
Other revenues and income less selling and administrative expenses			(122,131)	(86,753)
Other operating expenses			(206,313)	(110,614)
			(94,582)	(62,875)

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

6. OTHER OPERATING EXPENSES

	2000 HK\$'000	1999 HK\$'000
Provision for impairment in value of fixed assets	107,237	23,470
Provision for impairment in value of investments in securities	25,891	11,091
Provision for bad and doubtful debts	51,735	76,053
Provision for compensation in respect of an outstanding litigation	13,756	–
Others	7,694	–
	<u>206,313</u>	<u>110,614</u>

7. FINANCE COSTS

	2000 HK\$'000	1999 HK\$'000
Bank loans wholly repayable within five years	67,179	77,438
Other loans wholly repayable within five years	4,858	2,426
	<u>72,037</u>	<u>79,864</u>
Less: Interest capitalised under construction in progress	<u>(1,136)</u>	<u>–</u>
	<u>70,901</u>	<u>79,864</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

8. LOSS BEFORE TAX

Loss before tax is determined after crediting and charging the following:

	2000 HK\$'000	1999 HK\$'000
Crediting:		
Interest income (see Note 5)	13,682	32,352
Gain on disposal of investment in securities	127	683
Exchange gain, net	—	383
Charging:		
Depreciation	57,912	59,665
Loss on disposal of fixed assets	27	93
Amortisation of intangible assets	277	276
Cost of inventories	1,208,661	981,133
Staff costs (including retirement costs of HK\$6,721,000 (1999: HK\$5,364,000) and directors' emoluments)	53,462	48,800
Interest expenses	70,901	79,864
Operating lease rentals on land and buildings	1,863	3,810
Provision for impairment in value of investment in securities	25,891	11,091
Auditors' remuneration	1,900	1,530
Exchange loss, net	170	—

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

9. DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed in accordance with section 161(1) of the Companies Ordinance are:

(a) Executive directors

	2000 HK\$'000	1999 HK\$'000
Fees	–	–
Other emoluments		
– Salaries and other emoluments	5,360	5,960
– Retirement scheme contributions	204	222
	<u>5,564</u>	<u>6,182</u>

(b) Non-executive directors

	2000 HK\$'000	1999 HK\$'000
Fees	240	240

No director waived any emoluments during the year.

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

	Number of directors	
	2000	1999
Nil – HK\$1,000,000	6	6
HK\$1,500,001 – HK\$2,000,000	3	3
	<u>9</u>	<u>9</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

10. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five individuals with the highest emoluments include three (1999: four) executive directors whose emoluments are disclosed in Note 9. The emoluments in respect of the remaining two (1999: one) individuals are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries and other emoluments	1,367	906
Retirement scheme contributions	61	42
	<u>1,428</u>	<u>948</u>

Analysis of emoluments paid to the aforementioned two (1999: one) non-director individuals by number of individuals and emolument range is as follows:

	Number of individuals	
	2000	1999
Nil – HK\$1,000,000	1	1
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>2</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

II. TAXATION

Taxation represents:

	2000 HK\$'000	1999 HK\$'000
Provision for the PRC Enterprise Income Tax	1,550	1,258
Share of taxation of associates	635	253
	2,185	1,511

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 during the year.

In accordance with the relevant income tax law 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 for the next three years thereafter. For one of the PRC subsidiaries, the five-year tax exemption and reduction period expired in 1999, but a further three years of 50% reduction in Enterprise Income Tax has been granted. All other PRC subsidiaries enjoyed tax exemption for the year.

12. LOSS ATTRIBUTABLE TO SHAREHOLDERS

Loss attributable to shareholders includes a loss of approximately HK\$295,397,000 (1999: HK\$166,818,000) dealt with in the financial statements of the Company.

13. DIVIDENDS

No interim dividend was paid and the directors do not recommend the payment of a final dividend for the year ended 31st December, 2000.

14. LOSS PER SHARE

Basic loss per share has been calculated based on the consolidated loss attributable to shareholders of approximately HK\$165,131,000 (1999: HK\$194,266,000) and 1,319,726,950 ordinary shares (1999: weighted average number of 1,227,672,156 ordinary shares) in issue during the year.

No disclosure of the diluted loss per share has been made as there was no potential dilutive shares in existence in 2000.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

15. FIXED ASSETS

(a) The Group

	2000						1999	
	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Office equipment HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Total HK\$'000
Cost or valuation								
Beginning of year	239,735	2,450	646,432	1,238	23,976	20,644	934,475	783,938
Additions	16	1	12,936	-	605	138	13,696	3,271
Transfer from construction in progress	2,203	-	23,293	-	-	-	25,496	182,311
Disposals	(4,828)	-	(5,240)	(6)	(75)	(81)	(10,230)	(13,380)
Write down for impairment loss	(1,399)	-	(105,838)	-	-	-	(107,237)	(23,470)
Exchange adjustments	728	-	2,247	-	71	68	3,114	1,805
End of year	236,455	2,451	573,830	1,232	24,577	20,769	859,314	934,475
Analysis of cost or valuation is as follows:								
At cost	210,305	2,451	573,830	1,232	24,577	20,769	833,164	908,325
At valuation - 1994	26,150	-	-	-	-	-	26,150	26,150
	236,455	2,451	573,830	1,232	24,577	20,769	859,314	934,475
Accumulated depreciation								
Beginning of year	41,695	1,876	249,887	1,175	13,095	15,595	323,323	269,111
Charge for the year	5,812	298	50,275	24	1,047	456	57,912	59,665
Write back on disposals	(598)	-	(4,720)	(1)	(69)	(52)	(5,440)	(6,075)
Exchange adjustments	136	1	872	-	35	50	1,094	622
End of year	47,045	2,175	296,314	1,198	14,108	16,049	376,889	323,323
Net book value								
End of year	189,410	276	277,516	34	10,469	4,720	482,425	611,152
Beginning of year	198,040	574	396,545	63	10,881	5,049	611,152	514,827

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

15. FIXED ASSETS (cont'd)

(b) The Company

	2000					1999
	Land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000	Total HK\$'000
Cost or valuation						
Beginning of year	26,073	2,450	3,672	2,220	34,415	37,304
Additions	-	-	62	-	62	457
Disposals	-	-	(1)	-	(1)	(3,354)
Exchange adjustments	-	-	2	3	5	8
End of year	26,073	2,450	3,735	2,223	34,481	34,415
Analysis of cost or valuation is as follows:						
At cost	4,823	2,450	3,735	2,223	13,231	13,165
At valuation – 1994	21,250	-	-	-	21,250	21,250
	26,073	2,450	3,735	2,223	34,481	34,415
Accumulated depreciation						
Beginning of year	2,904	1,876	3,245	2,049	10,074	12,053
Charge for the year	556	298	228	85	1,167	1,365
Write back on disposals	-	-	-	-	-	(3,352)
Exchange adjustments	-	1	2	3	6	8
End of year	3,460	2,175	3,475	2,137	11,247	10,074
Net book value						
End of year	22,613	275	260	86	23,234	24,341
Beginning of year	23,169	574	427	171	24,341	25,251

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

15. FIXED ASSETS (cont'd)

(c) The carrying amount of land and buildings is analysed as follows:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Held in Hong Kong on medium-term leases	573	585	573	585
Held in the PRC (other than in Hong Kong) on medium-term leases	188,837	197,455	22,040	22,584
	189,410	198,040	22,613	23,169

Certain land and buildings of the Group and the Company which are held on medium-term leases were revalued at 30th September, 1994 on an open market basis by Debenham Tie Leung, an independent registered professional surveyors and valuers.

- (d) Certain land and buildings and plant and machinery of the Group with a total net book value of approximately HK\$266.2 million (1999: HK\$294.5 million) are mortgaged to banks to secure certain banking facilities of the Group.
- (e) The carrying amount of land and buildings of the Group and the Company that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation is as follows:

	2000 HK\$'000	1999 HK\$'000
The Group	182,958	191,889
The Company	17,971	18,812

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

16. CONSTRUCTION IN PROGRESS

	The Group	
	2000 HK\$'000	1999 HK\$'000
Beginning of year	16,563	176,230
Additions	31,437	27,549
Transfer to fixed assets	(25,496)	(182,311)
Disposals	–	(5,335)
Exchange adjustments	58	430
End of year	22,562	16,563

Additions to assets in the course of construction include interest capitalised of HK\$1,136,000 (1999: Nil).

17. INTEREST IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares, at cost	20,407	20,407
Less: Provision for impairment in value	(13,338)	(9,344)
	7,069	11,063
Loan to a subsidiary	704,951	725,542
Less: Provision for doubtful debts	(290,705)	–
Less: Amounts due to subsidiaries	(66,231)	–
	355,084	736,605

Loan to a subsidiary is unsecured, bears interest at prevailing market rate and will be repayable after one year. Amounts due to subsidiaries are unsecured and interest free.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

17. INTEREST IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES (cont'd)

The following is a list of the principal subsidiaries:

Name of company	Place of incorporation/ operation	Principal activity	Particulars of issued or paid-up capital *	Proportion of issued capital held by the Company	
				Directly	Indirectly
Da Hua Non-Ferrous Metals Company Limited	Hong Kong	Nonferrous metals trading	1,000,000 shares of HK\$1 each	100%	–
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%

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

17. INTEREST IN SUBSIDIARIES AND AMOUNTS DUE FROM SUBSIDIARIES (cont'd)

Name of company	Place of incorporation/ operation	Principal activity	Particulars of issued or paid-up capital *	Proportion of issued capital held by the Company	
				Directly	Indirectly
Parkfield Far East Limited	Hong Kong	Investment holding	10,000 shares of HK\$1 each	-	100%
Topstart Limited	The British Virgin Islands/ Hong Kong	Investment holding	50,000 shares of US\$1 each	-	100%
North China Aluminium Company Limited #	The PRC	Production and sale of aluminium foil and extrusion	Rmb344,800,000	-	51%
Yinkou OrientMet Plica Tube Company Limited #	The PRC	Production and sale of plica tube	US\$4,000,000	-	51%
Yixing Jinfeng Copper Materials Company Limited #	The PRC	Production and sale of copper wires	US\$2,619,048	-	58%
Zhangzhou International Aluminium Container Company Limited #	The PRC	Production and sale of aluminium cans and container packaged 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 not audited by Arthur Andersen & Co.

Amounts due from subsidiaries included under current assets of approximately HK\$282,641,000 (1999: HK\$314,439,000) are unsecured and have no fixed terms of repayment. Except for an amount of approximately HK\$258,069,000 (1999: HK\$314,439,000) which bears interest at prevailing market rates, all remaining balances are interest free.

18. INTEREST IN ASSOCIATES

	The Group	
	2000 HK\$'000	1999 HK\$'000
Share of net assets	90,630	160,777
Amounts due from associates	153,980	158,100
Less: Amounts due to associates	(10,189)	-
	234,421	318,877

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

18. INTEREST IN ASSOCIATES (cont'd)

The following is a list of the principal associates:

Name of company	Place of incorporation/ operation	Principal activity	Particulars of issued or paid-up capital	Proportion of issued capital held by the Company	
				Directly	Indirectly
Beijing Jinxin Semiconductor Material Company Limited *	The PRC	Production and sale of silicon single crystal semi-conductor	US\$1,600,000	–	25%
Changzhou Jinyuan Copper Company Limited	The PRC	Production and sale of copper products	Rmb100,000,000	–	47.5%
Changzhou OrienMet Copper Company Limited *	The PRC	Production and sale of copper wire rods and copper cathodes	Rmb79,000,000	–	50%
Huludao OrienMet Copper Company Limited *	The PRC	Production and sale of copper blisters	US\$46,600,000	–	30%
Qingdao M.C. Packaging Limited *	The PRC	Production and sale of aluminium cans	US\$25,000,000	–	20%
Shanghai Jing Bao Copper Foil Limited *	The PRC	Production and sale of copper foil	Rmb29,450,000	–	25%
Yantai Penghui Copper Industry Company Limited *	The PRC	Production and sale of copper cathodes	Rmb132,000,000	–	42%
Yinxing Company Limited *	The PRC	Sale of aluminium ingots	Rmb143,226,000	–	17%

* Companies not audited by Arthur Andersen & Co.

The Group's share of the post-acquisition losses of associates as at 31st December, 2000 was approximately HK\$219 million (1999: HK\$159.9 million).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

18. INTEREST IN ASSOCIATES (cont'd)

Supplementary financial information of associates:

	The Group	
	2000 HK\$'000	1999 HK\$'000
Profit and loss		
Share of profits less losses before tax	(58,446)	(58,078)
Share of taxation	(635)	(253)
Share of net profits less losses	(59,081)	(58,331)

Note:

- (i) Included in amounts due from associates are the following loans:

	Note	The Group	
		2000 HK\$'000	1999 HK\$'000
Changzhou Jinyuan Copper Company Limited		–	9,388
Yantai Penghui Copper Industry Company Limited ("Yantai Penghui")	(a)	55,658	52,815
Qingdao M.C. Packaging Limited ("Qingdao M.C.")	(b)	15,600	15,600
		71,258	77,803

- (a) Loan to Yantai Penghui is unsecured, bears interest at prevailing market rates and has no fixed terms of repayment.
- (b) Loan to Qingdao M.C. is unsecured, interest-free and has no fixed terms of repayment.
- (ii) Included in amounts due from associates are trading balances of approximately HK\$82.4 million (1999: HK\$77.3 million) due from Yantai Penghui which bear interest at prevailing market rates.
- (iii) Amounts due to associates are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

19. INVESTMENT IN SECURITIES

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Unlisted investments, at cost	3,723	3,714	–	–
Less: Provision for impairment in value	(1,189)	–	–	–
	2,534	3,714	–	–
Listed investments, at cost	70,790	71,743	70,790	71,743
Less: Provision for impairment in value *	(68,810)	(44,420)	(68,810)	(44,420)
	1,980	27,323	1,980	27,323
	4,514	31,037	1,980	27,323
Listed in Hong Kong at carrying value	1,980	27,003	1,980	27,003
Listed overseas at carrying value	–	320	–	320
	1,980	27,323	1,980	27,323
Quoted market value of listed securities	26,993	27,323	1,980	27,323

* In assessing the fluctuation of the quoted market values of listed securities during the year and subsequent to 31st December, 2000, the directors are of the opinion that certain listed securities were impaired and accordingly, a total provision for impairment of approximately HK\$25,013,000 was made.

20. LONG-TERM RECEIVABLES

Long-term receivables of the Group and the Company are unsecured, interest free and repayable in 2003 and 2004.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

21. INTANGIBLE ASSETS

	The Group	
	2000 HK\$'000	1999 HK\$'000
Cost		
Beginning of year	4,136	4,126
Exchange adjustments	15	10
End of year	4,151	4,136
Accumulated amortisation		
Beginning of year	1,379	1,100
Charge for the year	277	276
Exchange adjustments	5	3
End of year	1,661	1,379
Net book value		
End of year	2,490	2,757
Beginning of year	2,757	3,026

22. INVENTORIES

	The Group	
	2000 HK\$'000	1999 HK\$'000
Raw materials	73,488	64,470
Work in progress	74,028	59,724
Finished goods	105,409	95,179
	252,925	219,373

No inventory (included above) is carried at net realisable value (1999: HK\$28.4 million).

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

23. DEBTORS AND PREPAYMENTS

The Group normally grants a credit period of 90 days to its trade customers. Included in the Group's debtors and prepayments are trade receivable balances of approximately HK\$150,728,000 (1999: HK\$143,091,000) and an aging analysis of such trade receivables is shown as follows:

	The Group			
	2000		1999	
	HK\$'000	%	HK\$'000	%
Less than 6 months	126,593	84	131,983	92
6 months – 1 year	16,499	11	2,998	2
1 – 2 years	7,115	4	4,147	3
Over 2 years	521	1	3,963	3
	150,728	100	143,091	100

Included in debtors and prepayments are certain receivables of the Group and the Company of approximately HK\$188 million and HK\$37 million respectively and the proposed plan for settlement is included in Note 3.

24. AMOUNTS DUE FROM/TO RELATED COMPANIES

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.

Included in the balance sheet are the following balances with related companies:

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Amounts due from related companies (Note (i) – (iii))				
Loans	132,817	132,705	132,817	132,705
Current accounts	180,577	186,154	26,480	26,709
	313,394	318,859	159,297	159,414
Amounts due to related companies (Notes (i), (iv) and (v))	78,248	89,528	58,847	69,883

Notes:

- (i) As at 31st December, 2000, all related companies were subsidiaries or associates of SNMIA.
- (ii) The Group and the Company have interest free loans of approximately HK\$39.9 million (1999: HK\$39.9 million) due from related companies. The remaining loans bear interest at prevailing market rates. All current accounts are interest free.
- (iii) All of the amounts due from related companies are unsecured. Included in amounts due from related companies are certain receivables of the Group and the Company of approximately HK\$283 million and HK\$141 million respectively and the proposed plan for settlement is included in Note 3. The directors believe that the amounts due from related companies are repayable within one year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

24. AMOUNTS DUE FROM/TO RELATED COMPANIES (cont'd)

Notes: (cont'd)

- (iv) The amounts due to related companies are unsecured and have no fixed terms of repayment. Except for certain amounts of the Group and the Company of approximately HK\$24.0 million (1999: HK\$34.4 million) and HK\$14.3 million (1999: HK\$24.6 million) respectively, which bear interest at prevailing market rates, all outstanding balances are interest free.
- (v) The amounts due to related companies include an amount due to CNMG(HK), a shareholder of the Company, of approximately HK\$7.3 million (1999: HK\$7.8 million), which is unsecured, interest free and has no fixed terms of repayment.

25. CREDITORS AND ACCRUED CHARGES

Included in the Group's creditors and accrued charges are trade payable balances of approximately HK\$70,815,000 (1999: HK\$64,976,000) and an aging analysis of such trade payables is as follows:

	The Group			
	2000		1999	
	HK\$'000	%	HK\$'000	%
Less than 6 months	42,983	61	45,388	70
6 months – 1 year	18,509	26	15,339	24
1 – 2 years	6,724	9	2,233	3
Over 2 years	2,599	4	2,016	3
	70,815	100	64,976	100

26. PROVISION FOR TAXATION

(a) Provision for taxation represents:

	The Group	
	2000	1999
	HK\$'000	HK\$'000
Provision for (over - payment of) Hong Kong profits tax relating to prior years	512	(279)
Provision for PRC Enterprise Income Tax	5,204	10,031
	5,716	9,752

(b) Deferred taxation

The Group has potential deferred tax assets of approximately HK\$98.9 million (1999: HK\$56.1 million) in respect of all material timing differences between the accounting and tax treatment of income and expenditure. These potential deferred tax assets, which mainly comprise tax losses of the Group, have not been recognised in the financial statements as the Directors consider that the realisation of the benefit in future years is uncertain.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

27. BANK LOANS

	The Group		The Company	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Within one year or on demand				
Secured bank loans	179,453	140,264	–	–
Unsecured bank loans	456,035	535,229	381,722	456,257
Included under current liabilities	635,488	675,493	381,722	456,257
After one year but within two years				
Secured bank loans	92,322	138,556	–	–
After two years but within five years				
Secured bank loans	39,567	–	–	–
Included under non-current liabilities	131,889	138,556	–	–
	767,377	814,049	381,722	456,257

- (a) Secured bank loans are secured by certain fixed assets of the Group and the Company (see Note 15(d)).
- (b) Certain bank loans of approximately HK\$444 million (1999: HK\$422 million) are overdue as at the date of the approval of the financial statements by the directors and have been included under current liabilities as at 31st December, 2000. The directors continued to reschedule the loan repayment dates. Further, the directors believe that the Group can obtain capital from various channel (including the proposal regarding certain receivables (see Note 3)) to resolve the problem of overdue bank loans.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

28. SHARE CAPITAL

	Number of shares			
	2000 HK\$'000	1999 HK\$'000	2000 '000	1999 '000
Authorised:				
Ordinary shares of \$0.1 each	300,000	150,000	3,000,000	1,500,000
Issued and fully paid:				
1st January	131,973	121,973	1,319,727	1,219,727
Shares issued under private placement	–	10,000	–	100,000
31st December	131,973	131,973	1,319,727	1,319,727

By a members' ordinary resolution passed on 28th June, 2000, the authorised capital of the Company was increased from HK\$150,000,000 to HK\$300,000,000 by the creation of 1,500,000,000 ordinary shares of HK\$0.1 each, ranking pari passu with the then existing shares in all respects.

Pursuant to members' resolutions passed in 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 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.

There were no options granted or outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

29. RESERVES

(a) The Group

	Share premium HK\$'000	Revaluation reserve HK\$'000	General reserve HK\$'000	Capital reserve HK\$'000	PRC statutory reserves HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
					(Note 35)	(Note 35)	(Note 35)	
1st January, 1999	740,826	6,992	15,600	7,337	59,707	-	(159,023)	671,439
Premium on issue of ordinary shares	61,000	-	-	-	-	-	-	61,000
Share issue expenses	(1,762)	-	-	-	-	-	-	(1,762)
Transfer to PRC statutory reserves	-	-	-	-	995	-	(995)	-
Exchange differences on consolidation	-	-	-	-	-	1,175	-	1,175
Net loss for the year	-	-	-	-	-	-	(194,266)	(194,266)
31st December, 1999	800,064	6,992	15,600	7,337	60,702	1,175	(354,284)	537,586
Expenses incurred in connection with increase in authorised share capital	(34)	-	-	-	-	-	-	(34)
Transfer to PRC statutory reserves	-	-	-	-	951	-	(951)	-
Exchange differences on consolidation	-	-	-	-	-	1,334	-	1,334
Net loss for the year	-	-	-	-	-	-	(165,131)	(165,131)
31st December, 2000	800,030	6,992	15,600	7,337	61,653	2,509	(520,366)	373,755

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

29. 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
1st January, 1999	740,826	4,951	15,600	(57,753)	703,624
Premium on issue of ordinary shares	61,000	-	-	-	61,000
Share issue expenses	(1,762)	-	-	-	(1,762)
Net loss for the year	-	-	-	(166,818)	(166,818)
31st December, 1999	800,064	4,951	15,600	(224,571)	596,044
Expenses incurred in connection with increase in authorised share capital	(34)	-	-	-	(34)
Net loss for the year	-	-	-	(295,397)	(295,397)
31st December, 2000	800,030	4,951	15,600	(519,968)	300,613

The Company had no reserve (1999: Nil) available for distribution as at 31st December, 2000.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

30. RELATED PARTY TRANSACTIONS

The material transactions with related parties during the year are as follows:

	2000 HK\$'000	1999 HK\$'000
Sale of fixed assets to an associate	8,327	–
Sales of nonferrous metals to		
– associates	53,863	9,145
– related companies	85,189	73,897
Purchases of nonferrous metals	277,237	309,643
Interest income from		
– associates	12,495	9,911
– related companies	–	10,943
Interest expense paid to a related company	1,771	1,180
Management fees paid to a shareholder	2,521	3,199

In the opinion of the directors, the related party transactions described above were carried out in the ordinary course of business and on normal commercial terms.

31. RETIREMENT SCHEMES

The Group provided retirement benefits to all Hong Kong eligible employees under a defined contribution provident fund (the “Scheme”). The Scheme was administered by independent trustee and its assets were held separately from those of the Group. The Scheme was funded by contributions from employees and the Group respectively at predetermined percentage of the monthly salaries of the employees. Under the terms of the Scheme, forfeited contributions may be used to reduce the existing level of contributions made by the Group.

With the introduction of the Mandatory Provident Scheme (the “MPF Scheme”), a defined contribution scheme managed by an independent trustee, by the Government of Hong Kong Special Administrative Region on 1st December, 2000, each of the Hong Kong subsidiaries and their employees will make monthly contributions to the MPF Scheme at 5% of the employees’ cash income 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 Hong Kong subsidiaries and their employees made their first contributions in December 2000.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

31. RETIREMENT SCHEMES (cont'd)

The employees of the Company's subsidiaries in the PRC are members of the retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their 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, 2000, after deducting the forfeited contribution of approximately HK\$97,000 (1999: HK\$77,000), amounted to approximately HK\$6,721,000 (1999: HK\$5,364,000).

32. CONTINGENT LIABILITIES

	The Group and the Company	
	2000 HK\$'000	1999 HK\$'000
Corporate guarantee in respect of the banking facility granted by a financial institution to an associate	23,552	18,500

33. COMMITMENTS

(a) Operating leases

As at 31st December, 2000, the Group and the Company had commitments under operating leases to make payments in the next twelve months in respect of rented premises under non-cancellable operating leases as follows:

	The Group and the Company	
	2000 HK\$'000	1999 HK\$'000
Leases expiring within 1 year	1,282,000	1,603,000

(b) Future contracts

During the year, the Group entered into nonferrous metals future contracts to reduce its exposure to risks arising from fluctuations in the trading prices of nonferrous metals. As at 31st December, 2000, the Group had outstanding future contracts for the sales and purchases of nonferrous metals undertaken in the ordinary course of business of approximately HK\$19.9 million (1999: HK\$35.7 million) and HK\$16.2 million (1999: HK\$30.7 million), respectively.

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before tax to net cash inflow from operating activities

	2000 HK\$'000	1999 HK\$'000
		(Note 35)
Loss before tax	(223,929)	(200,817)
Share of profits less losses of associates	58,446	58,078
Interest income	(13,682)	(32,352)
Interest expense	70,901	79,864
Provision for impairment in value of fixed assets	107,237	23,470
Loss on disposal of fixed assets	27	93
Depreciation	57,912	59,665
Dividend income from investment in securities	(1,713)	–
Provision for impairment in value of investment in securities	25,891	11,091
Gain on disposal of investment in securities	(127)	(683)
Amortisation of intangible assets	277	276
Provision for bad and doubtful debts	51,735	76,053
Write back of inventory provision	–	(7,018)
Decrease (increase) in amounts due from associates	28,186	(2,366)
Increase in long-term receivable	(22)	(4,694)
(Increase) decrease in inventories	(33,552)	62,284
Decrease (Increase) in debtors and prepayments	9,516	(258,879)
Decrease in net amounts due from related companies	5,167	232,647
Decrease in bills receivable	–	450
Increase (decrease) in creditors and accrued charges	20,181	(7,255)
Increase (decrease) in bills payable	14,898	(1,208)
(Decrease) increase in amount due to minority shareholders	(5,460)	222
Exchange adjustments	770	(78)
Net cash inflow from operating activities	172,659	88,843

NOTES TO THE FINANCIAL STATEMENTS (CONT'D)

(Amounts expressed in Hong Kong dollars)

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

(b) Analysis of changes in financing

	2000					1999
	Share capital (including share premium) HK\$'000	Bank loans		Amounts due to related companies HK\$'000	Total HK\$'000	Total HK\$'000
		Short-term	Long-term			
		HK\$'000	HK\$'000			
1st January	932,037	675,493	138,556	89,528	1,835,614	1,843,819
Net cash outflow from financing	(34)	(40,794)	(7,151)	(12,102)	(60,081)	(8,536)
Effect of foreign exchange translation	-	789	484	822	2,095	331
31st December	932,003	635,488	131,889	78,248	1,777,628	1,835,614

35. COMPARATIVE FIGURES

The financial statements as at and for the year ended 31st December, 1999 were audited and reported on by certified public accountants other than Arthur Andersen & Co, whose report dated 19th May, 2000 expressed an unqualified opinion on those statements.

There were reclassifications from accumulated losses to PRC statutory reserves and exchange translation reserve of approximately HK\$37,309,000 and HK\$1,175,000 respectively and from cash flow from operating activities to cash flow from financing activities of approximately HK\$33,895,000, so as to properly restate the Group's reserve balances and consolidated cash flow statement and to conform to the current year's presentation.