

The Directors have pleasure in presenting their report together with the audited accounts of Oriental Metals (Holdings) Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st December, 2003.

### PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. Its subsidiaries and associated companies 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 profit from operations for the year ended 31st December, 2003 is set out in Note 3 to the accounts.

### MAJOR CUSTOMERS

- (1) Sales to the largest customers accounted for approximately 9% of the total sales of the Group for the year.
- (2) Sales to the five largest customers in aggregate accounted for approximately 31% of the total sales of the Group for the year.
- (3) The Company entered into a framework agreement on 21st January, 2003 with China Minmetals Nonferrous Metals Company Limited ("CNMC"), a subsidiary of China Minmetals Corporation ("Minmetals") (formerly known as China National Metals & Minerals Import & Export Corporation"). During the year under review, the Company sold an aggregate of approximately 140,000 metric tonnes of alumina (which accounted for approximately 22% of the total sales of the Group for the year) to CNMC and other subsidiaries of Minmetals, namely Minmetals North-Europe AB, Minmetals Germany GMBH and Minmetals Inc. U.S.A.. CNMC and the three aforesaid Minmetals' subsidiaries are the second to the fifth largest customers of the Group for the year.

Coppermine Resources Limited, a wholly-owned subsidiary of Minmetals, has become the Company's controlling shareholder upon the completion of the Group's restructuring on 12th January, 2004. Since that date and up to the date of this report, the Group has made no sales to Minmetals or its subsidiaries.

Save as disclosed above, none of the directors, their associates (as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) or any shareholders of the Company (which to the knowledge of the directors owned more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers.

## MAJOR SUPPLIERS

- (1) Purchases from the largest suppliers accounted for approximately 21% of total purchases of the Group for the year.
- (2) Purchases from the five largest suppliers in aggregate accounted for approximately 59% of total purchases of the Group for the year.
- (3) Yinxing Company Limited, being the fifth 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 Listing Rules) 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, 2003 are set out in the accounts on page 35.

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\$1,282,457,000 at 31st December, 2003 (2002: HK\$1,366,467,000) be carried forward.

## RESERVES

Movements in reserves of the Company and the Group during the year are set out in Note 30 to the accounts.

## FIXED ASSETS

Movements in fixed assets during the year are set out in Note 14 to the accounts.

## SHARE CAPITAL

Details of the share capital of the Company are set out in Note 29 to the accounts.

## DIRECTORS

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

### Executive Directors

Lin Xizhong ( <i>Chairman</i> )	(Appointed on 12th January, 2004)
Xu Huizhong	
Qian Wenchao	(Appointed on 12th January, 2004)
Tang Xiaojin	(Appointed on 12th January, 2004)
Gao Dezhu	(Resigned on 12th January, 2004)
Lau Yat Ching	(Resigned on 12th January, 2004)
Xun Gao	(Resigned on 18th August, 2003)
Wang Xingdong	(Resigned on 12th January, 2004)
Deng Weihua	(Resigned on 12th January, 2004)

### Non-executive Directors

Xu Kaixing	(Resigned on 27th February, 2003)
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### Independent Non-executive Directors

Chan Wai Dune  
Ting Leung Huel, Stephen

In accordance with Article 101 of the Company's Articles of Association, Mr. Chan Wai Dune will retire by rotation and, being eligible, offer himself for re-election. In accordance with Article 85 of the Company's Articles of Association, Messrs. Lin Xizhong, Qian Wenchao and Tang Xiaojin will retire and, being eligible, offer themselves 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/SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES AND RIGHTS TO ACQUIRE SECURITIES**

As at 31st December, 2003, other than certain nominee shares in the subsidiaries held by the directors in trust for the Company and its subsidiaries, none of the directors had any interests or short positions (including interests/short positions which any such director is deemed or taken to have under the provisions of the Securities and Futures Ordinance ("SFO")) in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be entered into the register maintained by the Company under section 352 of the SFO, 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 period, 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 section under connected party transactions on page 30 of which Messrs. Gao Dezhu, Lau Yat Ching, Xun Gao and Wang Xingdong (Mr. Xun Gao resigned as a director of the Company with effect from 18th August, 2003 and Messrs. Gao Dezhu, Lau Yat Ching and Wang Xingdong resigned as directors of the Company with effect from 12th January, 2004) are both the directors of the Company and China Nonferrous Metals Group (Hong Kong) Limited (in liquidation), the former 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 section under connected party transactions on page 30, no significant contract concerning the management and administration of the Company was 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 following is a summary of the Scheme disclosed in accordance with the requirements of the Listing Rules:

1. The Scheme is established to recognise and acknowledge the contributions that eligible participants had made or may make to the Group in order to attract and retain high calibre employees of the Group.
2. The Company's board of directors may at its discretion grant options to any employees including directors of the Group.
3. Taking into account the effects of Capital Restructuring of the Company completed on 12th January, 2004, the number of shares available for issue under the Scheme is 45,865,961 shares representing approximately 7.55% of the issued share capital of the Company as at the date of this report.
4. The maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.
5. An option may be exercised in whole or in part at any time after the date on which the option is deemed to be granted and from time to time or before the date which is three years after such date.
6. A non-refundable remittance of HK\$10.00 by way of consideration for the grant of an option is required to be paid by each grantee upon acceptance of the option.
7. The exercise price is determined by the Company's board of directors and will not be less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five business days immediately preceding the date of granting of options or the nominal value of the shares, whichever is the higher.
8. The life of the Scheme is until 24th November, 2004.

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

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.

The Stock Exchange has introduced a number of changes to the Listing Rules on share option scheme which came into effect on 1st September, 2001. In view of the expiry of the Scheme on 24th November, 2004 and the compliance of the new rules, a resolution will be proposed at the forthcoming annual general meeting to adopt a new share option scheme.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS/SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY**

As at 31st December, 2003, the following persons had interests of 5% or more in the issued shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO:

<b>Name</b>	<b>Capacity</b>	<b>Number of shares/underlying shares held</b>	<b>Percentage of total issued shares</b>
China Minmetals Corporation ("Minmetals")*	Interest of controlled corporation (Notes 1 & 2)	475,376,917	36.02% (Note 3)
China Minmetals H.K. (Holdings) Limited ("Minmetals HK")	Interest of controlled corporation (Notes 1 & 2)	475,376,917	36.02% (Note 3)
Coppermine Resources Limited ("Coppermine")	Beneficial owner (Notes 1 & 2)	475,376,917	36.02% (Note 3)
The State Nonferrous Metals Industry Administration ("SNMIA")**	Interest of controlled corporation (Note 4)	376,989,943	28.57%
China Nonferrous Metals Holdings (Cook Islands) Limited ("CNCI")	Interest of controlled corporation (Note 4)	376,989,943	28.57%
China Nonferrous Metals Group (Hong Kong) Limited ("CNMG(HK)")***	Beneficial owner (Note 4)	376,989,943	28.57%

## SUBSTANTIAL SHAREHOLDERS' INTERESTS/SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY (cont'd)

- \* *With the approval from the State-Owned Assets Supervision and Administration Commission under the State Council of the PRC and the State Administration of Industry and Commerce of the PRC, the name of Minmetals has been changed from "China National Metals & Minerals Import & Export Corporation" to "China Minmetals Corporation" with effect from 18th January, 2004*
- \*\* *On 19th February, 2001, the State Economic and Trade Commission of the PRC promulgated that SNMIA was dissolved in the course of restructuring of the nonferrous metals industry in the PRC.*
- \*\*\* *The High Court of the Hong Kong Special Administrative Region issued an order for the winding up of CNMG(HK) on 8th May, 2002 and ordered that Messrs. John Lees and Desmond Chiong be appointed as the liquidators of CNMG(HK) on 19th June, 2002.*

### Notes:

- (1) Pursuant to the Subscription Agreement entered into between the Company and Coppermine on 15th October, 2003 and the respective ordinary resolution duly passed at the Extraordinary General Meeting of the Company held on 3rd December, 2003, whereby the Company had agreed to issue 475,376,917 shares of HK\$0.05 each to Coppermine and Coppermine had agreed to subscribe for such shares following the completion of the Capital Restructuring. Details of Subscription Agreement and the Capital Restructuring were disclosed in the circular jointly made by the Company, Coppermine and Minmetals HK dated 6th November, 2003.
- (2) Coppermine is a wholly-owned subsidiary of Minmetals HK which in turn is a wholly-owned subsidiary of Minmetals. Accordingly, Minmetals HK and Minmetals were by virtue of the SFO deemed to be interested in the 475,376,917 shares of HK\$0.05 each of the Company taken to be held by Coppermine under section 322(5) of the SFO as at 31st December, 2003. The completion of the Capital Restructuring took effect on 12th January, 2004.
- (3) The 475,376,917 shares was expressed as a percentage of the total number of the issued shares of HK\$0.10 each (i.e. 1,319,726,950 shares) of the Company as at 31st December, 2003.
- (4) CNMG(HK) was a wholly-owned subsidiary of CNCI which in turn was a wholly-owned subsidiary of SNMIA. Accordingly, CNCI and SNMIA were deemed to be interested in the 376,989,943 shares of the Company held by CNMG(HK) by virtue of the SFO.

Save as disclosed above, no other person was recorded in the register as having an interest or a short position in the shares and underlying shares of the Company in 5% or more of the issued shares of the Company as at 31st December, 2003.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the year ended 31st December, 2003, 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, 2003 are set out in Note 28 to the accounts. Interest of approximately HK\$7,139,000 (2002: HK\$1,620,000) was capitalised by the Group during the year.

## **RETIREMENT SCHEMES**

Details of the Group's retirement schemes are set out in Note 32 to the accounts.

## **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 Listing Rules throughout the year ended 31st December, 2003, 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 85 and 101 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 audit committee of the Company currently has two members comprising two independent non-executive directors, Mr. Chan Wai Dune (Chairman) and Mr. Ting Leung Huel, Stephen. 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 two meetings.



### CONNECTED PARTY TRANSACTIONS

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

The Company and China Nonferrous Metals Group (Hong Kong) Limited ("in liquidation") ("CNMG(HK)"), the former controlling shareholder of the Company, entered into an agreement on 12th May, 2000 (the "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. 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. A waiver was granted by the Stock Exchange on 6th July, 2000 from strict compliance with the connected transaction requirements as set out in Chapter 14 of the Listing Rules in respect of the Service Agreement subject to the fulfillment of certain conditions.

CNMG(HK) received a winding up order in May 2002 and is now in the process of liquidation. During the year, the liquidator of CNMG(HK), in accordance with the Service Agreement, charged the Company an amount of approximately HK\$450,000 for the administrative costs to be shared by the Company that had not been previously charged by CNMG(HK) for the period from 1st January, 2002 to 31st March, 2002.

### DE-MINIMIS CONCESSION

On 30th April, 2003, the Stock Exchange has approved the Company's application for the De-minimis Concession for the purpose of determining the "assets test" and the "consideration test" under Chapter 14 of the Listing Rules for classifying notifiable transactions (other than connected transactions) of the Company.

As such, the "assets test" and the "consideration test" will not apply to each transaction (other than connected transaction) carried out in the ordinary course of business of the Group, which is entered into on normal commercial terms, and where the aggregate consideration or value of the transaction does not exceed HK\$1,000,000, and such transaction will not be subject to shareholders' approval and disclosure requirements.

The Stock Exchange's approval for the use of the De-minimis Concession will remain valid from 30th April, 2003 until publication or the due date of publication of the Company's next annual report for the year ended 31st December, 2003, whichever is earlier.

As at 31st December, 2003, the Company had an audited consolidated net deficit of approximately HK\$262,000,000. Hence, the Company will make another application to the Stock Exchange for a De-minimis Concession in accordance to the Listing Rules.

## FINANCIAL ASSISTANCE AND GUARANTEE TO ASSOCIATED COMPANIES

As at 31st December, 2003, the Group's financial assistance to and guarantee given for the bank loan granted to its associated companies amounted to HK\$6 million (net of provision of approximately HK\$96 million) and HK\$24 million respectively, which in aggregate representing more than 25% of the net assets value of the Group as at 31st December, 2003 (the Group was in net liabilities). 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 associated companies as at 31st March, 2004 (being the latest practicable date for this report) is set out below:–

	<b>Proforma combined balance</b> HK\$ million	<b>The Group's attributable interest</b> HK\$ million
Non-current assets	164	41
Current assets	393	98
Current liabilities	(407)	(101)
Net current liabilities	(14)	(3)
Net assets	<b>150</b>	<b>38</b>
Share capital	94	24
Reserves	56	14
	<b>150</b>	<b>38</b>

All the above figures are unaudited.

## DIRECTORS AND MANAGEMENT

Particulars of directors and management are set out on pages 19 to 21 of this annual report.

### FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 85 and 86 of this annual report.

### AUDITORS

The accounts for the year ended 31st December, 2001 were audited by Arthur Andersen & Co. The accounts for the year ended 31st December, 2002 and 2003 were audited by PricewaterhouseCoopers who will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment.

By order of the Board

**Xu Huizhong**

*Director and President*

Hong Kong, 16th April, 2004