

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, 2001.

### PRINCIPAL ACTIVITIES

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

An analysis of the Group's revenue by business and geographical segments, together with their respective contributions to loss from operations for the year ended 31st December, 2001 is set out in Note 4 to the accompanying financial statements.

### MAJOR CUSTOMERS

In the year under review, sales to the five largest customers accounted for less than 30% of the total sales of the Group for the year.

### MAJOR SUPPLIERS

- (1) Purchases from the largest supplier accounted for approximately 23% of total purchases of the Group for the year.
- (2) Purchases from the five largest suppliers combined accounted for approximately 56% of the total purchases of the Group for the year.
- (3) Yinxing Company Limited, being the second largest supplier for the year, is an associate 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 suppliers.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2001 are set out in the accompanying financial statements on page 26.

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\$1,385,108,000 (2000: HK\$520,366,000) at 31st December, 2001 be carried forward.

## RESERVES

Movements in reserves of the Company and the Group during the year are set out in Note 31 to the accompanying financial statements.

## FIXED ASSETS

Movements in fixed assets during the year are set out in Note 14 to the accompanying financial statements.

## SHARE CAPITAL

Details of the share capital of the Company are set out in Note 29 to the accompanying financial statements.

## DIRECTORS

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

### Executive Directors

Gao Dezhu	<i>(Chairman)</i>
Xu Huizhong	<i>(Appointed on 10th April, 2002)</i>
Lau Yat Ching	
Xun Gao	
Wang Xingdong	
Deng Weihua	<i>(Appointed on 1st March, 2002)</i>

### Non-executive Directors

Xu Kaixing	
Chan Fat Chu, Raymond	
Chan Wai Dune	<i>(Appointed on 24th May, 2002)</i>
Ting Leung Huel, Stephen	<i>(Appointed on 5th June, 2002)</i>
Ng Ching Wo	<i>(Resigned on 1st February, 2002)</i>
Woo Wai See, Alice	<i>(Resigned on 1st February, 2002)</i>

In accordance with Article 101 of the Company's Articles of Association, Messrs. Gao Dezhu and Lau Yat Ching will retire by rotation and, being eligible, offer themselves for re-election. In accordance with Article 85 of the Company's Articles of Association, Messrs. Xu Huizhong, Deng Weihua, Chan Wai Dune and Ting Leung Huel, Stephen will retire and, being eligible, offer himself for re-election.

### DIRECTORS' SERVICE CONTRACTS

None of the directors have 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, 2001, 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

Save as disclosed in note (b) under connected transaction on page 21 to page 22 of which Messrs. Gao Dezhu, Lau Yat Ching, Xun Gao and Wang Xingdong are both the directors of the Company and China Nonferrous Metals Group (Hong Kong) Limited, the immediate controlling shareholder of the Company and are deemed to have interest in the transaction, there was no contract 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 (a) under connected party transactions on page 21 to page 22 and Note 32 to the accompanying financial statements, no significant contract concerning the management and administration of the Company were entered into or existed during the year.

### SHARE OPTION SCHEME

Pursuant to the resolutions passed at an extraordinary general meeting of the Company held on 25th November, 1994, a share option scheme ("the 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.

**SHARE OPTION SCHEME** (cont'd)

The Scheme is intended to encourage executives and employees of the Group to contribute to maintaining and where possible improving its share price of the Company in the long run. At the same time, the Scheme serves as a recognition to these employees with excellent performance and helps the Group to retain experienced and capable employees.

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 SHARE CAPITAL OF THE COMPANY**

As at 31st December, 2001, 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 ("CNCI")	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%

\* On 19th February, 2001, Mr. Sheng Wa Ren (the director of the State Economic and Trade Commission of The People's Republic of China (the "PRC")) promulgated that the Company's ultimate controlling shareholder, SNMIA, was dissolved in the course of restructuring of the nonferrous metals industry in the PRC.

\*\* On 10th April, 2002, the High Court of the Hong Kong Special Administrative Region ("HKSAR" or "Hong Kong") ordered that John Lees and Desmond Chiong, principals of Ferrier Hodgson & Co., be appointed with immediate effect as the provisional liquidators of CNMG(HK), the controlling shareholder of the Company for the time being. The Company has already requested the provisional liquidators to keep the Company informed of any material development of CNMG(HK) which may have an impact on the Group and the Company.

Note: Given (a) Mazar Limited is a wholly owned subsidiary of CNMG(HK), (b) CNMG(HK) is a wholly owned subsidiary of CNCI, and (c) CNCI was a wholly owned subsidiary of SNMIA, these companies are deemed to be interested in the above shares.

### **SUBSTANTIAL INTERESTS IN SHARE CAPITAL OF THE COMPANY** (cont'd)

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, 2001, 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 of the Company and the Group as at 31st December, 2001 are set out in Note 27 to the accompanying financial statements. Interest of approximately HK\$906,000 (2000: HK\$1,136,000) was capitalised by the Group during the year.

### **RETIREMENT SCHEMES**

Details of the Group's retirement schemes are set out in Note 33 to the accompanying financial statements.

### **CODE OF BEST PRACTICE**

The Company has complied with the Code of Best Practice (the "Code of Best Practice") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31st December, 2001, except that the non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with articles 101 and 85 of the Company's articles of association.

### **AUDIT COMMITTEE**

The Company established an audit committee with written terms of reference consisting of two independent non-executive directors in July 1999 pursuant to the Code of Best Practice. The principal duties of the audit committee include the review and supervision of the Company's financial reporting process and internal controls. During the year, 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) There were no sales (2000: HK\$85 million, 6% of the total turnover of the Group) and purchases (2000: HK\$277 million, 19% of the total turnover of the Group) transactions with connected persons (as defined in the Listing Rules) for the year. Following the dissolution of China Aluminium Corporation (“CHALCO”) and China Copper Lead Zinc Corporation (“CCLZ”) in 2000, certain companies (including Southwest Aluminium Fabrication Plant, Qingtongxia Aluminium Smelter, Liancheng Aluminium Smelter, etc.) ceased to be connected parties of the Company and that the sales/purchases with connected persons during the year were significantly reduced.

In respect of the above connected transactions and pursuant to the waiver granted by the Stock Exchange on 22nd February, 2000, the Company has performed reasonable scope of work as to ensure that there are no sales and purchases with connected persons during the year. The work so performed has been reviewed by the directors (including the independent non-executive directors) and the auditors of the Company.

- (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 years 2000, 2001 and 2002, respectively. The amount shared by the Company for the year was approximately HK\$2.3 million (2000: HK\$2.5 million). The outstanding balance due to CNMG(HK) as at 31st December, 2001 was approximately HK\$7.8 million (2000: HK\$7.3 million).

Pursuant to the waiver granted by the Stock Exchange on 6th July, 2000 (“Waiver”), the above transactions have been reviewed by the directors of the Company (including independent non-executive directors). The directors (including independent non-executive directors) of the Company have confirmed that the transaction 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 favourable than terms available from independent third parties; and (c) are fair and reasonable as far as the shareholder of the Company are concerned. However the aggregate consideration shared by the Company for the year exceeded 3% of the consolidated net tangible assets of the Group (the Group was in net liabilities as at 31st December, 2001) as disclosed in the financial statements which has breached one of the conditions of the Waiver. The Company shall make an application to the Stock Exchange for an appropriate waiver in accordance to the Listing Rules.

## CONNECTED PARTY TRANSACTIONS (cont'd)

Certain of the above transactions also constituted related party transactions which are disclosed in Note 32 to the accompanying financial statements.

## FINANCIAL ASSISTANCE AND GUARANTEE TO ASSOCIATES

As at 31st December, 2001, the Group's financial assistance to, and guarantee given for the bank loan granted to its associates amounted to, in aggregate, approximately HK\$77 million (net of provision), representing more than 25% of the net assets value of the Group as at 31st December, 2001. Disclosure should be made in accordance with the Practice Note Number 19 of the Listing Rules.

A proforma combined balance sheet of the above mentioned associates as at 31st May, 2002 (being the latest practicable date for this report) is set out below:–

	<b>Proforma combined balance</b> <i>HK\$ million</i>	<b>The Group's attributable interest</b> <i>HK\$ million</i>
Non-current assets	138	34
Current assets	211	53
Current liabilities	(248)	(62)
Net current liabilities	(37)	(9)
Net assets	101	25
Share capital	94	24
Reserves	7	1
	101	25

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 page 77-78 of this Annual Report.

## AUDITORS

Messrs. Arthur Andersen & Co were first appointed as auditors of the Company in 2000 upon the retirement of KPMG.

Messrs. Arthur Andersen & Co will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

By order of the Board

**Lau Yat Ching**

*Director and Executive Vice President*

Hong Kong, 19th June, 2002