RESULTS

During the year, through the aggregate effort of staff, all aspects of management were improved; administrative costs were kept under control; and losses incurred by the PRC investments were reduced. However, due to the large amounts of overdue debts and a sharp fall in the prices of nonferrous metals products and raw materials that the Group traded, coupled with a significant increase in provisions, the losses of the Group in 2001 increased to HK$863,000,000. Of this, the provisions amounted to HK$717,000,000. However, these provisions help to build up the foundation for improved operations in the future.

BUSINESS REVIEW

Trade Business

In the year 2001, the global economy slackened and the demand of nonferrous metals was weak. In the London Metals Exchange (LME), the three-month future prices of copper and aluminium were US$1,598 per ton and US$1,454 per ton respectively, down 13.2% and 7.8% respectively.

The Company had signed a contract with an overseas supplier for long-term supply of alumina, guaranteeing the steady supply of this material. However, due to the continued fall in the price of alumina in the international spot market, there was a huge increase in the import of alumina into the PRC, and the average price of imported alumina in the PRC in 2001 dropped to RMB 2,073 yuan per ton (tax included), down 46.8% from the previous year. The sharp fall in selling prices led to a loss in the Company's alumina business, and the turnover for the trading business of the Group decreased 42%. In response to this issue, the Company is taking active measures, including negotiating with the supplier regarding the deferred delivery of the commodity.

Direct Industrial Investments

In 2001, there was improvement in the performance of the Group's industrial investments. Losses were reduced. The ten enterprises the Group invested in made a total loss of HK$153,000,000, a decrease of 9% when compared with the last year.

Aluminium Refinery Business

North China Aluminium Company Limited, 51% owned by the Group, is one of the largest aluminium foil refineries in the PRC. Its products are supplied to the packaging, transportation and home appliances sectors. In 2001, its production capacity of aluminium foils and other aluminium processed products reached 39,000 tons, representing a slight increase over the previous year. Although aluminium foil prices dropped during the period, the Company has adopted different measures, including the modification of product structure and increasing emphasis on high value added products, to improve operating performance.

The Group also operated its aluminium can production and sales business through Zhangzhou International Aluminium Container Company Limited ("Zhangzhou Aluminium"), its 60% owned subsidiary, and Qingdao M.C. Packaging Limited ("Qingdao MC"), its 20% owned associated company. Due to a serious surplus in the production of aluminium cans in the PRC, the various manufacturers were competing on price, further worsening the operating environment. During the period, the gross profit of our two aluminium can refineries dropped, leading to a loss in the aluminium refinery business.

Copper Refinery and Smelter Business

The Group's primary investment in copper refinery is mainly made through its associated company, Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan"), of which 25% is directly owned by the Group. In 2001, Changzhou Jinyuan achieved an output level of 126,500 tons of copper wire, 4% more than the previous year. However, the profit margin dropped due to competition. A profit of HK$32,660,000 was achieved for the year, a drop of 26%.

The Group owns 42% and 30% of Yantai Penghui Copper Industry Company Limited ("Yantai Penghui") and Huludao OrienMet Copper Company Limited ("Huludao OrienMet") respectively. The two enterprises in 2001 produced 27,400 tons copper cathodes and 50,000 tons copper blisters respectively. In 2001, the operating performance of Yantai Penghui declined mainly due to the decrease in gross profit margin resulting from the drop in copper prices. Huludao OrienMet also continued to incur a loss due to the huge production costs and fixed expenses.

Administrative Expenses

During the year, the Group's administrative expenses increased 5% over the previous year, mainly due to the provision for PRC property tax and the related late payment surcharge of approximately HK$9,000,000.

Other Provisions

The losses for the year include provisions amounting to HK$717,000,000. The provisions include provision for bad and doubtful debts, provision for long-term purchase contract and fixed assets and provision for outstanding litigations.

Provision for Certain Receivables

Over a long period, the Company has accumulated several billion receivable amounts under the group companies of the State Nonferrous Metals Industry Administration. These receivables are long outstanding. Collection of which was difficult despite the extended efforts made by the Group and the relevant authorities. Over the years, the China National Nonferrous Metals Industry Corporation, the State Nonferrous Metals Industry Administration, China National Metals & Minerals Import and Export Corporation ("China Minmetals") had respectively issued letters of comfort to the Company, informing that they would use their best endeavor to support the Company's PRC and overseas business development.

On 3rd June, 2002, the Company received a letter from China Minmetals informing the Company that China Minmetals have no intention to issue a letter of comfort in relation to certain receivables of the Company of approximately HK$471,000,000 for the year ended 31st December, 2001.

In view of the failure to obtain a letter of comfort, the Group has made provisions against the above receivables.

Provision for Long-term Alumina Contract

The Company had engaged with an overseas supplier for a long-term supply contract to purchase alumina. Due to the mismatch of volatility of cash price and LME price of aluminium, the alumina business experienced a loss.

According to the contract, from April 2002 to April 2004, there are 360,000 tones of alumina that should be shipped. It is predicted that an expanding loss will occur based on the current situation, therefore a provision of approximately HK$56,000,000 has been made in this year in respect of the future trade of these 360,000 tons of alumina.

Interest Expenses

During the year, the fall in interest rates and reduction in bank loans caused a decrease of 18% in interest expenses.

Financial Resources and Cash Flow

In 2001, the Group's net cashflow from operating activities amounted to HK$88,000,000 (2000: HK$173,000,000). After deducting the returns on investments, servicing of finance, tax and other payments, the cash deficit before financing amounted to HK$500,000 (2000: cash surplus of HK$75,000,000). After deducting the repayment of bank loans and other operating expenses of HK$5,300,000 (2000: HK$60,000,000), the cash in hand and cash deposits of the Group decreased by 9% over 2000. As at 31st December, 2001, the Group had cash in hand and cash deposits of HK$56,000,000 (all unsecured deposits), of which 40% and 59% were denominated in US dollars and Renminbi respectively, and the remaining was in Hong Kong dollars.

As at 31st December, 2001, the Group's total outstanding bank loans amounted to HK$760,000,000 (HK$499,000,000 at floating interest rate and the remaining at fixed interest rate), of which HK$147,000,000 was repayable after one year. Of the total bank loans, 49% was denominated in US dollars and the remainder in Renminbi. Of the total loans, bank loans amounting to HK$311,000,000 were secured by the Group's fixed assets with a net book value of HK$219,000,000 as at 31st December, 2001. As at the same date, since the Group was in net liabilities, the bank debt to equity ratio (2000: 139%), which is measured as total bank loans (net of cash balances) as a proportion of shareholders' equity, has not been presented.

As at 31st December, 2001, the Group's overdue bank loans amounted to about HK$399,000,000. On 14th May, 2002, the Company received a writ from the Court of First Instance of the High Court of the Hong Kong Special Administrative Region ("HKSAR") for an application for recovery of a syndicated loan of approximately US$14 million (equivalent to approximately HK$109 million) which was overdue as at 31st December, 2001. The Company has already appointed legal advisors to handle the case and has submitted reply to the Court on 10th June, 2002.

Contingent Liabilities

As at 31st December, 2001, the Company provided corporate guarantees to a financial institution in respect of banking facilities extended to an associated company amounting to approximately RMB25,000,000 (equivalent to approximately HK$23,580,000) (2000: RMB25,000,000, equivalent to approximately HK$23,550,000). The guarantee is valid up to the end of 2003.

As at 31st December, 2001, the Company 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. However, the potential additional charges will not exceed RMB11,830,000 (equivalent to approximately HK$11,160,000).

Employees

As at 31st December, 2001, the Group employed 2,300 staff (not including the staff of the associated companies). The amount of remuneration paid (including the directors' emoluments) during the year was HK$47,000,000. The Group adopted a pay policy in line with market practice, and remuneration was determined with reference to the performance and experience of individual employees.

The Company's shareholders approved on 25th November, 1994 a share option scheme for executives and senior staff of the Group ("the Scheme"), intended to encourage them to contribute to maintaining and improving the Company's share price. The Scheme also serves as a token of recognition of these staff with excellent performance and helps the Group to retain the experienced and capable staff.

Under the Scheme, the directors of the Company have the authority at their discretion to invite executives and/or employees to take up options to subscribe for shares in the Company according to the terms and conditions of the Scheme.

Meanwhile, the Group is well aware of the importance of quality management and specialist expertise as key factors in achieving corporate success. While strengthening its operational management, the Group also encourages self-advancement and attaches great importance to the provision of various forms of professional training to employees at different levels. Through appropriate training, employees' skills can be enhanced and their personal potentials can be developed. Training also helps increase the staff members' job satisfaction and loyalty to the Company.

By order of the Board
Lau Yat Ching
Director and Executive Vice President

Hong Kong, 19th June, 2002