

NOTES TO THE ACCOUNTS

1. ORGANISATION AND OPERATIONS

Oriental Metals (Holdings) Company Limited (the "Company") was incorporated in Hong Kong on 29 July 1988.

The Company is an investment holding company. Its subsidiaries and associated companies are principally engaged in the trading of nonferrous metals and the manufacturing and distribution of aluminium and copper products.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, all investment properties and certain land and buildings are stated at revalued amounts.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(b) Group accounting *(cont'd)*

(i) Consolidation *(cont'd)*

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of subsidiaries represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill or goodwill/negative goodwill taken to reserves and which was not previously charged or recognised in the consolidated profit and loss account and any related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(b) Group accounting *(cont'd)*

(ii) Associated companies *(cont'd)*

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies; unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and associated companies expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition.

Goodwill is amortised using the straight-line method over its estimated useful life.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(d) Fixed assets

(i) *Investment properties*

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Upon the disposal of an investment property, the relevant portion of the revaluation reserve realised in respect of previous valuations is released from the investment properties revaluation reserve to the profit and loss account.

(ii) *Land and buildings*

Land and buildings are stated at cost or their revalued amounts, being their fair values at the date of revaluation, less accumulated depreciation and accumulated impairment losses.

The Group has taken advantage of the transitional provisions set out in paragraph 80 of Statement of Standard Accounting Practice 17, "Property, Plant and Equipment" issued by the HKICPA, with the effect that certain land and buildings are stated at their revalued amounts, which were determined prior to 30 September 1995 and have not been updated to reflect their fair values at the balance sheet date.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

(d) Fixed assets (cont'd)

(iii) Other fixed assets

Other fixed assets, comprising leasehold improvements, plant and machinery, office equipment, furniture and fixtures and motor vehicles are stated at cost less accumulated depreciation and accumulated impairment losses.

(iv) Construction in progress

Construction in progress is stated at cost less accumulated impairment losses. Cost includes all attributable costs of bringing the asset to working condition for its intended use. This includes direct costs of construction as well as interest expense capitalised during the period of construction and installation. Capitalisation of these costs will cease and the construction in progress is transferred to fixed assets when the construction activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress.

(v) Depreciation

Leasehold land is stated at cost or revalued amount less accumulated amortisation and impairment losses. It is amortised over the remaining period of the lease. Other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Buildings	2% - 5%
Leasehold improvements	20% or over the unexpired period of the leases, whichever is shorter
Plant and machinery	6% - 14%
Office equipment	20%
Furniture and fixtures	20%
Motor vehicles	33%

Costs incurred in restoring fixed assets to their normal working condition are charged to the profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(d) Fixed assets *(cont'd)*

(vi) *Impairment and gain or loss on sale*

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account except where the asset is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease.

The gain or loss on disposal of a fixed asset other than investment properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

(e) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(f) Inventories

Inventories comprise stocks and work in progress and are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(g) Trade and other receivables

Provision is made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables in the balance sheet are stated net of such provision.

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(i) Government grants

A government grant is recognised as deferred income, when there is reasonable assurance that the Group will comply with the conditions attaching with it and that the grant will be received.

Grants relating to income are deferred and recognised in the profit and loss account on a systematic basis to match with the related costs which they are intended to compensate.

Government grants relating to purchase of fixed assets are included in non-current liabilities as deferred income and are credited to the profit and loss account on a straight-line basis over the expected useful lives of the related assets.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(k) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When the inflow is virtually certain, an asset is recognised.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(m) Revenue recognition

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownerships, which generally coincides with the time when the goods are delivered to customers and title has passed.

Income from the provision of sub-contracting services is recognised when related services are rendered.

Dividend income is recognised when the right to receive payment is established.

Operating lease rental income is recognised on a straight-line basis over the lease periods.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Employee benefits

(i) *Employee leave entitlements*

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) *Pension obligations*

The Group participates in a number of defined contribution pension schemes, the assets of which are generally held in separate trustee-administered funds. The pension schemes are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution pension schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES *(cont'd)*

(n) Employee benefits *(cont'd)*

(iii) Equity compensation benefits

Share options are granted to directors and to employees at the discretion of directors. No employee benefit cost is recognised when options are granted. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital and share premium.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss on a straight-line basis over the lease periods.

(q) Segment reporting

In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories, receivables and operating cash, and mainly exclude investment securities and deferred tax assets. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings. Capital expenditure mainly comprises additions to fixed assets and construction in progress, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the trading of nonferrous metals and the manufacturing and distribution of aluminium and copper products. Revenues recognised during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Turnover		
Sale of goods, net of value-added tax, returns and discounts	1,288,485	1,363,072
Other revenues		
Sales of by-products	1,025	1,148
Service income	2,614	3,135
Rental income from investment properties	139	–
Interest income	1,761	690
	5,539	4,973
Total revenues	1,294,024	1,368,045

(a) Primary reporting format - Business segments

The Group's operations comprise the following main business segments:

Trading:	Trading of nonferrous metals
Aluminium refinery:	Production and sale of aluminium foils and extrusions, aluminium cans and containers and packaging products
Copper refinery and plica tubes production:	Production and sale of plica tubes, copper rods, copper wires, copper cathodes and copper blisters

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(a) Primary reporting format - Business segments (cont'd)

There are no sales or other transactions between the business segments.

	Continuing operations								Discontinuing operations				Total	
	Copper refinery and Aluminium tubes production								Aluminium cans production		Copper wires production			
	Trading		Aluminium refinery		Corporate and others									
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Revenues														
Sales and manufacturing of nonferrous metals and related products	164,778	296,470	1,058,593	959,292	35,106	27,608	-	-	30,008	76,832	-	2,870	1,288,485	1,363,072
Other revenues	150	1	3,000	3,558	588	913	1,437	251	364	250	-	-	5,539	4,973
Results														
Segment results	87,158	100,355	47,138	27,171	9,690	8,308	31,407	(23,476)	70,637	10,572	6,209	(4,489)	252,239	118,441
Finance costs													(16,403)	(38,195)
Share of profits less losses of associated companies	-	-	772	1,114	9,500	10,207	-	-	-	-	-	-	10,272	11,321
Taxation (charge)/credit													(11,688)	6,470
Minority interests													(16,694)	(8,835)
Profit attributable to shareholders													217,726	89,202
Other information														
Segment assets	119,074	98,050	914,005	881,486	25,230	21,617	164,816	10,413	-	32,719	-	2,178	1,223,125	1,046,463
Interests in associated companies	-	-	645	6,941	42,414	41,180	-	-	-	-	-	-	43,059	48,121
Investment securities													-	2,217
Deferred tax assets													7,843	12,916
Total assets													1,274,027	1,109,717
Segment liabilities	60,216	21,403	548,481	554,564	29,556	30,951	20,085	480,406	-	102,340	-	8,312	658,338	1,197,976
Taxation payable													14,721	8,389
Total liabilities													673,059	1,206,365
Capital expenditures	-	-	54,662	122,176	1,083	-	355	418	-	35	-	-	56,100	122,629
Depreciation	2	5	31,746	40,431	5,135	151	404	327	4,461	4,415	-	905	41,748	46,234
Non-cash (income)/expenses other than depreciation	(14,257)	3,801	(10,644)	(595)	(624)	(423)	(39,984)	8,173	5,873	(3,343)	(1,042)	366	(60,678)	7,979
(Reversal of provision for)/provision for impairment losses, net	-	-	(281)	3,412	(4,373)	651	607	(1,916)	2,038	-	(4,526)	-	(6,535)	2,147

NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUE AND SEGMENT INFORMATION (cont'd)

(b) Geographical segments

The Group's activities are conducted predominately in the People's Republic of China (the "PRC") except that a small portion of its turnover is derived from other countries.

There are no sales between the geographical segments.

	PRC		Hong Kong		Singapore		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
External revenues	1,051,363	1,141,784	3,686	744	164,778	-	68,658	220,544	1,288,485	1,363,072
Contribution to gross profit	114,906	157,979	402	94	70,147	-	7,492	74,712	192,947	232,785
Capital expenditures	55,745	122,211	355	418	-	-	-	-	56,100	122,629
Segment assets	1,006,135	954,137	137,851	92,326	79,139	-	-	-	1,223,125	1,046,463

4. DISCONTINUING OPERATIONS

On 15 April 2004, the Company announced that certain investors of Zhangzhou International Aluminium Container Company Limited ("ZIAC"), a 60% owned subsidiary of the Group engaging in the manufacturing of aluminium cans, had filed an application to the relevant PRC government authorities to wind up its business prior to the expiration of its joint venture period in September 2004. ZIAC received the winding up order from the PRC court and began its liquidation process on 28 June 2004.

On 11 June 2004, the Company announced that the board of directors of Yixing Jinfeng Copper Materials Company Limited ("YJCM"), a 58% owned subsidiary of the Group engaging in the production and sale of copper wires, had passed a resolution to wind up its business prior to the expiration of its joint venture period pursuant to the termination clause stipulated in its articles of association. YJCM received winding up order from the PRC court on 30 July 2004. The liquidation process of YJCM was completed on 20 November 2004.

ZIAC and YJCM were deconsolidated from the Group and a reversal of accumulated consolidated losses of approximately HK\$97,350,000 was recorded during the year ended 31 December 2004, which represents the release of the Group's share of the subsidiaries' net liabilities and exchange reserve. The operating results of the subsidiaries (up to their liquidation dates) were reported as discontinuing operations in the accounts.

NOTES TO THE ACCOUNTS

4. DISCONTINUING OPERATIONS (cont'd)

The sales, results, cash flows and net liabilities of YJCM and ZIAC are as follows:

	YJCM		ZIAC		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Turnover	-	2,870	30,008	76,832	30,008	79,702
Cost of sales	-	(4,858)	(33,119)	(65,121)	(33,119)	(69,979)
Gross (loss)/profit	-	(1,988)	(3,111)	11,711	(3,111)	9,723
Other revenues	-	-	364	250	364	250
	-	(1,988)	(2,747)	11,961	(2,747)	9,973
Selling expenses	-	(185)	(851)	(1,341)	(851)	(1,526)
Administrative expenses	(141)	(1,950)	(9,491)	(3,391)	(9,632)	(5,341)
Other operating income/(expenses)	645	(366)	(7,919)	3,343	(7,274)	2,977
Profit/(loss) from operations	504	(4,489)	(21,008)	10,572	(20,504)	6,083
Finance costs	-	(60)	(2,279)	(4,185)	(2,279)	(4,245)
Profit/(loss) before taxation	504	(4,549)	(23,287)	6,387	(22,783)	1,838
Taxation	-	-	-	-	-	-
Profit/(loss) after taxation	504	(4,549)	(23,287)	6,387	(22,783)	1,838
Net operating cash inflow/(outflow)	325	(970)	(1,483)	(201)	(1,158)	(1,171)
Net investing cash inflow/(outflow)	1,745	-	-	(35)	1,745	(35)
Net financing cash (outflow)/inflow	(2,100)	922	(1,839)	(2,035)	(3,939)	(1,113)
Total net cash outflow	(30)	(48)	(3,322)	(2,271)	(3,352)	(2,319)
Non-current assets	-	2,142	-	6,500	-	8,642
Current assets	-	36	-	28,257	-	28,293
Total assets	-	2,178	-	34,757	-	36,935
Total liabilities	-	(8,312)	-	(102,340)	-	(110,652)
Net liabilities	-	(6,134)	-	(67,583)	-	(73,717)

NOTES TO THE ACCOUNTS

5. OTHER OPERATING INCOME/(EXPENSES)

	2004 HK\$'000	2003 HK\$'000
Reversal of provision for/(provision for) bad and doubtful debts		
– Amounts due from fellow subsidiaries	24,959	–
– Receivables and prepayments	24,161	5,208
– Amounts due from associated companies	1,885	(14,571)
Trade payables waived by creditors	9,673	–
(Provision for)/reversal of provision for impairment loss on fixed assets and construction in progress		
– Land and buildings	(481)	1,194
– Others	8,975	(3,412)
Gain on disposal of investment securities	119	–
Loss on disposal of fixed assets	(4,884)	(579)
(Provision for)/reversal of provision for impairment in value of investment securities	(1,959)	71
Compensation income	–	2,457
Reversal of provision for compensation in respect of outstanding claims and litigation	–	1,384
Waiver of directors' emoluments	–	650
Loss on disposal of construction in progress	–	(1,259)
Others	2,163	3,900
	64,611	(4,957)

NOTES TO THE ACCOUNTS

6. PROFIT FROM OPERATIONS

Profit from operations is determined after charging/(crediting) the following:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Auditors' remuneration	900	1,000
Depreciation	41,748	46,234
Provision for/(reversal of provision for) inventory obsolescence	2,500	(658)
Staff costs (including directors' emoluments)	70,520	48,145
Operating lease rentals on land and buildings	2,359	1,140
Exchange loss, net	121	86

7. FINANCE COSTS

	2004 HK\$'000	2003 <i>HK\$'000</i>
Bank loans wholly repayable within five years	23,360	43,304
Other loans wholly repayable within five years	33	2,030
	23,393	45,334
Less: Interest capitalised in construction in progress	(6,990)	(7,139)
	16,403	38,195

The capitalisation rate applied to funds borrowed and used for construction in progress is 5.58% (2003: 5.58%) per annum.

NOTES TO THE ACCOUNTS

8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

In accordance with relevant income tax laws and regulations applicable to sino-foreign equity joint ventures in the PRC, the Group's PRC subsidiaries are exempt from Enterprise Income Tax for two years starting from their first profit-making year, after offsetting tax losses brought forward from the previous five years, if any, followed by a 50% reduction in the tax rate for the immediate next three years.

The tax exemption and reduction period of one of the PRC subsidiaries expired in 2001 and it is currently subject to Enterprise Income Tax at a tax rate of 33%. All other PRC subsidiaries still enjoy full tax exemption for the year ended 31 December 2004.

The amounts of taxation charged/(credited) to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Current taxation:		
– Hong Kong profits tax	–	319
– PRC Enterprise Income Tax	5,486	4,049
– Overprovision in prior years	(8)	–
Deferred taxation relating to the origination and reversal of temporary differences	5,073	(12,916)
	10,551	(8,548)
Share of taxation attributable to associated companies	1,137	2,078
Taxation charge/(credit)	11,688	(6,470)

NOTES TO THE ACCOUNTS

8. TAXATION (cont'd)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	246,108	91,567
Calculated at a taxation rate of 17.5% (2003: 17.5%)	43,069	16,024
Effect of different taxation rates in other countries	3,395	2,082
Effect of tax exemption	(2,507)	(3,098)
Income not subject to taxation	(38,423)	(6,257)
Expenses not deductible for taxation purposes	6,433	6,076
Utilisation of unrecognised tax losses	(7,472)	(23,238)
Unrecognised tax losses	7,184	2,578
Overprovision in prior years	(8)	–
Others	17	(637)
Taxation charge/(credit)	11,688	(6,470)

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of HK\$156,002,000 (2003: HK\$75,255,000).

10. DIVIDENDS

No interim dividend was paid and the directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2004 (2003: Nil).

NOTES TO THE ACCOUNTS

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$217,726,000 (2003: HK\$89,202,000) and the weighted average number of 593,062,328 ordinary shares (2003: 131,972,695 ordinary shares) in issue during the year, after adjusting for the share consolidation as disclosed in Note 28.

The calculation of basic earnings per share from continuing operations is based on the Group's profit attributable to shareholders from continuing operations of approximately HK\$143,159,000 (2003: HK\$87,364,000) and the same denominator used in the calculation of the basic earnings per share above.

No disclosure of diluted earnings per share or diluted earnings per share from continuing operations has been presented because:

- (a) the effect is anti-dilutive for the year ended 31 December 2004 (the exercise price of the Company's options was higher than the average market price for the shares); and
- (b) there were no potential dilutive shares in existence as at 31 December 2003.

12. STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Staff costs, including directors' emoluments, consist of:		
Wages and salaries	59,879	40,439
Long service payment	-	19
Retirement scheme contributions (<i>see Note 31</i>)	10,641	7,687
	70,520	48,145

NOTES TO THE ACCOUNTS

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Executive directors		
Fees	-	-
Salaries and other emoluments	2,544	4,112
Independent non-executive directors		
Fees	615	610
	3,159	4,722

During the year, no director waived emoluments (2003: one director waived emoluments of HK\$650,000) and no emoluments were paid or payable by the Group to any directors as an inducement to join or as compensation for loss of office.

Emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil - HK\$1,000,000	10	6
HK\$1,000,001 - HK\$1,500,000	1	2
HK\$1,500,001 - HK\$2,000,000	-	1
	11	9

NOTES TO THE ACCOUNTS

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (cont'd)

Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2003: three) executive directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2003: two) individuals during the year are as follows:

	2004 HK\$'000	2003 <i>HK\$'000</i>
Salaries and other emoluments	1,592	1,157
Retirement scheme contributions	51	45
	<u>1,643</u>	<u>1,202</u>

The emoluments fell within the following band:

	Number of individuals	
	2004	2003
Nil - HK\$1,000,000	<u>3</u>	<u>2</u>

During the year, no emoluments were paid or payable by the Group to the five highest-paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE ACCOUNTS

14. FIXED ASSETS

(a) The Group

	Land and buildings	Investment properties	Leasehold improve- ments	Plant and machinery	Office equipment	Furniture and fixtures	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost or valuation								
At 1 January 2004	245,778	-	1,053	733,491	7,231	18,538	18,121	1,024,212
Additions	611	-	43	6,912	225	516	2,553	10,860
Transfer from construction in progress	9,697	-	-	41,710	-	-	234	51,641
Reclassification	(24,744)	6,869	-	653	25	(308)	393	(17,112)
Revaluation (note 29)	-	221	-	-	-	-	-	221
Deconsolidation of subsidiaries	(69,081)	-	-	(261,621)	-	(1,844)	(1,741)	(334,287)
Disposals	(6,777)	-	-	(8,902)	(1,078)	(1,722)	(2,178)	(20,657)
At 31 December 2004	155,484	7,090	1,096	512,243	6,403	15,180	17,382	714,878
Analysis of cost or valuation is as follows:								
At cost	154,834	-	1,096	512,243	6,403	15,180	17,382	707,138
At valuation - 1994	650	-	-	-	-	-	-	650
At valuation - 2004	-	7,090	-	-	-	-	-	7,090
	155,484	7,090	1,096	512,243	6,403	15,180	17,382	714,878
Accumulated depreciation and impairment losses								
At 1 January 2004	134,037	-	846	568,969	4,459	14,066	15,498	737,875
Charge for the year	10,061	-	74	29,254	319	966	1,074	41,748
Reclassification	(17,221)	-	-	(17)	4	(298)	420	(17,112)
Deconsolidation of subsidiaries	(69,081)	-	-	(261,621)	-	(1,844)	(1,741)	(334,287)
Disposals	(2,950)	-	-	(5,446)	(1,066)	(1,641)	(2,051)	(13,154)
(Reversal of)/provision for impairment charge	481	-	-	(8,689)	65	(108)	(205)	(8,456)
At 31 December 2004	55,327	-	920	322,450	3,781	11,141	12,995	406,614
Net book value								
At 31 December 2004	100,157	7,090	176	189,793	2,622	4,039	4,387	308,264
At 31 December 2003	111,741	-	207	164,522	2,772	4,472	2,623	286,337

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (cont'd)

(b) The Company

	Land and buildings HK\$'000	Investment properties HK\$'000	Leasehold improve- ments HK\$'000	Furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost or valuation						
At 1 January 2004	26,073	–	1,057	1,933	1,440	30,503
Additions	–	–	39	310	–	349
Reclassification	(20,781)	5,783	–	–	–	(14,998)
Revaluation (note 29)	–	207	–	–	–	207
Disposals	–	–	–	(1,364)	–	(1,364)
At 31 December 2004	5,292	5,990	1,096	879	1,440	14,697
Analysis of cost or valuation is as follows:						
At cost	4,642	–	1,096	879	1,440	8,057
At valuation – 1994	650	–	–	–	–	650
At valuation – 2004	–	5,990	–	–	–	5,990
	5,292	5,990	1,096	879	1,440	14,697
Accumulated depreciation and impairment losses						
At 1 January 2004	18,373	–	849	1,745	1,440	22,407
Charge for the year	137	–	71	176	–	384
Reclassification	(14,998)	–	–	–	–	(14,998)
Disposals	–	–	–	(1,355)	–	(1,355)
Provision for impairment charge	686	–	–	–	–	686
At 31 December 2004	4,198	–	920	566	1,440	7,124
Net book value						
At 31 December 2004	1,094	5,990	176	313	–	7,573
At 31 December 2003	7,700	–	208	188	–	8,096

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (cont'd)

- (c) The carrying amounts of land and buildings and investment properties are analysed as follows:

	The Group			2003 Land and buildings HK\$'000
	2004	2004	2004	
	Land and buildings HK\$'000	Investment properties HK\$'000	Total HK\$'000	
Held in Hong Kong on long-term leases (over 50 years)	298	-	298	250
Held in the PRC on - short-term leases (less than 10 years)	-	-	-	7,498
- medium-term leases (10 - 50 years)	99,859	7,090	106,949	103,993
	100,157	7,090	107,247	111,741

	The Company			2003 Land and buildings HK\$'000
	2004	2004	2004	
	Land and buildings HK\$'000	Investment properties HK\$'000	Total HK\$'000	
Held in Hong Kong on long-term leases (over 50 years)	298	-	298	250
Held in the PRC on medium-term leases (10 - 50 years)	796	5,990	6,786	7,450
	1,094	5,990	7,084	7,700

NOTES TO THE ACCOUNTS

14. FIXED ASSETS (cont'd)

- (d) All investment properties were revaluated at 31 December 2004 on an open market value basis by CB Richard Ellis Limited, an independent firm of registered professional surveyors.

Certain land and buildings were revalued at 30 September 1994 on an open market basis by Debenham Tie Leung, an independent firm of registered professional surveyors and valuers. The Group has taken advantage of the transitional provisions set out in paragraph 80 of SSAP 17, "Property, Plant and Equipment" issued by the HKICPA, with the effect that such land and buildings are stated at their revalued amounts, which were determined prior to 30 September 1995 and have not been updated to reflect their fair values at the balance sheet date, less accumulated depreciation and any impairment losses.

The carrying amounts of the land and buildings that would have been included in the accounts had they been carried at cost less accumulated depreciation and accumulated impairment losses are as follows:

	2004 HK\$'000	2003 HK\$'000
The Group	<u>59</u>	<u>2,710</u>
The Company	<u>59</u>	<u>2,266</u>

- (e) Certain fixed assets of the Group with a total net book value of approximately HK\$207 million (2003: HK\$258 million) are mortgaged to certain banks to secure banking facilities of the Group (see Note 27).

NOTES TO THE ACCOUNTS

15. CONSTRUCTION IN PROGRESS

	The Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	202,381	84,892
Additions	52,230	119,256
Transfer to fixed assets	(51,641)	(508)
Reversal of impairment charges	38	–
Disposals	–	(1,259)
At 31 December	203,008	202,381

- (a) During the year, interest expense of approximately HK\$6,990,000 (2003: HK\$7,139,000) was capitalised and included in additions to construction in progress.
- (b) Certain construction in progress of the Group with a total net book value of approximately HK\$203 million (2003: HK\$190 million) are mortgaged to certain banks to secure banking facilities of the Group (see Note 27).

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2004 HK\$'000	2003 HK\$'000
Investments at cost		
Unlisted shares/investments	18,943	18,943
Less: Provision for impairment in value	(18,163)	(18,163)
	780	780
Amounts due from subsidiaries (Note (i))	1,278,632	1,302,831
Less: Provision for doubtful debts	(987,204)	(1,117,794)
	291,428	185,037
Amounts due to subsidiaries (Note (i))	(64,077)	(67,017)
	228,131	118,800
Note:		

- (i) The amounts due from/to subsidiaries are unsecured, interest-free and not repayable within one year.

NOTES TO THE ACCOUNTS

16. INVESTMENTS IN SUBSIDIARIES (cont'd)

The following is a list of the principal subsidiaries as at 31 December 2004:

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued or paid-up capital ¹	Proportion of issued capital held by the Company	
				Directly	Indirectly
Oriental Copper Company Limited	Hong Kong	Nonferrous metals trading	28,800 shares of HK\$100 each	100%	–
Taiway Enterprises Limited	Hong Kong	Property holding	2 shares of HK\$1 each	100%	–
Orienmet Industry Company Limited	Hong Kong	Investment holding	5,000,000 shares of HK\$1 each	100%	–
Orienmet Aluminium Company Limited	Hong Kong	Inactive during the year	28,800 shares of HK\$100 each	100%	–
Orienmet Minerals Company Limited	Hong Kong	Inactive during the year	1,880,000 shares of HK\$1 each	100%	–
North China Aluminium Company Limited ²	PRC	Production and sale of aluminium foils and extrusions	Rmb344,800,000	–	51%
Yingkou Orienmet Plica Tube Company Limited ²	PRC	Production and sale of copper plica tubes	US\$4,000,000	–	51%

Notes:

- 1 The class of shares held is ordinary.
- 2 These are sino-foreign equity joint ventures registered under the laws of the PRC and their statutory accounts are not audited by PricewaterhouseCoopers.

NOTES TO THE ACCOUNTS

17. INTERESTS IN ASSOCIATED COMPANIES AND AMOUNTS DUE TO ASSOCIATED COMPANIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Share of net assets	42,838	42,272
Amounts due from associated companies <i>(Note (i))</i>	46,048	101,668
Less: Provision for doubtful debts	(45,827)	(95,819)
	221	5,849
	43,059	48,121
Amounts due to associated companies <i>(Note (i))</i>	-	7,250

Note:

- (i) The amounts due from/to associated companies are unsecured, interest-free and have no fixed terms of repayment.

The Group's share of the accumulated post-acquisition losses of associated companies as at 31 December 2004 was approximately HK\$237 million (2003: HK\$244 million).

Supplementary financial information of a major 25% owned associated company is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Balance sheet		
Non-current assets	131,698	142,570
Current assets	423,530	391,644
Non-current liabilities	5,243	3,594
Current liabilities	380,311	389,281
Profit and loss account		
Turnover	2,845,045	1,801,879
Profit before taxation	37,999	40,826
Profit after taxation	34,577	33,993

This associated company had no material contingent liabilities as at 31 December 2004 and 2003.

NOTES TO THE ACCOUNTS

17. INTERESTS IN ASSOCIATED COMPANIES AND AMOUNTS DUE TO ASSOCIATED COMPANIES (cont'd)

The following is a list of the principal associated companies as at 31 December 2004:

Name of company	Place of incorporation/ operation	Principal activities	Particulars of paid up capital	Proportion of equity capital held by the Company indirectly
Changzhou Jinyuan Copper Company Limited	PRC	Production and sale of copper rods	Rmb100,000,000	25%
Huludao Orienmet Copper Company Limited ¹	PRC	Production and sale of copper blisters	US\$46,600,000	30%
Qingdao M.C. Packaging Limited ¹	PRC	Production and sale of aluminium cans	US\$25,000,000	20%
Shanghai Jing Bao Copper Foil Limited ¹	PRC	Production and sale of copper foils	Rmb29,450,000	25%
Yantai Penghui Copper Industry Company Limited ¹	PRC	Production and sale of copper cathodes	Rmb132,000,000	42%
Yin Fa Transportation Company Limited ¹	PRC	Provision of transportation services	Rmb800,000	43%

Notes:

- 1 Statutory accounts of these companies are not audited by PricewaterhouseCoopers.
- 2 All of the above associated companies are sino-foreign equity joint ventures registered under the laws of the PRC.

NOTES TO THE ACCOUNTS

18. INVESTMENT SECURITIES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	-	2,538	-	-
Less: Provision for impairment in value	-	(500)	-	-
	-	2,038	-	-
Listed investments, at cost	24	64,443	24	64,443
Less: Provision for impairment in value	(24)	(64,264)	(24)	(64,264)
	-	179	-	179
	-	2,217	-	179
Listed in Hong Kong at carrying value	-	179	-	179
Quoted market value of listed securities	-	179	-	179

19. LONG-TERM RECEIVABLES

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Long-term receivables	4,717	5,592	-	200
Less: Provision for doubtful debts	-	(200)	-	(200)
	4,717	5,392	-	-

Long-term receivables of the Group and of the Company are unsecured, interest-free and not repayable within one year.

NOTES TO THE ACCOUNTS

20. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

The movements on the deferred tax assets account are as follows:

	The Group							
	Impairment of assets		Tax losses		Others		Total	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At 1 January	2,037	-	7,009	-	3,870	-	12,916	-
Credited/(charged) to profit and loss account	2,315	2,037	(7,009)	7,009	(379)	3,870	(5,073)	12,916
At 31 December	4,352	2,037	-	7,009	3,491	3,870	7,843	12,916

Deferred tax assets are recognised for tax losses carry forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK\$300 million (2003: HK\$362 million) to carry forward against future taxable income. Deferred tax assets for these tax losses are not recognised as it is not probable for the related tax assets to be realised. The tax losses will not expire under current tax legislation.

21. INVENTORIES

	The Group	
	2004 HK\$'000	2003 HK\$'000
Raw materials	44,155	95,418
Work in progress	100,738	21,331
Finished goods	79,625	53,871
	224,518	170,620

As at 31 December 2004, the carrying amount of finished goods that are carried at their net realisable values amounted to HK\$5 million (2003: HK\$5 million).

NOTES TO THE ACCOUNTS

22. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

The Group normally grants a credit period ranging from 30 days to 90 days to its trade customers. Included in the Group's trade receivables, prepayments and other receivables are trade receivables balance, net of provision for doubtful debts, of approximately HK\$217,655,000 (2003: HK\$179,595,000). An aging analysis of such trade receivables is shown as follows:

	The Group			
	2004		2003	
	HK\$'000	%	HK\$'000	%
Less than 6 months	199,290	92	177,074	98
6 months – 1 year	7,729	4	2,145	1
Over 1 year	10,636	4	376	1
	217,655	100	179,595	100

23. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

The amounts due from fellow subsidiaries are unsecured, interest-free and repayable on demand.

24. TRADE PAYABLES AND ACCRUED CHARGES

Included in the Group's trade payables and accrued charges are trade payables balance of approximately HK\$125,399,000 (2003: HK\$111,178,000). An aging analysis of such trade payables is shown as follows:

	The Group			
	2004		2003	
	HK\$'000	%	HK\$'000	%
Less than 6 months	112,583	90	98,953	89
6 months – 1 year	4,631	4	2,226	2
1 – 2 years	5,247	4	5	–
Over 2 years	2,938	2	9,994	9
	125,399	100	111,178	100

NOTES TO THE ACCOUNTS

25. TAXATION PAYABLE

Taxation payable represents:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Provision for Hong Kong profits tax	512	831	-	319
Provision for PRC Enterprise Income Tax	14,209	7,558	-	-
	14,721	8,389	-	319

26. PROVISION

Movements of provision for compensation in respect of outstanding claims and litigation are as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
At 1 January	7,501	9,315
Less: Amount utilised	-	(430)
Reversal of unutilised amounts	-	(1,384)
Deconsolidation of a subsidiary under liquidation	(709)	-
At 31 December	6,792	7,501

NOTES TO THE ACCOUNTS

27. BANK LOANS

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Payable within one year or on demand				
Secured bank loans	206,605	218,558	-	-
Unsecured bank loans	12,263	419,956	-	379,013
Included under current liabilities	218,868	638,514	-	379,013
Repayable in the second year				
Secured bank loans	47,170	14,151	-	-
Repayable in the third to fifth year				
Secured bank loans	47,170	122,641	-	-
Included under non-current liabilities	94,340	136,792	-	-
	313,208	775,306	-	379,013

As at 31 December 2004, certain fixed assets and construction in progress of the Group with a total net book value of approximately HK\$410 million (2003: HK\$448 million) and bank deposits of approximately HK\$14,648,000 (2003: HK\$9,892,000) were pledged to banks to secure certain banking facilities of the Group.

Upon completion of the Group's restructuring on 12 January 2004, certain bank loans and accrued interest of the Group of approximately HK\$420,427,000 were purchased by Coppermine Resources Limited ("Coppermine") (the debts purchaser in the restructuring and the Company's existing immediate holding company) and were subsequently settled by the Group by the issuance of new shares of the Company to Coppermine (see Note 28).

NOTES TO THE ACCOUNTS

28. SHARE CAPITAL

	Number of shares			
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Authorised:				
Ordinary shares of HK\$0.05 each (2003: HK\$0.1 each)	6,000,000	3,000,000	300,000	300,000
Issued and fully paid:				
Ordinary shares of HK\$0.05 each (2003: HK\$0.1 each)	607,350	1,319,727	30,367	131,973

On 3 December 2003, the Company passed a resolution to combine 10 ordinary shares of HK\$0.1 each into one ordinary share of HK\$1 each (the "Share Consolidation"), and to reduce the nominal value of each ordinary share of HK\$1 each to HK\$0.05 each (the "Capital Reduction"). Immediately following the Share Consolidation and Capital Reduction, the Company increased and restored its authorised share capital to HK\$300,000,000 by the creation of an additional 5,700,000,000 ordinary shares of HK\$0.05 each. The Capital Reduction was approved by the High Court and became effective on 6 January 2004.

Pursuant to the resolution passed by the Company on 3 December 2003 and the subscription agreement signed between the Company and Coppermine, the Company issued 475,376,917 shares of HK\$0.05 each to Coppermine on 12 January 2004 for a consideration of HK\$418,331,000 (of which HK\$23,768,000 was credited to share capital and HK\$394,563,000 was credited to share premium account). The subscription consideration was settled by setting off the Company's debt of HK\$466,711,000 acquired by Coppermine. The remaining portion of HK\$48,380,000 was waived by Coppermine and credited to capital reserve account of the Company.

NOTES TO THE ACCOUNTS

29. RESERVES

(a) The Group

	Share premium HK\$'000	Capital reserve HK\$'000	Special capital reserve (Note (e)) HK\$'000	Revaluation reserve HK\$'000	General reserve HK\$'000	PRC statutory reserves (Notes (c) & (d)) HK\$'000	Exchange translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	800,030	-	-	496	15,600	64,422	2,877	(1,366,467)	(483,042)
Transfer to PRC statutory reserves	-	-	-	-	-	5,192	-	(5,192)	-
Reversal of impairment loss on land and buildings	-	-	-	62	-	-	-	-	62
Profit for the year	-	-	-	-	-	-	-	89,202	89,202
At 31 December 2003	800,030	-	-	558	15,600	69,614	2,877	(1,282,457)	(393,778)
Issue of new shares	394,563	-	-	-	-	-	-	-	394,563
Debt waived by immediate holding company	-	48,380	-	-	-	-	-	-	48,380
Transfer to special capital reserve as a result of capital reduction	-	-	125,374	-	-	-	-	-	125,374
Transfer to PRC statutory reserves	-	-	-	-	-	834	-	(834)	-
Surplus on revaluation of investment properties	-	-	-	221	-	-	-	-	221
Profit for the year	-	-	-	-	-	-	-	217,726	217,726
Deconsolidation of subsidiaries	-	-	-	-	-	-	(848)	-	(848)
At 31 December 2004	1,194,593	48,380	125,374	779	15,600	70,448	2,029	(1,065,565)	391,638

NOTES TO THE ACCOUNTS

29. RESERVES (cont'd)

(b) The Company

	Share premium HK\$'000	Capital reserve HK\$'000	Special capital reserve (Note (e)) HK\$'000	Revaluation reserve HK\$'000	General reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2003	800,030	-	-	-	15,600	(1,271,647)	(456,017)
Profit for the year	-	-	-	-	-	75,255	75,255
At 31 December 2003	800,030	-	-	-	15,600	(1,196,392)	(380,762)
Issue of new shares	394,563	-	-	-	-	-	394,563
Debt waived by immediate holding company	-	48,380	-	-	-	-	48,380
Transfer to special capital reserve as a result of capital reduction	-	-	125,374	-	-	-	125,374
Surplus on revaluation of investment properties	-	-	-	207	-	-	207
Profit for the year	-	-	-	-	-	156,002	156,002
At 31 December 2004	1,194,593	48,380	125,374	207	15,600	(1,040,390)	343,764

- (c) According to the respective articles of association of the PRC subsidiaries of the Group, they are required to transfer 5% of their net profits as stated in the accounts prepared under PRC accounting regulations to the statutory expansion reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividend to the investors.

The statutory expansion reserve shall only be used to make up losses, to expand the PRC subsidiaries' production operations, or to increase the capital of the subsidiaries. Upon approval, the subsidiaries may convert their statutory expansion reserve into registered capital and issue bonus capital to existing investors in proportion to their existing investments. After converting the subsidiaries' statutory expansion reserve into capital, the balance of such reserve must not be less than 25% of the registered capital.

NOTES TO THE ACCOUNTS

29. RESERVES (cont'd)

- (d) According to the respective articles of association of the PRC subsidiaries of the Group, they are also required to transfer 5% of their net profits as stated in the accounts prepared under PRC accounting regulations to the statutory general reserve. Upon approval from the Board of Directors, the statutory general reserve may be used to offset accumulated losses or to increase capital.
- (e) As a result of the Capital Reduction, a credit of HK\$125,374,060 was transferred from share capital account to a special capital reserve account (see Note 28). The Company has undertaken that the special capital reserve will be used for the purpose of reducing in future the accumulated losses of the Company.

30. DEFERRED INCOME

Deferred income of the Group represents government grants obtained from the PRC local government of approximately HK\$28,302,000 (2003: HK\$28,302,000) for the purchase of certain plant and machinery of the Group.

31. RETIREMENT SCHEMES

The Group provides retirement benefits to all Hong Kong eligible employees under the Mandatory Provident Fund (the "MPF Scheme"). Under the MPF Scheme, the Group and their employees make monthly contributions to the MPF Scheme at 5% of the employees' salaries as defined under the Mandatory Provident Fund legislation. Contributions of both the Hong Kong subsidiaries and their employees are subject to a maximum of HK\$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation. The MPF Scheme is administered by an independent trustee and its assets are held separately from those of the Group.

The employees of the Group in the PRC are members of retirement schemes operated by the local authorities. The subsidiaries are required to contribute a certain percentage of their employees' salaries to these schemes to fund the benefits. The only obligation of the Group with respect to these schemes is the required contributions under the schemes.

The Group's total contributions to these schemes during the year ended 31 December 2004 amounted to approximately HK\$10,641,000 (2003: HK\$7,687,000).

No contributions were forfeited for the year ended 31 December 2004 (2003: HK\$142,000).

NOTES TO THE ACCOUNTS

32. SHARE OPTION SCHEME

(a) 1994 share option scheme

Pursuant to the share option scheme adopted by the Company on 25 November 1994 ("1994 Share Option Scheme"), a total number of 11,190,000 (2003: Nil) share options were granted to certain directors and employees of the Company during the year ended 31 December 2004.

During the year ended 31 December 2004, the movements of share options which have been granted under the 1994 Share Option Scheme are as follows:

Date of Grant	Exercise price per share HK\$	Exercise period	Number of share options			Balance as at 31 December 2004
			Balance as at 1 January 2004	Granted during the year	Lapsed during the year (Note 2)	
15 March 2004 (Note 1)	3.115	16 March 2004 to 15 March 2007	-	11,190,000	80,000	11,110,000

Notes:

- 1 In respect of the share options granted on 15 March 2004, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$3.00 per share.
- 2 A total of 80,000 share options were lapsed due to cessation of employment.

(b) 2004 share option scheme

At the annual general meeting of the Company held on 28 May 2004, the Company adopted a new share option scheme ("2004 Share Option Scheme") which is in compliance with the new requirements as set out in Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. No share options have been granted under the 2004 Share Option Scheme since its adoption.

NOTES TO THE ACCOUNTS

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash inflow generated from operating activities

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	246,108	91,567
Share of profits less losses of associated companies	(10,272)	(11,321)
Interest income	(1,761)	(690)
Interest expense	16,403	38,195
Depreciation	41,748	46,234
Loss on disposal of fixed assets	4,884	579
(Reversal of provision for)/provision for impairment loss on fixed assets and construction in progress	(8,494)	2,218
Loss on disposal of construction in progress	-	1,259
Gain on disposal of investment securities	(119)	-
Provision for/(reversal of provision for) impairment in value of investment securities	1,959	(71)
Trade payables waived by creditors	(9,673)	-
Reversal of provision for outstanding claims and litigation	-	(1,384)
Reversal of consolidated losses upon deconsolidation of subsidiaries	(97,350)	-
Operating profit before working capital changes	183,433	166,586
(Increase)/decrease in amounts due from associated companies	(1,514)	19,330
(Increase)/decrease in inventories	(54,432)	37,535
Increase in trade receivables, prepayments and other receivables	(35,077)	(29,037)
Increase in amounts due from fellow subsidiaries	(24,959)	-
Increase in trade payables and accrued charges	71,882	54,597
Increase/(decrease) in bills payable	6,795	(17,924)
Utilisation of provision	-	(430)
Net cash inflow generated from operations	146,128	230,657

NOTES TO THE ACCOUNTS

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(b) Analysis of changes in financing

	Bank loans		Amount due to a shareholder	Amounts due to related companies	Amounts due to minority investors	Minority interests
	Short-term	Long-term				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2004	638,514	136,792	4,930	51,630	31,730	165,157
Repayment of bank loans	(30,448)	-	-	-	-	-
Reclassification of bank loans	42,452	(42,452)	-	-	-	-
Reduction of debts from debt restructuring	(379,011)	-	(4,930)	(41,354)	-	-
Minority interests' share of profits	-	-	-	-	-	16,694
Interest accrual on amounts due to related companies	-	-	-	31	-	-
Dividends paid	-	-	-	-	-	(2,888)
Decrease in amounts due to minority investors	-	-	-	-	(6,324)	-
Deconsolidation of subsidiaries	(52,639)	-	-	(10,307)	(25,406)	-
At 31 December 2004	218,868	94,340	-	-	-	178,963

NOTES TO THE ACCOUNTS

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(c) Deconsolidation of subsidiaries

	2004 HK\$'000
Net liabilities disposed	
Inventories	534
Trade receivables, prepayments and other receivables	81
Cash and bank balances	310
Trade payables and accrued charges	(8,967)
Amounts due to related companies	(10,307)
Amount due to an associated company	(108)
Amounts due to minority investors	(25,406)
Bank loans	(52,639)
	(96,502)
Realisation of exchange reserve	(848)
	(97,350)
Reversal of consolidated losses upon deconsolidation of subsidiaries	(97,350)
Analysis of net cashflow in respect of the deconsolidation of subsidiaries	
Cash and bank balances disposed	310

(d) Major non-cash transaction

Pursuant to a debt restructuring scheme completed during the year ended 31 December 2004, certain bank loans, an amount due to a shareholder, certain amounts due to related companies and bank interest payable of approximately HK\$379,011,000, HK\$4,930,000, HK\$41,354,000 and HK\$41,416,000, respectively, were acquired by Coppermine. The total liabilities of HK\$466,711,000 acquired by Coppermine were then capitalised by the issue of 475,376,917 shares in the Company of HK\$0.05 each at a consideration of HK\$418,331,000. The remaining portion of HK\$48,380,000 was waived by Coppermine and credited to capital reserve account of the Company (see Notes 28 and 29).

NOTES TO THE ACCOUNTS

34. CONTINGENT LIABILITIES

As at 31 December 2004 the Group had contingent liabilities in respect of the following:

- (a) The Company provided a corporate guarantee to a financial institution in respect of banking facilities extended to an associated company amounting to approximately HK\$23,585,000 (2003: HK\$23,585,000).
- (b) The Group had unsettled tax payables in respect of certain properties in the PRC which may result in additional charges. No provision has been made by the Group since the amount of additional charges, if any, cannot be reliably determined. The directors of the Company are of the opinion that the potential additional charges will not exceed HK\$1,300,000 (2003: HK\$4,000,000).
- (c) The Group had contingent liabilities in respect of trade bills discounted with recourse of approximately HK\$66,748,000 (2003: Nil).

35. COMMITMENTS

(a) Operating leases

As at 31 December 2004, the Group's commitments in respect of rented premises under non-cancellable operating leases amounted to approximately HK\$2,245,000 (2003: HK\$1,757,000). Details of the total future minimum lease payments under non-cancellable operating leases are as follows:

	The Group	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Total future minimum lease payments payable:		
Within one year	1,396	499
After one year but within five years	849	1,258
	2,245	1,757

NOTES TO THE ACCOUNTS

35. COMMITMENTS (cont'd)

(b) Capital commitments in respect of purchase of plant and machinery are as follows:

	The Group	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Authorised and contracted for	15,724	8,767
Authorised but not contracted for	49,100	80,258
	64,824	89,025

The Company had no material commitments as at 31 December 2004 and 2003.

36. FUTURE OPERATING LEASE ARRANGEMENTS

As at 31 December 2004, the Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

	The Group	
	2004 HK\$'000	2003 <i>HK\$'000</i>
Within one year	495	–
After one year but within five years	639	–
	1,134	–

37. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

NOTES TO THE ACCOUNTS

37. RELATED PARTY TRANSACTIONS (cont'd)

Material transactions with related parties during the year are as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Sales of non-ferrous metals to an associated company	3,583	4,113
Purchases of nonferrous metals from associated companies	40,635	74,208
Purchases of fixed assets from an associated company	8,329	–
Transportation fees paid to an associated company	10,154	9,312
Interest expenses paid to a related company	31	1,740
Rental income received from an associated company	217	603
Rental expenses paid to a fellow subsidiary	695	–
Reimbursement of restructuring cost from immediate holding company	765	–

In the opinion of the directors, the related party transactions described above were carried out in the ordinary course of business at terms mutually agreed between the Group and the respective related parties.

38. SUBSEQUENT EVENTS

On 30 December 2004, the Company entered into an acquisition agreement with China Minmetals Non-ferrous Metals Company Limited ("CMN") and Top Create Resources Limited, the Company's related companies, for the acquisition of certain subsidiaries of CMN which are mainly engaged in sourcing alumina and other aluminium products in the international markets and in the supply of such alumina to aluminium smelters in the PRC. The consideration for the acquisition of HK\$2,886 million will be satisfied in full by the allotment and issue of 1,009,090,909 new shares of the Company (the "New Shares") to CMN at HK\$2.86 per share, representing about 166.15% of the existing number of issued share capital of the Company as at 31 December 2004.

The above acquisition is subject to the fulfillment of a number of conditions, which include the approval of the Company's shareholders and The Stock Exchange of Hong Kong Limited granting the listing of the New Shares of the Company.

39. ULTIMATE HOLDING COMPANY

The directors regard China Minmetals Corporation, a company incorporated in the PRC, as being the ultimate holding company.

40. APPROVAL OF ACCOUNTS

The accounts were approved and authorised for issue by the Board of Directors on 11 April 2005.