MANAGEMENT DISCUSSION AND ANALYSIS

Mr. Xu Huizhong
Director and President

RESULTS

Apart from exploring new business opportunities and taking measures to improve the returns from its direct industrial investments, the Group also endeavored to enhance its overall operating efficiency by rationalizing its structure and consolidating its business in 2004. Through all these efforts, the Group achieved substantial growth in profit for the year. At the beginning of 2004, the Group completed its debt restructuring and resolved the prolonged overdue bank debts problem. The financial position of the Group has improved significantly since then. Near the end of 2004, the Group announced the signing of a conditional acquisition agreement with a subsidiary of China Minmetals Corporation ("China Minmetals"), the Group's ultimate controlling shareholder, for the acquisition of its alumina and aluminium business (Please refer the Company's announcement dated 30 December 2004 for details). Through the acquisition, the Group aims to widen its alumina related operation by increasing its business scale and to strengthen its alumina trading operation as its core operation.

Group's turnover for the year of 2004 amounted to approximately HK$1,288.5 million, a slight drop of 5% from the corresponding period in 2003. Gross profit of the Group declined by 17% to approximately HK$192.9 million, primarily due to the reduction in the trading volume of alumina. However, because of the decrease in finance costs and increase in other operating income as well as the reversal of the consolidated losses arising from the liquidation of two under-performed subsidiaries, the consolidated profit attributable to shareholders for 2004 increased by 144% to approximately HK$217.7 million.

BUSINESS REVIEW

Trading Operation

Concerning about the trading operation in 2004, the Group still concentrated on alumina trading, which accounted for approximately 13% of the Group's total turnover for the year. Due to the macro-economic control policies and the strong demand for alumina in China, the prices of alumina in both the international and China markets saw a noticeable fluctuation in 2004. However, the prices still remained high and hence boosted the profit margin for alumina trading. Nevertheless, this positive effect was outweighed by the effect of the decrease in trade volume (from approximately 140,000 tonnes in 2003 to approximately 59,000 tonnes in 2004). The gross profit of the trading operation decreased by 31% when compared to 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Direct Industrial Investments

The Group's direct industrial investments are all located in the Mainland China and are mainly in the areas of aluminium refinery, copper refinery and plica tubes production. In 2004, with further consolidation, rationalization and more strengthened control, continued improvements were noted in these ventures. The overall turnover derived from the continuing operations of the direct industrial investments accounted for approximately 85% of the Group's total turnover and amounted to approximately HK$1,093.7 million, representing a 11% increase over last year. The net profits derived from the continuing operations of the direct industrial investments also increased significantly by 54%.

The performance of the direct industrial investments, which principally affected the Group's result for the year, is analysed as follows:

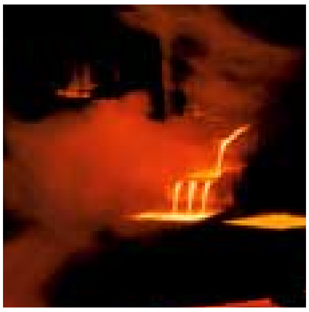
Aluminium Refinery

North China Aluminium Company Limited ("NCA")

NCA is owned as to 51% by the Group. NCA is mainly engaged in the production and sales of aluminium foils and extrusions. Its products were supplied to the electrical appliances, packaging, publishing and transportation sectors. Despite the severe competition in the aluminium foils market, NCA, by adjusting its product mix and reducing its production costs, still managed to achieve continuous growth in both turnover and profit in 2004. Its total sales volume increased by 3% to approximately 50,000 tonnes.

(Back row from left) Mr. Liu Hongru, Mr. Chan Wai Dune, Mr. Tang Xiaojin, Mr. Ting Leung Huel, Stephen
(Front row from left) Mr. Xu Huizhong, Mr. Lin Xizhong, Mr. Qian Wenchao

MANAGEMENT DISCUSSION AND ANALYSIS



Due to the fierce market competition, the profit margins of some products like light gauge aluminium foil, aluminium foil for beer mark and aluminium for decoration were under pressure. On the other hand, as a result of the enhancement in production technology, the contributions from products like hydrophilic fin stock and bare fin stock have improved.

To reinforce its competitive position in the market, NCA will continue to focus on research and development with a view to enhance its product quality and enrich its product variety. It will also take steps to integrate its resources, exploit market, expand production capacity and reduce production costs so as to further enhance its competitive power.

Copper Refinery and Plica Tubes Production

Yingkou Orienmet Plica Tube Company Limited ("YOPT")

YOPT is owned as to 51% by the Group. Its principal business is the manufacturing of flexible metal conduits, which are mainly used in construction, infrastructure, machinery engineering, power network as well as anti-explosion and increased-safety wiring system. Driven by the ongoing economic growth in China and in particular the rapid development of the infrastructure, the sales volume of plica tubes increased by 23% to approximately 2.06 million metre. Net profit of YOPT also increased by approximately 32%.

Foreseeing that the trend of price rise in raw materials may extend to 2005, YOPT has adopted various counter measures to alleviate the adverse effect on its profit.

MANAGEMENT DISCUSSION AND ANALYSIS

Changzhou Jinyuan Copper Company Limited ("CZJY")

CZJY is owned as to 25% by the Group and is specialised in the production of copper wire rods. The sharp rise and significant fluctuation in copper price, the soaring spot price of copper cathode, and the inflated costs in consumables caused a drastic increase in CZJY's production costs. High copper prices also drove up the demand for working capital, leading to an upsurge of finance costs. Despite these, CZJY has strived to expand its market in 2004 and achieved a 9% increase in its sales volume. And by adopting opportune marketing strategies, its earning for the year was better maintained, with a slight increase of approximately 2% in its net profit.

Besides, it is expected that because of the implementation of new copper rod production lines by some domestic manufacturers, the intensifying competition in the copper rod market may continue in 2005. To meet this challenge and attract new customers, CZJY has been adopting various measures including innovation of production processes, upgrade of production capacity, implementation of TPM (Total Productive Maintenance) project and strengthening of customer services, to promote its operating efficiency.

Discontinuing Operations

As disclosed in the 2003 Annual Report and the 2004 Interim Report of the Company, in order to optimise resources allocation and enhance return on investments, the Group has taken measures to rationalise its direct industrial investments from time to time. Two under-performed subsidiaries, namely Zhangzhou International Aluminium Container Company Limited ("ZIAC") and Yixing Jinfeng Copper Materials Company Limited ("YJCM"), were wound up in June 2004 and July 2004 respectively.

As ZIAC and YJCM in aggregate only accounted for approximately 6% of the Group's total turnover and 2% of the Group's total net profit for the year ended 31 December 2003, their termination would pose no material adverse impact on the Group and could enable the Group to concentrate its resources on more competitive and promising operations.

The operating results of ZIAC and YJCM, up to their respective dates of liquidation, were disclosed as discontinuing operations in the current reporting year. The net profit derived from discontinuing operations amounted to approximately HK$74.6 million, comprising: (i) the reversal of consolidated losses upon deconsolidation of ZIAC and YJCM of approximately HK$97.4 million and (ii) the Group's share of losses of ZIAC and YJCM up to their respective dates of liquidation of approximately HK$22.8 million in 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, Financial Resources and Gearing Ratio

The Group achieved a significant improvement in its financial position during the year. The shareholders' fund of the Group changed from a deficit of approximately HK$261.8 million as at 31 December 2003 to a surplus of approximately HK$422.0 million as at 31 December 2004, representing an increase of approximately HK$683.8 million. The substantial improvement in the overall net assets position of the Group was mainly attributable to (i) the restructuring of debts in an aggregate amount of approximately HK$466.7 million as a result of the acquisition of the Group by China Minmetals through its subsidiary in January 2004 and (ii) the consolidated profits of approximately HK$217.7 million recorded in 2004.

Net cash flow from operations during 2004 was approximately HK$123.0 million. As at 31 December 2004, the Group had cash in hand and cash deposits of approximately HK$190.9 million (all are unpledged except for the Renminbi deposits of approximately HK$14.6 million), of which approximately 66% and 32% were denominated in US dollars and Renminbi respectively, while the remaining was in Hong Kong dollars.

As at 31 December 2004, the Group's total outstanding bank loans amounted to approximately HK$313.2 million, of which approximately HK$94.3 million was repayable after one year. All the bank loans were denominated in Renminbi and at fixed interest rates. As compared to 2003, the total bank loans of the Group decreased by approximately HK$462.1 million, which was mainly due to the acquisition of certain bank loans by the subsidiary of China Minmetals during the course of its acquisition of the Group in January 2004.

As at 31 December 2004, the bank debt to equity ratio, which is measured as total bank loans (net of cash balances) as a proportion of shareholders' equity, was 29%.

Capital Expenditure

During the year, the Group's total capital expenditure was approximately HK$56.1 million, which was mainly used for the acquisition and upgrade of production facilities. The Group's outstanding commitments in this respect was approximately HK$64.8 million as at 31 December 2004 and the funding of which is scheduled to be settled by bank borrowings and internal funds.

Foreign Currency Risk

The Group did not enter into any foreign exchange contracts or related hedges during the year since the foreign currency risk exposure was minimal. The Group will continue to adhere to its prudent policy on financial risk management of currency exposure.

MANAGEMENT DISCUSSION AND ANALYSIS

Material Acquisition and Disposals of Subsidiaries and Associated Companies

Except for the liquidation of ZIAC and YJCM as disclosed above, there was no material acquisition or disposal of subsidiary or associated company during the year.

Employees

As at 31 December 2004, the Group employed approximately 2,500 staff (excluding the staff of associated companies). The total staff costs (including the directors' emoluments) for the year was approximately HK$70.5 million. The Group adopts a pay policy in line with market practice. Apart from the general remuneration package, the Group also grants share options and discretionary bonuses to eligible staff based on their performance and contribution to the Group. The Group regards quality staff as one of the key factors to corporate success. Various forms of professional training are provided to employees as and when required.