

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Accounting Policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting". With the exception of the changes in accounting policies for goodwill/negative goodwill as stated below, the accounting policies and basis of preparation used in preparing the interim financial statements are consistent with those used in the audited financial statements for the year ended 31 December 2000.

The changes to the Group's accounting policies, as a result of the adoption of SSAP30 "Business Combinations" which is effective for accounting periods commencing on or after 1 January 2001, are set out below:

Goodwill/Negative goodwill

Goodwill/negative 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.

Goodwill arising from acquisitions on or after 1 January 2001 is included in intangible assets and is amortised using the straight-line method over its estimated useful economic life. Goodwill on acquisitions that occurred prior to 1 January 2001 was eliminated against reserve. The Group has adopted the transitional provisions in SSAP30 and such goodwill has not been retrospectively capitalised and amortised. However, any impairment arising on such goodwill is recognised as an expense in the income statement.

Negative goodwill arising from acquisitions on or after 1 January 2001 is presented under the same balance sheet classification as goodwill. For acquisitions prior to 1 January 2001, negative goodwill was credited to capital reserve on acquisition. The Group has adopted the transitional provisions in SSAP30 and such negative goodwill has not been restated.

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 14 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 30 June 2001, the Group had certain debtor balances of approximately HK\$471 million (the "Receivables") included in debtors and prepayments, 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 18 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 People's Republic of China ("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 PRC relevant 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;
- (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. Ultimate Controlling Shareholder

The relevant PRC governmental 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.

5. Segment Information

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/(loss) from operations for the period ended 30 June 2001 is as follows:—

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

	Turnover		Contribution to profit/(loss) from operations	
	2001 Unaudited HK\$'000	2000 Unaudited HK\$'000	2001 Unaudited HK\$'000	2000 Unaudited HK\$'000
Sale of nonferrous metals	715,263	692,960	56,396	142,755
Net (loss)/gain on metals future trading	(15)	648	(15)	648
Interest income	3,953	16,287	3,953	16,287
	<u>719,201</u>	<u>709,895</u>	<u>60,334</u>	<u>159,690</u>
Other revenues and income less selling and administrative expenses			(59,363)	(57,440)
Other operating expenses			(16,630)	(7,238)
			<u>(15,659)</u>	<u>95,012</u>

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

	Turnover		Contribution to profit/(loss) from operations	
	Six months ended 30 June			
	2001 Unaudited HK\$'000	2000 Unaudited HK\$'000	2001 Unaudited HK\$'000	2000 Unaudited HK\$'000
The PRC	660,062	672,761	56,163	145,147
Hong Kong	291	27,399	291	12,270
Australia	52,088	–	2,893	–
Others	6,760	9,735	987	2,273
	<u>719,201</u>	<u>709,895</u>	<u>60,334</u>	<u>159,690</u>
Other revenues and income less selling and administrative expenses			(59,363)	(57,440)
Other operating expenses			<u>(16,630)</u>	<u>(7,238)</u>
			<u>(15,659)</u>	<u>95,012</u>

6. Other Operating Expenses

	Six months ended 30 June	
	2001 Unaudited HK\$'000	2000 Unaudited HK\$'000
Provision for impairment in value of investment in securities	–	2,238
Provision for bad and doubtful debts	<u>16,630</u>	<u>5,000</u>
	<u>16,630</u>	<u>7,238</u>

7. (Loss)/Profit Before Taxation

(Loss)/Profit before tax is determined after crediting and charging the followings:

	Six months ended 30 June	
	2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Crediting:		
Dividend income from listed investment	27	–
Interest income	3,953	16,287
Gain on disposal of investment securities	1,934	127
Exchange gain, net	<u>3</u>	<u>–</u>
Charging:		
Depreciation	24,929	31,715
Loss on disposal of fixed assets	474	99
Amortisation of intangible assets	139	139
Cost of inventories	658,867	550,205
Staff costs (including retirement costs of HK\$3,831,000 (2000 : HK\$3,294,000) and directors' emoluments)	28,423	26,622
Interest expenses	29,918	33,462
Operating lease rentals on land and buildings	954	1,389
Provision for impairment in value of investment in securities	–	2,238
Auditors' remuneration	952	916
Exchange loss, net	<u>–</u>	<u>118</u>

8. Taxation Charge

	Six months ended 30 June	
	2001	2000
	Unaudited	Unaudited
	HK\$'000	HK\$'000
Provision for Hong Kong profits tax	–	2,000
Provision for the PRC income tax	988	460
Share of associates' taxation	<u>512</u>	<u>–</u>
	1,500	2,460

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

In accordance with the relevant agreements, and the Enterprise Income Tax Law applicable in the PRC, the PRC subsidiaries are exempted from Enterprise Income Tax for two years starting from its first profit making year after deducting all the brought forward tax losses and have also been granted a reduced tax rate for the following three years. Income tax has been provided at the applicable rates thereof on the estimated assessable profits for the period.

9. Interim Dividend

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2001.

10. (Loss)/Earnings Per Share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of HK\$65,135,000 (2000: profit of HK\$40,647,000) and the 1,319,726,950 ordinary shares (2000: 1,319,726,950 ordinary shares) in issue during the period.

There was no potential dilution of (loss)/earnings per share for 2001 and 2000.

11. 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\$548 million (2000: HK\$151 million) and an aging analysis of such trade receivables is shown as follows:

	30 June 2001		31 December 2000	
	Unaudited		Audited	
	HK\$'000	%	HK\$'000	%
Less than 6 months	227,742	41	126,593	84
6 months – 1 year	5,992	1	16,499	11
1 – 2 years	2,036	1	7,115	4
Over 2 years	312,491	57	521	1
	548,261	100	150,728	100

12. Amounts Due From Related Companies

Following the dissolution of the Company's ultimate controlling shareholder, the State Nonferrous Metals Industry Administration ("SNMIA") in February 2001, the parties which were previously subsidiaries of SNMIA, ceased to be related companies of the Group and that the amounts due from these parties of approximately HK\$312 million as at 30 June 2001 have been classified as debtors and prepayments.

13. Creditors And Accrued Charges

Included in the Group's creditors and accrued charges are trade payable balances of approximately HK\$126 million (2000: HK\$71 million) and an aging analysis of such trade payables is as follows:

	30 June 2001 Unaudited		31 December 2000 Audited	
	HK\$'000	%	HK\$'000	%
Less than 6 months	99,244	79	42,983	61
6 months – 1 year	15,449	12	18,509	26
1 – 2 years	8,781	7	6,724	9
Over 2 years	2,708	2	2,599	4
	<u>126,182</u>	<u>100</u>	<u>70,815</u>	<u>100</u>

14. Bank Loans

Certain bank loans of approximately HK\$417 million (2000: HK\$444 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 30 June 2001. The directors continued to reschedule the loan repayment dates. Further, the directors believe that the Group can obtain capital from various channels (including the proposal regarding certain receivables (See Note 3)) to resolve the problem of overdue bank loans.

15. Contingent Liabilities

	30 June 2001 Unaudited HK\$'000	31 December 2000 Audited HK\$'000
Corporate guarantee in respect of the banking facility granted by a financial institution to an associate	<u>23,552</u>	<u>23,552</u>

16. Commitments*(a) Operating leases*

As at 30 June 2001, the Group had total future minimum lease payments under non-cancellable operating leases as follows:

	30 June 2001 Unaudited HK\$'000	31 December 2000 Audited HK\$'000
Leases expiring within 1 year	<u>-</u>	<u>1,282</u>

(b) Future contracts

During the period, 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 30 June 2001, the Group had outstanding future contracts for the sales and purchases of nonferrous metals undertaken in the ordinary course of business of approximately HK\$ nil (2000: HK\$19.9 million) and HK\$24.9 million (2000: HK\$16.2 million), respectively.

17. Movement In Reserves

The movement in reserves for the six months ended 30 June 2001 amounting to HK\$65,135,000 represents the net loss for the period carried forward.

18. Comparative Figures

Selling expenses of HK\$5,000,000 and administrative expenses of HK\$2,338,000 for the six months ended 30 June 2000 have been reclassified as operating expenses in the condensed consolidated income statement to conform with the presentation in current period.

19. Disclosure Under Practice Note 19*Advance to an Entity*

As at 30 June 2001, the advance to an entity was approximately HK\$201 million, representing 46% of the net asset value of the Group as at 30 June 2001. These companies are group companies owned by the same holding company. Details of such amounts are set out as follows:–

	Total <i>HK\$'000</i>	Interest bearing at prevailing market rates <i>HK\$'000</i>	Non-interest bearing <i>HK\$'000</i>
China National Nonferrous Metals Industry Trading Group Corporation	37,468	4,350	33,118
China National Nonferrous Metals Import & Export Corporation	129,885	–	129,885
China National Nonferrous Metals Industry Supply Marketing Transportation Corporation	33,269	–	33,269
	<u>200,622</u>	<u>4,350</u>	<u>196,272</u>

These amounts, which were mainly derived from normal trading activities and ordinary course of business between the Group and these companies, are unsecured, have no fixed terms of repayment and interest-free except for the balance of HK\$4,350,000 which bears interest at prevailing market rates.