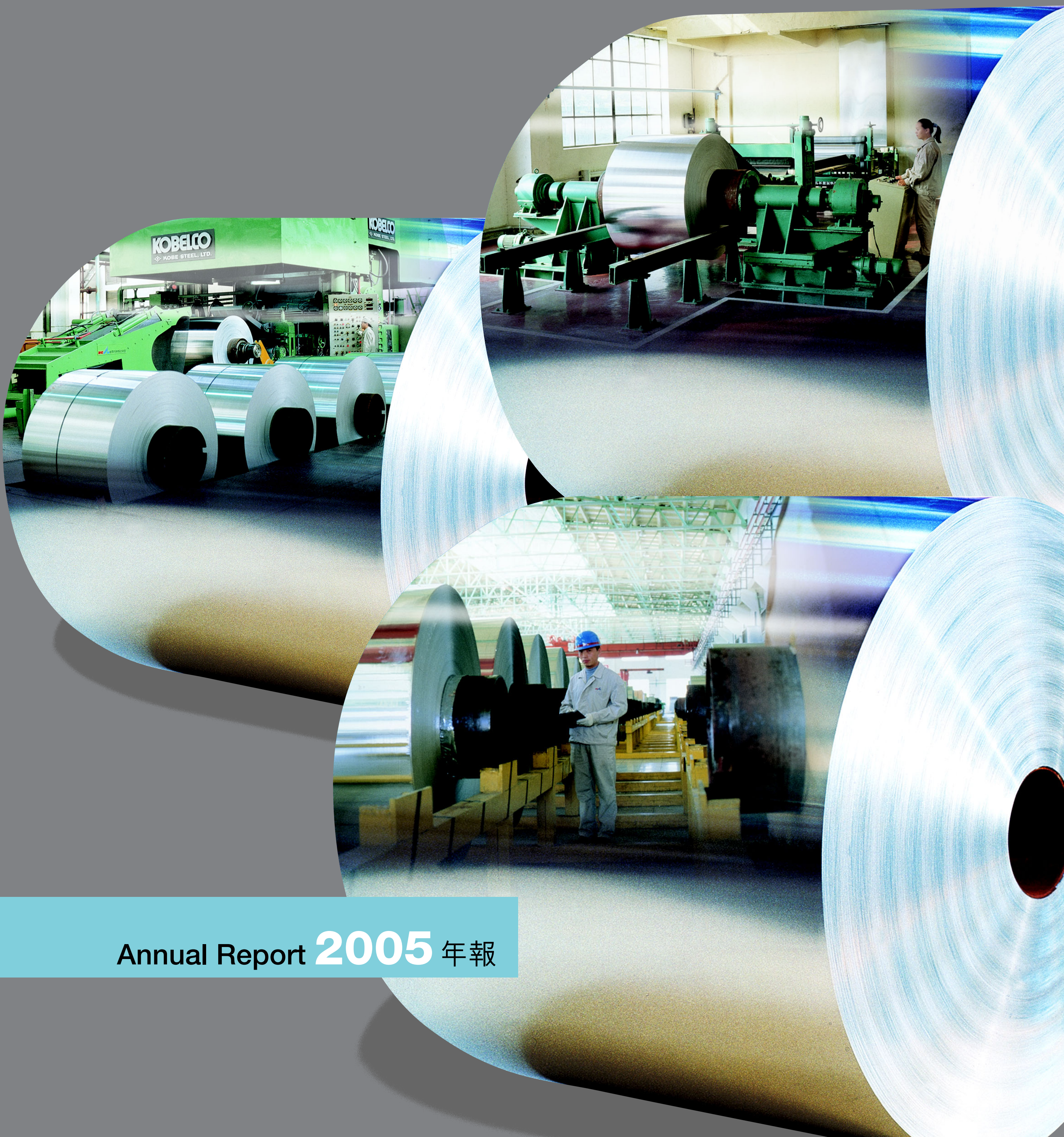
五礦資源有限公司
MINMETALS RESOURCES LIMITED

Stock Code 股份代號: 1208



Annual Report 2005 年報

Contents

Corporate Information

BOARD OF DIRECTORS

Chairman
ZHOU Zhongshu *(Non-executive Director)*

Vice Chairman
ZHU Guang *(Non-executive Director)*

Executive Directors
XU Huizhong
WANG Lixin

Non-executive Directors
SHEN Ling
ZHANG Shoulian
LI Linhu
ZONG Qingsheng

Independent Non-executive Directors
LIU Hongru
CHAN Wai Dune
TING Leung Huel, Stephen

AUDIT COMMITTEE

Chairman
CHAN Wai Dune

Members
LIU Hongru
TING Leung Huel, Stephen
ZONG Qingsheng

REMUNERATION COMMITTEE

Chairman
TING Leung Huel, Stephen

Members
ZHOU Zhongshu
LIU Hongru
XU Huizhong
CHAN Wai Dune

COMPANY SECRETARY

LEUNG Suet Kam, Lucia

QUALIFIED ACCOUNTANT

CHU Charn Fai, Daniel

LEGAL ADVISERS

Deacons

AUDITORS

PricewaterhouseCoopers
Certified Public Accountants

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

Citic Ka Wah Bank Limited
Standard Chartered Bank (HK) Limited
Bank of China Limited
China Merchants Bank

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

9th Floor, China Minmetals Tower
79 Chatham Road South
Tsimshatsui
Kowloon
Hong Kong

WEBSITE

www.minmetalsresources.com

STOCK CODE

1208

Chairman's Statement

Mr. ZHOU Zhongshu
Chairman

The year 2005 marked a new milestone in the development history of our group. During the year, the Group completed acquisition of the alumina and aluminium-related businesses of China Minmetals

Chairman's Statement

Corporation ("China Minmetals"), the Group's substantial shareholder. Upon completion of the transaction, the alumina and aluminium trading business will become the core strategic focus of the Group. The Group will consolidate the aluminium production chain and diversify into other non-ferrous metals and resources businesses, thereby establishing the Company as a platform to overseas market for China Minmetals' non-ferrous business.

To reflect the Group's market position and strategic plan upon assets injection as well as the close connection between China Minmetals and the Group and, the name of the Company has been changed to Minmetals Resources Limited (the "Company", together with its subsidiaries, the "Group") during the year.

The Group recorded substantial expansion in operating scale. Turnover for 2005 increased by 159% from the previous year to approximately HK$3.3 billion. Profit for the year was approximately HK$182 million. The contribution of alumina and aluminum-related businesses to the Group was not fully reflected in the 2005 results as their acquisition was just completed in the last quarter of the year.

Operation of the Group is focused on the PRC market. Economic growth of the PRC is expected to continue at a fast rate for 2006 and onwards. As a result of the continued economic development, and accelerated industrialization and urbanisation of the PRC, demand for base metals such as aluminium

and copper will maintain a strong growth momentum. The Group will aggressively capitalise on demand from the PRC market to secure further business development and enhancement of profitability.

Given robust development of the global economy, in particular the rapid economic growth in developing countries, it is believed the metal product market in general will remain prosperous in the coming years. Save for potential and modest price adjustment for certain metal products from time to time, the general prices will maintain at relatively high level.

The production of metal products is indispensable from mining of mineral resources. Since mineral resources cannot be regenerated, the increase in mineral supply, constrained by such factors as reserve, exploration investment, exploitation costs and government policies, often falls behind the growth in demand. It is expected that measures will be adopted by countries around the world to prevent excessive exploitation of mineral resources to ensure sustainable development. These factors will underpin the strong prices of metal products in the long run.

Keeping its focus on the core operations, the Group is committed to maintaining its competitive edge and expanding market share to further consolidate its dominance in the PRC import alumina market. At the same time, the Group will also closely monitor and analyse market changes to further reinforce its efforts in market research, analysis and forecast and to control the risks from price fluctuation and maximise efficiency through prudent hedging.

Pursuant to the Non-competition Agreement between the Company and the controlling shareholder, the Company will actively engage in the negotiation and implementation of acquisition of Sherwin Alumina L.P. and Guangxi Huayin Aluminium Company Limited ("Huayin Aluminium"), thereby steadily push ahead with the construction and operation of Huayin Aluminium to secure the source of alumina. Under the direction of the Company's development strategy, the Company will further consolidate its business chain by extending the upstream and downstream operations with a focus on the core business, so as to realise a stronger grip and direction on the resources. In addition, it is the Company's intention to identify target aluminium smelters and aggressively prepare for and proceed with relevant acquisition projects in accordance with the requirements of acquisition regulations and regulatory rules, with an aim of consolidating its value chain, business model and sales channel of alumina.

As for business expansion, the Group will further consider the opportunities of acquisition of other non-ferrous metal businesses and assets from the controlling shareholder. The addition of core assets will facilitate the Group in consolidating its business foundation, thereby enhancing its core competitiveness and profitability for diversification. In addition, the Group will also improve its strategic management of investee companies. It plans to adjust product mix to a more market-oriented portfolio and implement technology and facilities upgrades, so as to persistently improve its product quality, lower costs and enhance its competitiveness.

On the front of corporate governance, the Company will further enhance its governance structure and transparency, thereby improving investors' knowledge of the Company's operations. Apart from that, efforts will be committed to reinforce internal management to effectively control operating risks.

Building on the concerted efforts of the Group's staff, we are confident to achieve win-win solutions for our cooperation partners and the Company, so as to create value for our shareholders.

ZHOU Zhongshu
Chairman

Hong Kong, 31 March 2006

Management Discussion And Analysis

In October 2005, the Group completed the acquisition of the alumina and aluminium businesses (mainly comprised of Minmetals Aluminium Company Limited and its subsidiaries (collectively referred as "Minmetals Aluminium" thereafter)) from its ultimate holding company, China Minmetals Corporation. Through the acquisition, the Group significantly enlarged its operation and established the platform for the future development of the supply-chain businesses on alumina-related products as well as other non-ferrous metals and resources.

As the acquisition was completed on 6 October 2005, the Group has consolidated less than three months' results of Minmetals Aluminium. Therefore, the benefits generated from the acquisition to the Group's results has not been fully reflected in 2005. In addition, the Group has adopted the new/revised Hong Kong Financial Reporting Standards ("new HKFRS") with effect from 1 January 2005. To a certain extent, this also affected current year's results of the Group (Please refer to the paragraphs below for details).

The total revenue and consolidated net profit of Minmetals Aluminium amounted to approximately HK$8,812 million (2004: RMB7,336 million; equivalent to HK$6,921 million) and approximately HK$448.7 million (2004: RMB396.0 million; equivalent to HK$373.6 million) respectively for the year ended 31 December 2005. The contribution to the Group's total revenue and profit by Minmetals Aluminium amounted to HK$2,017 million and HK$56.2 million (including a negative goodwill of HK$80.9 million recognised in the acquisition) respectively for the period from 6 October 2005 to 31 December 2005.

The Group's profit attributable to the shareholders for the year ended 31 December 2005 was approximately HK$181.7 million, which was approximately HK$36.0 million lower than that of 2004. The major reasons are as follows:

1. The net profit of 2004 included an one-off deconsolidation profit of HK$97.4 million. Such non-recurring item was in relation to the reversal of consolidated losses upon deconsolidation of two non-performing subsidiaries. There was no similar amount in 2005; and

2. The acquisition of Minmetals Aluminium completed in October 2005 and contributed approximately HK$56.2 million profit (including a negative goodwill of HK$80.9 million recognised in the acquisition) to the Group for a period of less than 3 months.

In 2005, because of the change in accounting standards in Hong Kong, the Group had to remeasure and recognise the aluminium forward contracts, foreign exchange forward contracts, interest rate swaps and aluminium options (collectively referred as "derivative financial instruments" thereafter) at their fair value at the balance sheet date. These derivative financial instruments were newly acquired in the acquisition of Minmetals Aluminium. Such remeasurement reduced the Group's profit for the year ended 31 December 2005 by approximately HK$110.1 million.

Management Discussion And Analysis

These derivative financial instruments were entered into by Minmetals Aluminium in accordance with its hedging policies. They are solely used for hedging and risk management purposes; speculation is strictly prohibited. Upon the completion of the acquisition in October 2005, Minmetals Aluminium had to follow the new HKFRS to prepare its financial statements. Although it only used the derivative financial instruments for hedging and risk management purposes, it could not fulfill the documentation requirements under the new HKFRS, which was effective from 1 January 2005. Therefore, the outstanding derivative financial instruments have to be remeasured and stated at their fair value at the balance sheet date and the changes in fair value were charged to current year's income statement.

The above remeasurement affected the timing of recognition of the gains/losses derived from these derivative financial instruments, causing a mismatch between the recognition of gains/losses on these derivative financial instruments and the items being hedged for.

In order to prevent the volatility caused to the Group's results by such remeasurement, Minmetals Aluminium has redesigned its hedging procedures and the related documentation system after becoming subsidiaries of the Group since October 2005 so as to satisfy the hedge accounting requirements under the new HKFRS. Preliminary software testing has already been completed in March 2006. System installation and actual running can be implemented in April 2006. The new system can assist the Group to check whether future trading transactions of derivatives can fulfill the hedge accounting requirements under the new HKFRS.

The above accounting treatments in fact made no tangible adverse impact on the Group business operations. The Group's as well as the newly acquired Minmetals Aluminium's business operations and financial positions continue to be strong and healthy. After the transitional period in 2005, the Group believes that benefits of the enlarged operation can be crystallised in the forthcoming years and further propel the growth of the Group's business.

Management Discussion And Analysis

FINANCIAL REVIEW

The Group's 2005 consolidated financial results included less than three months' results of Minmetals Aluminium (mainly alumina trading) from 6 October 2005 (completion date of the acquisition) and the full year results of the Group's original businesses which consist of non-ferrous metal trading, aluminum fabrication and some other industrial investments in the People's Republic of China ("PRC").

The Group's turnover for year 2005 amounted to approximately HK$3,332.8 million, representing an increase of HK$2,044.3 million or 158.7% compared to that in 2004. The Group's turnover is mainly derived from alumina trading and aluminium fabrication businesses, which accounted for approximately 62% and 37% of the Group's 2005 turnover respectively. The remaining balance of 1% came from other industrial investments.

Although the Group achieved major breakthrough in its sales revenue for 2005, its gross profit increased by only 57.6% compared to last year. It is mainly because a long-term alumina purchase contract under the original trading business of the Group expired in 2004 and caused a reduction of gross profit of about HK$70.1 million. As a result, the gross profit margin decreased from 15.0% in 2004 to 9.1% in 2005.

The increase in other revenues mainly due to the increase in interest income as a result of the increase in surplus cash. The significant increase in the scale of the trading operation caused the selling and administrative expenses as a percentage of turnover decreased. The turnover in 2005 increased by 158.7% as compared to 2004 whilst the selling expenses and administrative expenses increased by only 51.1% and 6.0% respectively.

The 2005 other losses-net was about HK$37.0 million and mainly comprised:

(1) The net realised losses for derivative financial instruments of approximately HK$23.6 million;

(2) The net unrealised losses of HK$110.1 million for fair value changes on the outstanding derivative financial instruments of Minmetals Aluminium resulted from the adoption of the new HKFRS in 2005; and

(3) Other gains of approximately HK$87.8 million from the write-back of provisions made in prior years. During the year, the Group made significant effort in the collection and clearance of the historical accounts payable, guarantees and accounts receivable of which provisions had been previously made.

The Group's operating profit for 2005 was approximately HK$229.1 million which was HK$23.1 million less than the amount in 2004. It was mainly due to the abovementioned HK$110.1 million fair value changes on the outstanding derivative financial instruments resulted from the adoption of the new HKFRS.

The Group's finance costs increased from approximately HK$16.4 million in 2004 to approximately HK$26.6 million in 2005, of which about HK$8.1 million was incurred by the business operation of Minmetals Aluminium after the completion of the acquisition on 6 October 2005. Such additional finance costs represented the interest expenses incurred on the bank loans of approximately HK$616.2 million in relation to the initial payments for the long-term alumina supply contract with Alcoa (refer to the details below). In addition, the increase in the aluminium fabrication business also increased the demand for financing and thus the finance costs.

During the year, the performance of the associated companies continued to improve and the share of profits in associated companies increased by approximately HK$15.9 million to approximately HK$25.0 million.

As a result of various reasons mentioned above, the Group's profit attributable to the shareholders decreased by approximately HK$36.0 million from approximately HK$217.7 million in 2004 to approximately HK$181.7 million in 2005.

SEGMENTS REVIEW

The Group's business consists of three main business segments: (1) trading; (2) aluminium fabrication; and (3) other industrial operations and port logistics services.

TRADING BUSINESS

Trading business accounted for approximately 62% of the Group's turnover in 2005 and the majority was from alumina trading with a small percentage from the trading of other non-ferrous metals. The Group's trading volume increased significantly after the acquisition of Minmetals Aluminium. In a period of less than 3 months starting from 6 October 2005, its alumina trading volume already reached 406,000 tonnes, with sales revenue of approximately HK$2,015.3 million. These figures far exceeded the whole year results of 2004 with trading volume of 59,000 tonnes and sales revenue of HK$164.8 million. Thus the operation and market share of the Group has been greatly enhanced. In term of trading volume, Minmetals Aluminium is the largest importer of alumina in the PRC market and has established strong business relationship with more than half of the aluminium smelters in the PRC.

In order to secure stable supply of alumina and reducing the influence caused by the price fluctuation in the spot market, Minmetals Aluminium adopted strategies to diversify sources of supply and sign long-term contracts with suppliers. Among the long-term contracts on hand, Alcoa contract is the largest one and accounted for approximately 21% of Minmetals Aluminium's 2005 total purchase. Alcoa contract is for a term of 30 years (until June 2027) with a purchase quantity of 400,000 tonnes per annum. This enables Minmetals Aluminium to source alumina at prices which correlate to Alcoa's production costs as if Minmetals Aluminium was an alumina refiner owning a bauxite mine.

Management Discussion And Analysis

ALUMINIUM FABRICATION BUSINESS

Aluminium fabrication business accounted for approximately 37% of the Group's turnover. The Group via its 51% owned subsidiary, North China Aluminium Company Limited ("North China Aluminium"), engaged in the production and sales of aluminium foils and extrusions.

The aluminium foils market continues to expand with the growth in the home electronic appliances, construction, transportation, packaging and publishing businesses in the PRC. The sharp increase in the raw material costs for aluminium ingots caused the upsurge of the production costs of North China Aluminium. In order to maintain its product competitiveness, North China Aluminium limited the increase of its sales price, thus causing pressure on its profit margin. Foreseeing the challenge, North China Aluminium has well prepared itself already. Its production capacity increased substantially after the completion of the upgrade and modernisation of its aluminium cold mills. Sales volume in 2005 increased to about 59,491 tonnes, a 19% increase over 2004. Given the fierce market competition, North China Aluminium still managed to achieve a 2% increase in gross profit. In future, North China Aluminium will strive to enhance its product quality so as to win more support from its customers.

OTHER INDUSTRIAL OPERATIONS AND PORT LOGISTICS SERVICES

Other industrial operations and port logistics services accounted for approximately 1% of the Group's turnover. The contribution to the Group's profit from this segment amounted to approximately HK$39.0 million, of which approximately HK$14.0 million was derived from subsidiaries in this segment and approximately HK$25.0 million represented the share of profits in associated companies.

This business segment consists of:

(1) Yingkou Orienmet Plica Tube Company Limited ("Yingkou Orienmet"), which is owned as to 51% by the Group and is principally engaged in the production and sales of flexible metal conduits; and four PRC associated companies, which are engaged in the production and sales of copper rods, aluminium cans, copper cathodes and copper blisters; and

(2) Enterprises under the newly acquired Minmetals Aluminium, including Minmetals Non-ferrous Lianyungang Company Limited ("Minmetals Lianyungang") which is owned as to 90% by the Group and is engaged in port logistics services; and Sino Nickel Pty Limited ("Sino Nickel"), which is owned as to 40% by the Group and is engaged in nickel trading.

Concerning the subsidiaries in this segment, Yingkou Orienmet, with its professional design and patented technology continued to maintain satisfactory profit margin. However, the counterfeit and pirated products affected Yingkou Orienmet and caused the decline in 2005 sales. To protect its interest, Yingkou Orienmet will take more stringent measures and legal action to suppress patent invasion. For Minmetals Lianyungang, its main function is to provide port logistics services like obtaining customs clearance, unloading and packing of alumina to Minmetals Aluminium. With the storage facilities at Lianyungang and other major PRC coastal ports, Minmetals Aluminium can provide more flexible and convenient logistics services to meet the needs of its customers.

Management Discussion And Analysis

On the associated companies side, although the upsurge of the raw material costs did different harm to the businesses, their operating performance in general have showed improvement over last year. In 2005, the major contributors to the increase in the Group's share of profits in associated companies are Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan Copper"), Qingdao M.C. Packaging Limited and the newly acquired Sino Nickel.

FINANCIAL RESOURCES, CASH FLOW AND GEARING RATIO

The financial position and liquidity of the Group continued to show healthy development. The acquisition of Minmetals Aluminium substantially enlarged the Group's operation and assets base. As at 31 December 2005, the Group's total assets and net assets amounted to HK$7,524.5 million and HK$3,284.0 million respectively, increased 491% and 446% from last year end.

For the year 2005, the net cash used in operating activities amounted to approximately HK$207.9 million. Net cash generated from investing activities amounted to approximately HK$653.8 million, mainly represented the cash of approximately HK$689.6 million acquired as a result of the acquisition of Minmetals Aluminium less the capital expenditures for construction in progress of approximately HK$44.0 million. The net cash generated from financing activities amounted to approximately HK$422.6 million, of which approximately HK$219.8 million was from the placing of new shares and about HK$204.2 million was from the net increase in bank loans. As a result of these activities, the cash and cash equivalents of the Group increased by approximately HK$761.9 million to approximately HK$938.1 million at 31 December 2005.

As at 31 December 2005, the Group had cash on hand and cash deposits of approximately HK$987.7 million (all are unpledged except for the deposits of approximately HK$49.7 million placed in certain PRC banks), of which about 35% and 37% were denominated in US dollars and Renminbi respectively, while the remaining balance was denominated in Hong Kong dollars and Australian dollars.

As at 31 December 2005, the Group's total bank borrowings were approximately HK$1,151.3 million. This included bank loans of approximately HK$874.4 million borrowed by the newly acquired business – Minmetals Aluminium, which was primarily used to finance its initial payments for the alumina purchasing rights and trading operation. The remaining balance of the bank borrowings was used in the aluminium fabrication business and other industrial operations. The maturity profile of the bank borrowings is as follows:

Maturity profile	*HK$ million*
Within 1 year	533.8
Between 1 and 2 years	617.5

About 66% of the bank loans was at floating interest rate and 34% was at fixed interest rate. Approximately 76% and 24% of the Group's bank loans were denominated in US dollars and Renminbi respectively. In 2005, the interest rates of the Group's bank borrowings were in the range from 3.5% to 7.3%.

As at 31 December 2005, net gearing (defined as bank debts less cash and cash equivalents and pledged bank deposits, divided by capital and reserves attributable to the Company's equity holders) was 5.3% (2004: 29.0%).

ACQUISITION OF SUBSIDIARIES

On 6 October 2005, the Company completed the acquisition of the equity interest in Minmetals Aluminium and its subsidiaries (which are principally engaged in alumina and aluminium businesses) from a subsidiary of China Minmetals Corporation, the Group's ultimate holding company by issuing 1,009,090,909 new shares. The acquired business contributed approximately HK$2,017.2 million sales revenue and net profit of approximately HK$56.2 million (including a negative goodwill of HK$80.9 million recognised in the acquisition) to the Group for the period from 6 October 2005 to 31 December 2005.

SHARES ISSUE

The Company issued and allotted 1,009,090,909 shares on 6 October 2005 to Top Create Resources Limited, a wholly-owned subsidiary of the Company's ultimate holding company, as the purchase consideration for the entire issued share capital of Peak Strategic Industries Limited, which is the holding company of Minmetals Aluminium.

To maintain the public float of not less than 25% after the completion of the acquisition of Minmetals Aluminium, the Company and Coppermine Resources Limited (the Company's immediate holding company for the period from 12 January 2004 to 5 October 2005) placed an aggregate of 278,000,000 shares to independent third parties. In this placing, the Company issued 98,000,000 new shares and the net proceeds of approximately HK$219.8 million has been used by the Group as working capital for its trading operation.

As at 31 December 2005, the Company had 1,714,440,521 shares in issue.

CAPITAL EXPENDITURE

The Group's total capital expenditure for the year was approximately HK$50.7 million. It was mainly used for the purchase and upgrade of plant and machinery. As at 31 December 2005, the Group's outstanding commitments in this respect were approximately HK$50.6 million.

Furthermore, two shareholders of Changzhou Jinyuan (an associated company owned as to 25% by the Group) intended to dispose 29% interest of Changzhou Jinyuan they held in aggregate. Other shareholders, with mutual agreement after discussion, agreed to acquire the interest of these two shareholders disposed in accordance with the percentages of interest they currently held in the company. As such, the Group will increase its interest in Changzhou Jinyuan by 11%. The estimated amount involved is about HK$19.0 million and will be funded by the Group's internal funding. Changzhou Jinyuan has been running satisfactorily and has contributed stable income to the Group in the past. Increasing the Group's interest in Changzhou Jinyuan will not only increase the profit contribution derived therefrom but also enhance the business opportunities between the two parties.

CHARGE ON ASSETS

As at 31 December 2005, the charge on the Group's assets included:

(a) (i) all the equity interests of Sino Mining Alumina Limited ("Sino Mining"), a subsidiary of the Group; (ii) all the assets of Sino Mining; (iii) the Group's initial payments for alumina purchasing rights; and (iv) certain bank deposits of the Group amounting to approximately HK$36.4 million have been pledged to a bank to secure the bank loan in relation to the initial payments for the alumina purchasing rights.

(b) Certain property, plant and equipment and land use rights of the Group with a total net book amount of approximately HK$399.8 million and bank deposits of approximately HK$13.3 million were pledged to banks to secure certain banking facilities of the Group.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group's contingent liabilities are:

(a) The Company provided a corporate guarantee to a bank in respect of the banking facilities extended to an associated company amounting to approximately HK$24.0 million (2004: HK$23.6 million).

(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. It is estimated that the potential additional charges will not exceed HK$1.4 million (2004: HK$1.3 million).

RISK MANAGEMENT

The Group's overall financial risk management programme focuses on the unpredictability of the financial markets, optimising the level of financial risks the Group can bear, and minimising any potential adverse effects on the financial performance of the Group. The purpose of which is to ensure that transactions undertaken are in accordance with the Group's policies and not for speculative purpose.

(a) Commodity price risk

To hedge against the adverse impact that the volatility in alumina and aluminium prices could have on the Group's businesses, the Group enters into aluminium forward contracts with certain financial institutions. Pursuant to its internal hedging policies and guidelines, the Group does not and is prohibited to enter into aluminium forward contracts for speculative purposes.

(b) Foreign exchange risk

The Group's major businesses are conducted in United State dollars ("USD"), Renminbi ("RMB") and Australian dollars ("AUD"). Given the exchange rate peg between Hong Kong dollars ("HKD") and USD is maintained, it is not foreseen that the Group will be exposed to significant exchange rate risk exposure for the transactions conducted in USD. For the year ended 31 December 2005, 77.6% of the Group turnover was denominated in RMB. As at 31 December 2005, the total net assets as shared by the Group in its PRC subsidiaries and associated companies amounting to approximately HK$390.0 million were denominated in RMB. Fluctuation of exchange rate of RMB against HKD could affect the Group's results of operation. The exchange rate fluctuation between AUD and USD will affect the purchase cost of alumina under a long-term purchase contract of approximately 400,000 tonnes per year from 1997 to 2027. The Group hedges against this AUD exchange exposure by using forward foreign exchange contracts.

(c) Interest rate risk

The Group's interest rate risk mainly arises from bank borrowings. Floating rate bank borrowings expose the Group to cash flow interest rate risk. At 31 December 2005, bank borrowings of approximately HK$762.7 million were at floating rates. When considered appropriate, the Group uses interest rate swaps to manage cash flow interest rate risk exposure associated with borrowings issued at floating rates.

EMPLOYEE

As at 31 December 2005, the Group employed approximately 2,400 staff (the two subsidiaries engaged in the industrial production, North China Aluminium and Yingkou Orienmet, employed about 2,252 and 83 staff respectively). The total staff costs (including the directors' emoluments) for the year was approximately HK$75.6 million. The Group adopts a remuneration policy in line with market practice and makes reference to each individual experience and performance. Apart from the general remuneration package, the Group also grants share options and discretionary bonus 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 necessary.

Directors and Senior Management

DIRECTORS

Chairman

Mr. ZHOU Zhongshu, aged 53, was appointed as the chairman and a non-executive director of the Company in October 2005. He is the president of China Minmetals Corporation ("China Minmetals"), the chairman of each of China Minmetals Non-ferrous Metals Company Limited and China Minmetals H.K. (Holdings) Limited and the chairman and an executive director of ONFEM Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). He has been the chairman of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) since March 2005. Mr. Zhou has also served as a director of two subsidiaries of the Company, namely Peak Strategic Industries Limited and Sino Mining International Limited. He graduated from Shanghai International Studies University in the PRC and majored in Spanish language. He joined the China Minmetals Group in 1978. From 2000 to 2002, Mr. Zhou was Commercial Counsellor of Chinese Embassy in Spain. Mr. Zhou has over twenty years of experience in non-ferrous metals industry.

Vice Chairman

Dr. ZHU Guang, aged 49, was appointed as the vice chairman and a non-executive director of the Company in October 2005. He is the senior vice president of China Minmetals Corporation ("China Minmetals"). He has been a director of China Minmetals Non-ferrous Metals Company Limited since 2001. Dr. Zhu has also been the vice chairman of Xiamen Tungsten Co., Ltd. (a company listed on the Shanghai Stock Exchange) since 2003, and was a director of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) from May 2000 to February 2003. Dr. Zhu has also served as a director of three subsidiaries of the Company, namely Minmetals Aluminium Company Limited, Peak Strategic Industries Limited and Sino Mining International Limited. He holds a Master degree in Economics from the University of International Business and Economics in the PRC, and a Doctorate degree in Economics from the Central University of Finance and Economics in the PRC. Dr. Zhu was selected as one of the ten most influential persons of China's non-ferrous metals industry in 2003 and he is also the vice president of International Tungsten Industry Association. Dr. Zhu joined the China Minmetals Group in 1987. Dr. Zhu has over ten years of experience in non-ferrous metals industry.

Executive Directors

Mr. XU Huizhong, aged 48, was appointed as an executive director of the Company in April 2002 and has become the president of the Company since May 2002. Mr. Xu is responsible for the management of the operations and the strategic planning of the Group. He is an employee of China Minmetals Corporation ("China Minmetals"). He has also served as a director of a number of subsidiaries and certain associated companies of the Company. Mr. Xu has resigned as a director and deputy general manager of China Minmetals H.K. (Holdings) Limited on 6 October 2005. Mr. Xu graduated from the University of International Business and Economics, the PRC in 1979. He joined the China Minmetals Group in 1979 and has been a qualified economist in the PRC since 1987. Prior to joining the Group, he held senior management positions with corporations engaged in international trading and property development in the PRC, Japan and New Zealand for over nineteen years. Mr. Xu has extensive experience in international trading, property development and investment, investment strategies and corporate management.

Directors and Senior Management

Mr. WANG Lixin, aged 38, was appointed as an executive director and vice president of the Company in October 2005. Mr. Wang is responsible for the management of the Group's alumina and aluminium operations. He has also served as a director of four subsidiaries of the Company, namely Minmetals Aluminium Company Limited (also acts as the general manager), Minmetals Non-ferrous Lianyungang Company Limited, Sino Mining Alumina Limited and Sino Mining International Limited. He has resigned as the vice president of China Minmetals Non-ferrous Metals Company Limited on 6 October 2005. He earned his Bachelor of Arts degree in International Trade from the University of International Business and Economics in the PRC in 1990. Mr. Wang joined the Ministry of Foreign Trade and Economic Cooperation in 1990 and subsequently, the China Minmetals Group in 1995. He has over ten years of experience in foreign trade and corporate management, as well as five years of experience with government services.

Mr. LIN Xizhong, aged 60, was appointed as an executive director and chairman of the Company in January 2004 and February 2004 respectively and tendered his resignation in October 2005. Mr. Lin is a director of Coppermine Resources Limited. He is also the chairman of AXA-Minmetals Assurance Ltd. in Shanghai, a director of AXA Asia Pacific Holdings Limited and an external director of China Chengtong Holdings Company from December 2005 onwards. Mr. Lin earned his Bachelor of Arts degree in Literature from the Beijing Foreign Studies University in the PRC in 1973. From 1995 to 1998, he was the representative of the People's Republic of China in APEC Business Advisory Council of Asia-Pacific Economic Cooperation Organisation. He was the vice chairman of First Pacific Bank in Hong Kong during 1993 to 2000.

Mr. QIAN Wenchao, aged 40, was appointed as an executive director of the Company in January 2004 and tendered his resignation in October 2005. Mr. Qian is currently a director of each of China Minmetals H.K. (Holdings) Limited ("Minmetals HK") and Coppermine Resources Limited, and an employee of China Minmetals Corporation ("China Minmetals"). He is also a director of ONFEM Holdings Limited. Mr. Qian has a Bachelor of Arts degree in Economics from Beijing Technology and Business University in the PRC in 1987 and completed his graduate study in accounting in the same university in 1989. He qualified as a senior accountant in 1999. He joined the China Minmetals Group in 1989 and has worked in the overseas enterprises division of China Minmetals and Minmetals HK with responsibilities in financial management.

Non-executive Directors

Ms. SHEN Ling, aged 44, was appointed as a non-executive director of the Company in October 2005. She is the chief financial officer of China Minmetals Corporation ("China Minmetals"). She has been a director of each of China Minmetals Non-ferrous Metals Company Limited and China Minmetals H.K. (Holdings) Limited since 2004 and a director of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) since 2003. Ms. Shen has also served as a director of three subsidiaries of the Company, namely Peak Strategic Industries Limited, Sino Mining Alumina Limited and Sino Mining International Limited. She holds a Bachelor of Arts degree in business planning statistics from Anhui Institute of Finance and Trade in the PRC. Ms. Shen joined the China Minmetals Group in 1987. She has over twenty years of experience in accounting and financial corporate management.

Directors and Senior Management

Mr. ZHANG Shoulian, aged 51, was appointed as a non-executive director of the Company in October 2005. He is the president of China Minmetals Non-ferrous Metals Company Limited ("CMN"). Mr. Zhang has also served as the chairman and a director of North China Aluminium Company Limited and Minmetals Aluminium Company Limited respectively, both are the subsidiaries of the Company. He graduated from Dongbei University of Finance and Economics and majored in foreign trade and economics. From 1982 to 1993, Mr. Zhang worked for the Economics and Trade Bureau of the State Planning Commission. He joined the China Minmetals Group in 1994 and worked as the vice president of CMN from 2001 to 2003. He has over ten years of experience in the non-ferrous metals industry.

Mr. LI Linhu, aged 51, was appointed as a non-executive director of the Company in October 2005. He is the general manager of the human resources department of China Minmetals Corporation ("China Minmetals") and has been a director of each of China Minmetals Non-ferrous Metals Company Limited and China Minmetals H.K. (Holdings) Limited since 2004. He graduated from the University of International Business and Economics in the PRC and majored in Spanish language. From 1979 to 1986, Mr. Li worked in the Ministry of Foreign Trade and Ministry of Foreign Economic Relations and Trade. From 1991 to 1996, he worked in the Ministry of Foreign Trade and Economic Cooperation. Mr. Li joined the China Minmetals Group in 1996. He has over ten years of experience in foreign trade and corporate management.

Mr. ZONG Qingsheng, aged 46, was appointed as a non-executive director of the Company in October 2005. He is the general manager of the investment management department of China Minmetals Corporation ("China Minmetals"). He has been a director of each of China Minmetals Non-ferrous Metals Company Limited and China Minmetals H.K. (Holdings) Limited since 2004 and a director of each of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) and Shenzhen SDG Information Co., Ltd. (a company listed on the Shenzhen Stock Exchange) since 2003. Mr. Zong has also served as a director of three subsidiaries of the Company, namely North China Aluminium Company Limited, Sino Mining Alumina Limited, and Sino Mining International Limited. He holds a Bachelor of Arts degree in Chinese literature from Nanjing University in the PRC. From 1982 to 1995, Mr. Zong worked in the Ministry of Foreign Trade and Economic Cooperation. Mr. Zong joined the China Minmetals Group in 1995. Mr. Zong has over twenty years of experience in foreign trade, business management and investment.

Independent Non-executive Directors

Mr. LIU Hongru, aged 75, was appointed as an independent non-executive director of the Company in September 2004. Mr. Liu graduated from the University of Moscow in 1959 with an associate doctorate's degree. He was a vice governor of each of the Agricultural Bank of China and the People's Bank of China, a deputy director of the State Economic Restructuring Committee, and the chairman of the China Securities Regulatory Commission. Mr. Liu is currently the chairman of The Chinese Financial Education Development Foundation and Capital Market Research Institute, an independent non-executive director of each of PetroChina Company Limited and CITIC 21CN Company Limited, and a non-executive director of Concepta Investments Limited. He is also a professor at the Postgraduate School of the People's Bank of China, Peking University, Tsinghua University and the City University of Hong Kong.

Directors and Senior Management

Mr. CHAN Wai Dune, aged 53, was appointed as an independent non-executive director of the Company in May 2002. Mr. Chan is also an independent non-executive director of each of Chuang's China Investments Limited, EVA Precision Industrial Holdings Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Mexan Limited, Sam Woo Holdings Limited, Jinheng Automotive Safety Technology Holdings Limited, Sino Union Petroleum & Chemical International Limited and Zhongda International Holdings Limited. Mr. Chan has over twenty five years of experience in the finance sector, particularly in the areas of auditing and taxation. He is a certified public accountant and is a fellow member of each of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. Mr. Chan is currently a member of CPPCC of Guangzhou Municipal Committee and a member of the Executive Council of China Overseas Friendship Association. He was a member of the Selection Committee for the establishment of the First Government of the Hong Kong Special Administrative Region. Mr. Chan is currently the Managing Director of CCIF CPA Limited.

Mr. TING Leung Huel, Stephen, aged 52, was appointed as an independent non-executive director of the Company in June 2002. He is also a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of six listed companies namely Tong Ren Tang Technologies Company Limited, eForce Holdings Limited, Tongda Group Holdings Limited, MACRO-LINK International Holdings Limited, Computer and Technologies Holdings Limited and Texhong Textile Group Limited. He is a member of the 9th Chinese People's Political & Consultative Conference, Fujian. Mr. Ting is an accountant in public practice. He is the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants.

SENIOR MANAGEMENT OF THE COMPANY

Mr. TANG Xiaojin, aged 44, was appointed as the vice president of the Company in October 2003 and became an executive director of the Company in January 2004. He tendered his resignation as executive director of the Company in October 2005 but remained as the vice president of the Company. Mr. Tang is responsible for overseeing the Group's industrial investments in the PRC. He is also an employee of China Minmetals Corporation. Mr. Tang joined the Group in 1995 and has been the general manager of Orienmet Industry Company Limited since 1998. He has also served as a director of certain principal subsidiaries and associated companies of the Company. Mr. Tang graduated from the Faculty of Mechanical Engineering of the Southern Institute of Metallurgy, the previous Jiangxi Institute of Metallurgy, the PRC, in 1983 with a bachelor degree in engineering. He joined Beijing General Research Institute for Mining and Metallurgy in 1983, engaging in metallurgical research and design. In 1989, he joined the personnel department of the previous China National Non-ferrous Metals Industry Corporation. Mr. Tang qualified as a senior engineer in 1994 and has over twenty two years of experience in the non-ferrous metals industry.

Directors and Senior Management

Mr. MAK Hing Keung, Thomas, aged 43, was appointed as the chief financial officer of the Company in February 2006. Mr. Mak is responsible for the overall financial management and investors relation functions of the Group. He graduated with a Bachelor of Commerce degree in Accounting and Finance from Queen's University, Canada. Mr. Mak is a member of the Canadian Institute of Chartered Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Mak had been the chief financial officer of RoadShow Holdings Limited for five years. From 1997 to 2001, he worked for an investment bank and The Stock Exchange of Hong Kong Limited respectively where he handled a wide variety of corporate finance transactions including new listings, mergers and acquisitions and group restructurings. He has also worked for an international accounting firm in Hong Kong, Singapore and Canada for over eight years. Mr. Mak has extensive experience in financial management, corporate finance, auditing and accounting.

Mr. CHU Charn Fai, Daniel, aged 36, joined the Group in 1998 and was appointed as the financial controller of the Company in August 2002. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Chu worked in an international accounting firm. He has over thirteen years of experience in financial management and auditing.

SENIOR MANAGEMENT OF SUBSIDIARY COMPANIES

Mr. LI Liangang, aged 42, joined the Group in October 2005, is the president of Sino Mining International Limited ("SMI") and the vice general manager of Minmetals Aluminium Company Limited. Mr. Li is a director of three subsidiaries of the Company, namely Minmetals Non-ferrous Lianyungang Company Limited, SMI and Sino Nickel Pty Limited. He is responsible for sourcing and importing alumina. He graduated from the Teacher's College for Foreign Language of Beijing Union University and majored in English language. He joined the China Minmetals Group in 1987 and worked for a number of overseas subsidiaries of the China Minmetals Group from 1989 to 1998. He has over eighteen years of working experience in the non-ferrous metals industry.

Mr. WANG Ji, aged 44, joined the Group in October 2005, is the vice general manager of Minmetals Aluminium Company Limited and the managing director of Minmetals Non-ferrous Lianyungang Company Limited. He earned his MBA degree from the University of International Business and Economics in the PRC in 2001. Mr. Wang joined the China Minmetals Group in 1994. He has over ten years of experience in foreign trade and corporate management.

Mr. WANG Xiaolei, aged 34, joined the Group in October 2005, is the vice general manager of Minmetals Aluminium Company Limited. He is mainly responsible for hedging and sales of metal products. He graduated from the Central University of Finance and Economics and holds a Master degree in National Economics. From 1993 to 1996, he worked for Liaoning Metals & Minerals Import & Export Corporation and Air China Group Import & Export Trading Company. Subsequently, Mr. Wang joined the China Minmetals Group in 1996. He has over ten years of working experience in the trading of metal products.

Directors and Senior Management

Mr. ZHONG Jianguo, aged 48, joined the Group in October 2005, is the vice president and chief financial officer of Sino Mining International Limited ("SMI"). Mr. Zhong is a director of two subsidiaries of the Company, namely Sino Mining Australia Pty Ltd. and Sino Mining Trading Pty Limited. He is also a non-executive director of Sino Gold Limited (a company listed on the Australian Stock Exchange, owned as to approximately 9.2% by SMI). Mr. Zhong was the vice general manager of the financial division and general manager of the audit division of China Minmetals Corporation ("China Minmetals"). From 1993 to 1996, he was based in USA as a treasurer for a subsidiary of the China Minmetals Group. Mr. Zhong has an accounting and finance background with detailed knowledge of the Chinese sector coupled with extensive international experience.

Mr. JIANG Shixiong, aged 43, joined the Group in 1994, is a director and the general manager of North China Aluminium Company Limited. He earned his Bachelor degree in Mining from Beijing Steel Institute in 1984. Mr. Jiang joined the China Minmetals Group in 1986. He has over ten years of experience in foreign trade and corporate management.

Mr. MA Jianxiang, aged 51, joined the Group in 1998, is the general manager of Yingkou Orienmet Plica Tube Company Limited ("YOPT"). He earned his Bachelor degree in Ferrous Metal Refining from Shenyang North Eastern University in 1978. Mr. Ma joined 營口無線電機械廠 (Yingkou Wireless Machinery Factory) in 1978 and was subsequently promoted as the general manager. From 1994 to 1998, he was the general manager of 遼寧無線電三廠 (Liaoning Wireless No. 3 Factory). Mr. Ma has been the general manager of YOPT since 1998. He has extensive experience in marketing, production and corporate management.

Directors' Report

The board of directors (the "Directors") of Minmetals Resources Limited (the "Company") has pleasure in presenting the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005.

CHANGE OF COMPANY NAME

Pursuant to the special resolution in respect of the change of Company's name from "Oriental Metals (Holdings) Company Limited (東方鑫源(集團)有限公司)" to "Minmetals Resources Limited (五礦資源有限公司)" was duly passed by the shareholders at the extraordinary general meeting of the Company held on 25 July 2005 and the Certificate of Change of Name of the Company was issued by the Registrar of Companies in Hong Kong on 4 August 2005, the name of the Company was changed with effect from 4 August 2005.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The activities of its subsidiaries and associated companies are set out in Notes 19 and 20 to the financial statements.

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 31 December 2005 is set out in Note 5 to the financial statements.

MAJOR CUSTOMERS

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

MAJOR SUPPLIERS

(1) Purchases from the largest supplier accounted for approximately 13% of the total purchases of the Group for the year.

(2) Purchases from the five largest suppliers in aggregate accounted for approximately 37% of the total purchases of the Group for the year.

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 suppliers.

Directors' Report

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 46.

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$885,192,000 at 31 December 2005 (2004: HK$1,065,565,000) be carried forward.

RESERVES

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

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in Note 15 to the financial statements.

SHARE CAPITAL

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

DIRECTORS

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

Chairman

Mr. Zhou Zhongshu *(Non-executive Director)*	(Appointed on 6 October 2005)
Mr. Lin Xizhong *(Executive Director)*	(Resigned on 6 October 2005)

Vice Chairman

Dr. Zhu Guang *(Non-executive Director)*	(Appointed on 6 October 2005)

Executive Directors

Mr. Xu Huizhong	
Mr. Wang Lixin	(Appointed on 6 October 2005)
Mr. Qian Wenchao	(Resigned on 6 October 2005)
Mr. Tang Xiaojin	(Resigned on 6 October 2005)

DIRECTORS *(cont'd)*

Non-executive Directors

Ms. Shen Ling	(Appointed on 6 October 2005)
Mr. Zhang Shoulian	(Appointed on 6 October 2005)
Mr. Li Linhu	(Appointed on 6 October 2005)
Mr. Zong Qingsheng	(Appointed on 6 October 2005)

Independent Non-executive Directors

Mr. Liu Hongru
Mr. Chan Wai Dune
Mr. Ting Leung Huel, Stephen

In accordance with Article 85 of the Articles of Association of the Company, Mr. Zhou Zhongshu, Dr. Zhu Guang, Mr. Wang Lixin, Ms. Shen Ling, Mr. Zhang Shoulian, Mr. Li Linhu and Mr. Zong Qingsheng will retire at the forthcoming annual general meeting of the Company. Save as Dr. Zhu Guang who does not offer himself for re-election, all these retiring directors, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

In accordance with Article 101 of the Articles of Association of the Company, Mr. Chan Wai Dune will retire by rotation and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the independent non-executive directors of the Company an annual confirmation of his independence pursuant to Rule 3.13 to the Listing Rules and considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

Long position in underlying shares of the Company

Name of Director	Nature of interest	Number of underlying shares held *(Note 1)*	Approximate percentage of total number of issued shares *(Note 2)*
Xu Huizhong	Personal	2,000,000	0.12%

Notes:

1. The director's interests in underlying shares is the share options granted by the Company pursuant to the 1994 Share Option Scheme, details of which are set out under the section headed "Share Option Schemes".

2. The calculation is based on the number of underlying shares as a percentage of the total number of issued shares of the Company (i.e. 1,714,440,521 shares) as at 31 December 2005.

Save as disclosed above, as at 31 December 2005, other than a nominee share in a subsidiary held by a director of the Company in trust for the Company, none of the directors or the chief executive of the Company or any of their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. In addition, save as disclosed above, none of the directors or the chief executive of the Company nor their spouses or children under 18 years of age had been granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company, any of its holding companies, or any of their subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

SHARE OPTION SCHEMES

1994 Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 25 November 1994 ("1994 Share Option Scheme"), the number of outstanding options as at 31 December 2005 is 6,610,000. The 1994 Share Option Scheme had expired on 24 November 2004. Accordingly, no further options would be granted in accordance with the provisions thereunder but in all other respects the provisions of the 1994 Share Option Scheme shall remain in force to govern the exercise of all the options granted prior to such expiry which shall continue to be valid and outstanding until the expiry of the exercise period.

The following is a summary of the principal terms of the 1994 Share Option Scheme:

1. Purpose

The 1994 Share Option Scheme was established to recognise and acknowledge the contributions that eligible participants had made or might make to the Group in order to attract and retain high calibre employees of the Group.

2. Participants

Any employees including directors of the Group.

3. Total number of shares available for issue under the 1994 Share Option Scheme

No further options may be granted under the 1994 Share Option Scheme as it had expired on 24 November 2004.

4. Maximum entitlement of each participant

The maximum number of shares in respect of which options might be granted to any one employee should not exceed 25% of the maximum number of shares in respect of which options might be granted under the 1994 Share Option Scheme.

Effective from 1 September 2001, the total number of shares of the Company issued and to be issued upon exercise of options (including both exercised and outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue in accordance with the revised provisions as set out in Chapter 17 to the Listing Rules.

SHARE OPTION SCHEMES *(cont'd)*

1994 Share Option Scheme *(cont'd)*

5. Period within which the shares must be taken up under an option

An option may be exercised in whole or in part at any time after the date on which the option is deemed to have been granted and from time to time or before the date which is three years after such date.

6. Minimum period for which an option must be held before it can be exercised

Not applicable

7. Amount payable on acceptance of the option

A non-refundable remittance of HK$10.00 by way of consideration for the grant of an option was required to be paid by each grantee upon acceptance of the option.

8. Basis of determining the exercise price

The exercise price was determined by the Directors of the Company and would not be less than (i) 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 (ii) the nominal value of the shares, whichever is the higher.

Effective from 1 September 2001, the exercise price must be at least the higher of (i) the closing price of the shares on the date of grant, which must be a business day, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share of the Company in accordance with the revised provisions as set out in Chapter 17 to the Listing Rules.

SHARE OPTION SCHEMES *(cont'd)*

1994 Share Option Scheme *(cont'd)*

9. The remaining life of the 1994 Share Option Scheme

The life of the 1994 Share Option Scheme was until 24 November 2004.

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

				Number of options				
Category and name of participant	**Date of grant**	**Exercise price per share** *HK$*	**Exercise period**	**Balance as at 1 January 2005**	**Exercised during the year**	**Cancelled during the year**	**Lapsed during the year**	**Balance as at 31 December 2005**
Directors								
Lin Xizhong *(Note 1)*	15 March 2004 *(Note 2)*	3.115	16 March 2004 to 15 March 2007	3,000,000	–	–	3,000,000 *(Note 3)*	–
Qian Wenchao *(Note 1)*	15 March 2004 *(Note 2)*	3.115	16 March 2004 to 15 March 2007	1,500,000	–	–	1,500,000 *(Note 3)*	–
Tang Xiaojin *(Note 1)*	15 March 2004 *(Note 2)*	3.115	16 March 2004 to 15 March 2007	1,500,000	–	–	–	1,500,000
Xu Huizhong	15 March 2004 *(Note 2)*	3.115	16 March 2004 to 15 March 2007	2,000,000	–	–	–	2,000,000
Employees	15 March 2004 *(Note 2)*	3.115	16 March 2004 to 15 March 2007	3,110,000	–	–	–	3,110,000
				11,110,000	–	–	4,500,000	6,610,000

Notes:

1. Mr. Lin Xizhong, Mr. Qian Wenchao and Mr. Tang Xiaojin resigned as directors of the Company with effect from 6 October 2005.

2. In respect of the 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.

3. Options were lapsed due to cessation of employment.

SHARE OPTION SCHEMES *(cont'd)*

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 to the Listing Rules. No options had been granted under the 2004 Share Option Scheme since its adoption.

The following is a summary of the principal terms of the 2004 Share Option Scheme:

1. Purpose

To recognise and acknowledge the contributions that the eligible persons had made or may from time to time make to the Group whether in the past or in the future.

2. Participants

Any directors or any employees of any company of the Group and any advisers of, consultants of, contractors to any company of the Group or any person who has any relationship (whether business or otherwise) with any company of the Group or any person whom the Directors of the Company considers, in its sole discretion, appropriate.

3. Total number of shares available for issue under the 2004 Share Option Scheme

The total number of shares available for issue under the 2004 Share Option Scheme is 54,124,961 shares, representing approximately 3.16% of the issued share capital of the Company as at the date of this report.

4. Maximum entitlement of each participant

No option may be granted to any eligible person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted and to be granted to such eligible person under the 2004 Share Option Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of such new grant. Any grant of further options above this limit shall be subject to the requirements under the Listing Rules.

5. Period within which the shares must be taken up under an option

The Directors of the Company may in its absolute discretion determine the period during which an option may be exercised, save that such period shall not be more than ten years from the date on which such option is deemed to have been granted and accepted subject to the provisions for early termination thereof.

SHARE OPTION SCHEMES *(cont'd)*

2004 Share Option Scheme *(cont'd)*

6. Minimum period for which an option must be held before it can be exercised

There is no general requirement on the minimum period for which an option must be held under the terms of the 2004 Share Option Scheme. However, the Directors of the Company may determine in its absolute discretion in relation to the minimum period of the options to be held.

7. Time of acceptance and the amount payable on acceptance of the option

An offer of an option may be accepted within 28 business days (or such shorter period as the Directors of the Company shall determine) from the date of such offer and the amount payable on acceptance of such offer is HK$10.00.

8. Basis of determining the exercise price

The exercise price shall be determined by the Directors of the Company at the time of grant of the relevant option and shall not be less than the highest of:

(i) the closing price per share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;

(ii) an amount equivalent to the average closing price per share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of a share of the Company.

9. The remaining life of the 2004 Share Option Scheme

The 2004 Share Option Scheme will remain in force until 27 May 2014.

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

As at 31 December 2005, the following persons were recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares and underlying shares of 5% or more of the issued shares of the Company:

Long position in shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of total number of issued shares *(Note 1)*
China Minmetals Corporation ("China Minmetals")	Interest of controlled corporations *(Notes 2, 3 & 4)*	1,284,467,826	74.92%
China Minmetals Non-ferrous Metals Company Limited ("CMN")	Interest of controlled corporation *(Note 2 & 3)*	1,009,090,909	58.86%
Top Create Resources Limited ("Top Create")	Beneficial owner *(Note 2 & 3)*	1,009,090,909	58.86%
China Minmetals H.K. (Holdings) Limited ("Minmetals HK")	Interest of controlled corporation *(Note 4)*	275,376,917	16.06%
Coppermine Resources Limited ("Coppermine")	Beneficial owner *(Note 4)*	275,376,917	16.06%

Notes:

1. The calculation is based on the number of shares held by each person (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued shares of HK$0.05 each (i.e. 1,714,440,521 shares) of the Company as at 31 December 2005.

2. Pursuant to the joint announcements of the Company and CMN dated 30 December 2004, 19 January 2005, 29 June 2005, 30 June 2005, 25 July 2005, 16 September 2005, 29 September 2005, 5 October 2005 and 6 October 2005 respectively and the circulars of the Company dated 30 June 2005 and 16 September 2005 respectively, a conditional acquisition agreement ("Acquisition Agreement") was entered into between the Company (as purchaser), Top Create (as seller) and CMN (as Top Create's guarantor and warrantor) on 30 December 2004 in relation to the proposed acquisition by the Company of the entire interest of Top Create in Peak Strategic Industries Limited ("Acquisition"). The consideration as specified in the Acquisition Agreement is HK$2,886 million and shall be satisfied in full by the allotment and issue of 1,009,090,909 new shares of the Company ("Consideration Shares") to Top Create at HK$2.86 per Consideration Share. The Acquisition had been duly passed as an ordinary resolution by the independent shareholders of the Company at the extraordinary general meeting held on 25 July 2005. The completion of the Acquisition took place on 6 October 2005.

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

Long position in shares of the Company *(cont'd)*

Notes: (cont'd)

3. Top Create is a wholly owned subsidiary of CMN which in turn is owned as to approximately 82.23% by China Minmetals. Accordingly, CMN and China Minmetals were by virtue of the SFO deemed to be interested in the 1,009,090,909 shares of HK$0.05 each of the Company held by Top Create as at 31 December 2005.

4. Coppermine is a wholly owned subsidiary of Minmetals HK which in turn is a wholly owned subsidiary of China Minmetals. Accordingly, Minmetals HK and China Minmetals were by virtue of the SFO deemed to be interested in the 275,376,917 shares of HK$0.05 each of the Company held by Coppermine as at 31 December 2005.

Save as disclosed above, as at 31 December 2005, no other person was recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares and underlying shares of 5% or more of the issued shares of the Company.

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

During the year ended 31 December 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CONNECTED TRANSACTIONS

During the year ended 31 December 2005, the Group had the following connected transactions, details of which are set out below:

1. Discontinued Connected Transactions

(a) Amounts due from connected persons

The Company was notified on 26 August 2004 that China Minmetals Corporation ("China Minmetals"), the ultimate controlling shareholder of the Company, had become the controlling shareholder of Oriental Shipping & Transportation Company Limited ("OST"), Orienmet Properties Company Limited ("OPC") and Jordan Worldwide Limited ("JWL"). By virtue of these relationships, receivable due from OST, OPC and JWL to the Company were considered as financial assistance provided by the Company and constituted connected transactions under Rule 14A.63 of the Listing Rules.

The receivables due from OST, OPC and JWL amounted to approximately HK$146,634,000, HK$2,083,000 and HK$1,186,000 respectively as at 31 December 2004. These receivables have long been outstanding for more than six years and full provisions had been made against them in 2001.

CONNECTED TRANSACTIONS *(cont'd)*

1. Discontinued Connected Transactions *(cont'd)*

(a) Amounts due from connected persons (cont'd)

Having considered the history of the receivables, the financial position of OST, OPC and JWL and the recovery rate of the bank creditor in relation to the bank debts as owed by OPC, the Company accepted the repayment of HK$24,958,937, which was received by the Company on 12 January 2005, as full settlement of the amounts that OST, OPC and JWL owed to the Company. Accordingly, the transactions were completed on the same date.

(b) Purchase of raw materials

On 29 July 2005, North China Aluminium Company Limited, a subsidiary of the Company, entered into an agreement ("Agreement") with Minmetals Aluminium Company Limited ("Minmetals Aluminium") to purchase approximately 833 tonnes of aluminium ingots at a consideration of approximately RMB13,767,000 subject to the terms and conditions of the Agreement.

Prior to the completion of the acquisition of the entire interest in Peak Strategic Industries Limited by the Company pursuant to the acquisition agreement ("the Acquisition") (details of which are published in the circular of the Company dated 30 June 2005) on 6 October 2005, Minmetals Aluminium was a subsidiary of China Minmetals Non-ferrous Metals Company Limited ("CMN") which in turn is a subsidiary of China Minmetals, the Company's ultimate controlling shareholder. Accordingly, Minmetals Aluminium is a connected person of the Company under the Listing Rules. Following the completion of the Acquisition took place on 6 October 2005, Minmetals Aluminium became a wholly owned subsidiary of the Company and was no longer a connected person of the Company.

2. Continuing Connected Transactions

(a) Agreement on non-transferred contracts

Prior to the completion of the Acquisition, there were three subsisting sourcing contracts (the "Non-transferred Sourcing Contracts") and nine subsisting sales contracts (the "Non-transferred Sales Contracts", together with the Non-transferred Sourcing Contracts collectively referred to as the "Non-transferred Contracts") held under the name of CMN. On 28 June 2005, Minmetals Aluminium entered into an agreement on Non-transferred Contracts with CMN (the "Agreement on Non-transferred Contracts") pursuant to which CMN will sell the alumina sourced under the Non-transferred Sourcing Contracts to Minmetals Aluminium at the contracted purchase price plus RMB1 per tonne and Minmetals Aluminium will sell alumina to CMN for on-sell to the contracting parties under the Non-transferred Sales Contracts at the contracted sales price minus RMB1 per tone with effect from 1 January 2005. The Agreement on Non-transferred Contracts is an interim measure only and will expire on 31 December 2006.

CONNECTED TRANSACTIONS *(cont'd)*

2. Continuing Connected Transactions *(cont'd)*

(a) Agreement on non-transferred contracts (cont'd)

Following the completion of the Acquisition took place on 6 October 2005, Minmetals Aluminium became a wholly owned subsidiary of the Company. Accordingly, CMN is a connected person of the Company under the Listing Rules by virtue of it being an approximately 82.23% owned subsidiary of China Minmetals, the ultimate controlling shareholder of the Company.

The total purchase price paid under the Non-transferred Sourcing Contracts and the sales proceeds received under the Non-transferred Sales Contracts during the period from 6 October 2005 to 31 December 2005 amounted to approximately RMB228,024,000 and RMB175,041,000 respectively and did not exceed the proposed annual cap of RMB630,000,000 for the purchase price payable and RMB1,330,000,000 for the sales proceeds receivable prescribed for the year ended 31 December 2005 as disclosed in the Company's circular dated 30 June 2005.

(b) Logistics services agreement

On 28 June 2005, Minmetals Aluminium entered into a logistics services agreement with Minmetals Shipping & Forwarding Company Limited ("Minmetals Shipping") (the "Logistics Services Agreement") pursuant to which Minmetals Shipping agreed to provide and to procure its subsidiaries to provide shipping, customs clearance, unloading, packaging and custody services (the "Services") to Minmetals Aluminium and its subsidiaries.

Following the completion of the Acquisition took place on 6 October 2005, Minmetals Aluminium became a wholly owned subsidiary of the Company. Accordingly, Minmetals Shipping is a connected person of the Company under the Listing Rules by virtue of China Minmetals, the ultimate controlling shareholder of the Company, having an attributable interest of approximately 71.7% in it.

The total logistics services fees paid to Minmetals Shipping and its subsidiaries for the Services during the period from 6 October 2005 to 31 December 2005 amounted to approximately RMB7,414,000 which did not exceed the proposed annual cap of RMB150,000,000 prescribed for the year ended 31 December 2005 as disclosed in the Company's circular dated 30 June 2005.

CONNECTED TRANSACTIONS *(cont'd)*

2. Continuing Connected Transactions *(cont'd)*

The continuing connected transactions for the year ended 31 December 2005 have been reviewed by the independent non-executive directors of the Company and confirmed that the continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties;

(c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole; and

(d) the total annual transaction value of each of the Agreement on Non-transferred Contracts and the Logistics Services Agreement for the year ended 31 December 2005 have not exceeded the respective proposed annual cap amounts as approved by the independent shareholders at the extraordinary general meeting of the Company held on 25 July 2005.

EMOLUMENT POLICY

The Group's emolument policy is formulated by the Remuneration Committee on the basis of employees' merit, qualifications and competence.

The determination of remuneration packages of the Directors takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-base remuneration.

The Company has adopted share option schemes as an incentive to the Directors and eligible employees, details of the schemes are set out under the section headed "Share Option Schemes".

RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in Note 35 to the financial statements.

DIRECTORS AND SENIOR MANAGEMENT

Particulars of Directors and senior management are set out on pages 15 to 20 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Company and the Group as at 31 December 2005 are set out in Note 32 to the financial statements. No interest was capitalised by the Group during the year (2004: HK$6,990,000).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 125 to 126 of this annual report.

AUDITORS

PricewaterhouseCoopers, who will retire at the forthcoming annual general meeting, being eligible, offer themselves for re-appointment.

CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 36 to 43 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, as at the latest practicable date prior to the printing of this report, the Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

By order of the Board
ZHOU Zhongshu
Chairman

Hong Kong, 31 March 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance practices by emphasizing a quality board of directors, sound internal control, transparency and accountability to all the shareholders of the Company.

The Company has complied with all the code provisions set out in the Code of Corporate Governance Practice (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2005 except for certain deviations from code provisions A.4.1, A.4.2, B.1.4 Note 1 and C.3.3 with explanation below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code for securities transactions by directors of the Company (the "Code of Conduct") on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry with all the director(s) of the Company (the "Director(s)"), all of them confirmed that they have complied with the required standard set out in the Model Code and the Code of Conduct regarding securities transactions by the Directors.

BOARD OF DIRECTORS

Composition

The board of directors (the "Board") of the Company comprises eleven Directors of which two are executive Directors, six are non-executive Directors and three are independent non-executive Directors. The members of Directors as at the date of this annual report are as follows:

Executive Directors

Mr. Xu Huizhong
Mr. Wang Lixin

Non-executive Directors

Mr. Zhou Zhongshu *(Chairman)*
Dr. Zhu Guang *(Vice Chairman)*
Ms. Shen Ling
Mr. Zhang Shoulian
Mr. Li Linhu
Mr. Zong Qingsheng

BOARD OF DIRECTORS *(cont'd)*

Independent Non-executive Directors

Mr. Liu Hongru
Mr. Chan Wai Dune
Mr. Ting Leung Huel, Stephen

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal controls and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst Directors. The Directors' biographical information is set out on pages 15 to 18 under the section headed "Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals. In addition, Board meetings will be held on ad hoc basis as required by business needs. During the year ended 31 December 2005, the Board held twenty-one meetings.

The attendance of each member at the Board meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a Board member.

Directors	*Notes*	**Number of meetings attended**
Executive Directors		
Mr. Lin Xizhong *(Chairman)*	*(i)*	19/(19)
Mr. Xu Huizhong		21/(21)
Mr. Wang Lixin	*(ii)*	2/(2)
Mr. Qian Wenchao	*(iii)*	19/(19)
Mr. Tang Xiaojin	*(iii)*	19/(19)
Non-executive Directors		
Mr. Zhou Zhongshu *(Chairman)*	*(iv)*	2/(2)
Dr. Zhu Guang *(Vice Chairman)*	*(v)*	0/(2)
Ms. Shen Ling	*(vi)*	2/(2)
Mr. Zhang Shoulian	*(vi) & (vii)*	2/(2)
Mr. Li Linhu	*(vi)*	2/(2)
Mr. Zong Qingsheng	*(vi)*	2/(2)
Independent Non-executive Directors		
Mr. Liu Hongru		20/(21)
Mr. Chan Wai Dune		21/(21)
Mr. Ting Leung Huel, Stephen		20/(21)

BOARD OF DIRECTORS *(cont'd)*

Notes:

(i) Resigned as chairman of the Board and executive Director on 6 October 2005.

(ii) Appointed as executive Director on 6 October 2005.

(iii) Resigned as executive Director on 6 October 2005.

(iv) Appointed as chairman of the Board and non-executive Director on 6 October 2005.

(v) Appointed as vice chairman of the Board and non-executive Director on 6 October 2005.

(vi) Appointed as non-executive Director on 6 October 2005.

(vii) Due to other business commitment, Mr. Zhang Shoulian has appointed Mr. Wang Lixin, an executive Director, to act as his alternate director to attend one of the Board meetings held during the year.

Chairman of the Board and Chief Executive Officer

The chairman of the Board is Mr. Zhou Zhongshu and the chief executive officer (or president, in the case of the Company) of the Company is Mr. Xu Huizhong. The roles of the chairman of the Board and the president of the Company are segregated to ensure their respective independence, accountability and responsibility.

The chairman takes the lead in formulating overall strategies and policies of the Group; ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. The chairman also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner.

The president, supported by other Board members and senior management, is responsible for managing day-to-day business of the Group. He is also accountable to the Board for the implementation of the Group's overall strategies, and coordination of overall business operations.

Executive Directors

The executive Directors are responsible for running the Group and executing the strategies adopted by the Board. They lead the Group's management team in accordance with the directions set by the Board and are responsible for ensuring that proper internal control system is in place and the Group's business conforms to applicable laws and regulations.

Non-executive Directors

The non-executive Directors provide a wide range of expertise and experience and bring independent judgment on issues relating to the Group's strategies, development, performance and risk management through their contribution at Board and committee meetings.

BOARD OF DIRECTORS *(cont'd)*

Independent Non-executive Directors

The independent non-executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provide adequate checks and balances to safeguard the interests of the Group and its shareholders. The Board consists of three independent non-executive Directors and two of them have appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the independent non-executive Directors a confirmation of independence for the year ended 31 December 2005 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

Nomination of Directors

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Qualified candidates will be proposed to the Board for consideration and the selection criteria are mainly based on the assessment of their qualifications, experience and expertise as well as the requirements under the Listing Rules. The Board selects and recommends candidates for directorship having regard to the balance of skills and experience appropriate to the Group's business.

During the year, one meeting was held by the Board to discuss and recommend the nomination of Mr. Wang Lixin as the executive Director and Mr. Zhou Zhongshu, Dr. Zhu Guang, Ms. Shen Ling, Mr. Zhang Shoulian, Mr. Li Linhu and Mr. Zong Qingsheng as the non-executive Directors. All these Directors are subject to retirement and re-election at the Company's forthcoming annual general meeting in accordance with the articles of association of the Company (the "Articles of Association").

Re-election of Directors

In compliance with code provision A.4.1 of the CG Code, each of the non-executive Directors has entered into a service contract with the Company for a term of three years commencing from 6 October 2005 but is subject to retirement and re-election at the forthcoming annual general meeting of the Company and thereafter subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Articles of Association.

In accordance with Articles 85 of the Articles of Association, any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall be subject to re-election. In addition, Article 101 of the Articles of Association provides that, one third of the Directors for the time being save as the managing director (or president, in the case of the Company) and those Directors in respect of whom the provision of Article 85 applies or, if their number is not three, then the number nearest one-third, shall retire from office and shall be eligible for re-election at each annual general meeting of the Company. In the spirit of good corporate governance practices, the president of the Company had voluntarily retired from his office and offered himself for re-election at the annual general meeting of the Company held on 18 May 2005 notwithstanding that he is not required to do so by the Articles of Association. In order to ensure full compliance with code provision A.4.2 of the CG Code, a special resolution will be proposed to amend the relevant articles of Articles of Association at the forthcoming annual general meeting of the Company so that all directors appointed to fill a casual vacancy shall retire at the next general meeting, and every director shall be subject to retirement by rotation at least once every three years.

THE BOARD COMMITTEES

Remuneration Committee

The Company has established a remuneration committee on 11 April 2005. The remuneration committee comprises five members, a majority of whom are independent non-executive directors, and is chaired by Mr. Ting Leung Huel, Stephen. The other members are Mr. Zhou Zhongshu, Mr Liu Hongru, Mr. Xu Huizhong and Mr. Chan Wai Dune.

The remuneration committee is responsible for formulating and making recommendation to the Board on the Group's remuneration policy, the determination of specific remuneration packages of all executive directors and senior management and making recommendations to the Board the remuneration of non-executive Directors. It takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of Directors and senior management, employment conditions elsewhere in the Group and desirability of performance-base remuneration.

The terms of reference of the remuneration committee were posted on the Company's website immediately after the completion of the construction of the website on 25 August 2005 and has complied with code provision B.1.4 Note 1 of the CG Code.

During the year ended 31 December 2005, the remuneration committee held two meetings. The remuneration committee reviewed the remuneration policy of the Company and the remuneration of Directors and senior management and made recommendation to the Board.

The attendance of each member at the remuneration committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the remuneration committee.

Members	*Notes*	**Number of meetings attended**
Executive Directors		
Mr. Lin Xizhong	*(i)*	1/(1)
Mr. Xu Huizhong		1/(2)
Non-executive Director		
Mr. Zhou Zhongshu	*(ii)*	0/(0)
Independent Non-executive Directors		
Mr. Liu Hongru		2/(2)
Mr. Chan Wai Dune		2/(2)
Mr. Ting Leung Huel, Stephen *(Chairman)*		2/(2)

Notes:

(i) Resigned as member of the remuneration committee on 6 October 2005.

(ii) Appointed as member of the remuneration committee on 12 October 2005 but no meeting was held after his appointment.

THE BOARD COMMITTEES *(cont'd)*

Audit Committee

The Company has established an audit committee on 2 July 1999. The audit committee comprises three independent non-executive Directors, namely Mr. Liu Hongru, Mr. Chan Wai Dune and Mr. Ting Leung Huel, Stephen and one non-executive Director, Mr. Zong Qingsheng. The Chairman of the audit committee is Mr. Chan Wai Dune.

The audit committee is accountable to the Board and the principal duties of the audit committee include the review and supervision of the financial reporting process and internal controls system of the Group.

The revised terms of reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code were approved by the Board on 25 August 2005 and were posted on the Company's website.

During the year ended 31 December 2005, the audit committee held two meetings. The audit committee reviewed with the senior management and auditors of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal controls system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditors of the Company, the connected transactions entered into by the Group and the audit scope and fees for the year ended 31 December 2005.

The attendance of each member at the audit committee meetings is set out below. Figure in brackets indicates maximum number of meetings held in the period in which the individual was a member of the audit committee.

Members	*Notes*	**Number of meetings attended**
Non-executive Director		
Mr. Zong Qingsheng	*(i)*	0/(0)
Independent Non-executive Directors		
Mr. Liu Hongru		2/(2)
Mr. Chan Wai Dune *(Chairman)*		2/(2)
Mr. Ting Leung Huel, Stephen		2/(2)

Notes:

(i) Appointed as member of the audit committee on 12 October 2005 but no meeting was held after his appointment.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the year ended 31 December 2005 as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity with the generally accepted accounting standards in Hong Kong, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgment of the Board and Management with an appropriate consideration to materiality. As at 31 December 2005, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements on a going concern basis.

The statement of the auditors of the Company regarding their responsibilities on the financial statements is set out in the Auditors' Report on pages 44 to 45 of this annual report.

Internal Controls

The Company is currently in the process of developing the procedures for the review of the effectiveness of its internal control system. The annual review requirement of the effectiveness of the Company's internal control system under the CG Code shall apply to the Company starting from the year ending 31 December 2006.

Auditors' Remuneration

An analysis of the remuneration of the Company's auditors, PricewaterhouseCoopers, for the year ended 31 December 2005 is set out as follows:

Services rendered	**Fee paid/payable**
	HK$'000
Audit services	2,169
Non-audit services	
Services in connection with the acquisition of subsidiaries and placing of shares	3,197
Other services	153
	5,519

COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communications with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

1. the annual general meeting provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The Chairman and the Directors are available at the annual general meetings of the Company to address shareholders' queries;

2. Separate resolutions are proposed at the general meetings on each substantially separate issue and procedures for demanding a poll in general meetings are included in the circulars to the shareholders of the Company to facilitate the enforcement of shareholders' rights;

3. interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations; and

4. updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF
MINMETALS RESOURCES LIMITED
(Formerly known as "Oriental Metals (Holdings) Company Limited")
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 46 to 124 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Auditors' Report

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2006

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
Turnover	5	**3,332,765**	1,288,485
Cost of sales		**(3,028,661)**	(1,095,538)
Gross profit		**304,104**	192,947
Other income	5	**14,708**	5,539
		318,812	198,486
Selling expenses		**(63,136)**	(41,779)
Administrative expenses		**(70,445)**	(66,429)
Negative goodwill recognised	37 (a)	**80,873**	–
Reversal of consolidated losses upon deconsolidation of subsidiaries	37 (b)	**–**	97,350
Other (losses)/gains – net	6	**(36,982)**	64,611
Operating profit	7	**229,122**	252,239
Finance costs	8	**(26,555)**	(16,403)
Share of profits less losses of associated companies		**25,046**	9,135
Profit before income tax		**227,613**	244,971
Income tax expense	9	**(24,532)**	(10,551)
Profit for the year		**203,081**	234,420
Attributable to:	10		
Equity holders of the Company		**181,746**	217,726
Minority interest		**21,335**	16,694
		203,081	234,420
Basic earnings per share for profit attributable to equity holders of the Company during the year	11	**HK$0.21**	HK$0.37
Dividends	12	**–**	–

The notes on pages 53 to 124 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**504,190**	292,231
Investment properties	16	**14,730**	7,090
Land use rights	17	**11,992**	8,943
Construction in progress	18	**5,415**	203,008
Interests in associated companies	20	**85,116**	43,059
Alumina purchasing rights	21(a)	**3,601,301**	–
Long-term receivables	22	**4,808**	4,717
Available-for-sale financial assets	23	**313,663**	–
Deferred income tax assets	24	**23,849**	7,843
		4,565,064	566,891
Current assets			
Inventories	25	**943,797**	224,518
Trade and other receivables	26	**274,019**	266,775
Amount due from an intermediate holding company	41	**182,925**	–
Amounts due from fellow subsidiaries	41	**–**	24,959
Alumina purchasing rights	21(b)	**293,160**	–
Derivative financial instruments	27	**6,009**	–
Bills endorsed to suppliers		**216,011**	–
Bills discounted to banks		**55,779**	–
Pledged bank deposits	28	**49,659**	14,648
Cash and cash equivalents	28	**938,086**	176,236
		2,959,445	707,136
Total assets		**7,524,509**	1,274,027
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**85,722**	30,367
Reserves	30	**2,995,301**	391,638
		3,081,023	422,005
Minority interest		**203,019**	178,963
Total equity		**3,284,042**	600,968

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
LIABILITIES			
Non-current liabilities			
Deferred income	31	**27,138**	28,302
Provision for sales contract obligations	21(c)	**24,859**	–
Derivative financial instruments	27	**14,970**	–
Deferred income tax liabilities	24	**688,438**	–
Bank loans	32	**617,477**	94,340
		1,372,882	122,642
Current liabilities			
Trade and other payables	33	**728,405**	291,920
Bills payable		**63,191**	18,116
Trade payables under endorsed bills		**216,011**	–
Advances from banks for bills discounted		**55,779**	–
Amounts due to fellow subsidiaries	41	**6,890**	–
Provision for sales contract obligations	21(c)	**1,033,799**	–
Provisions for other liabilities and charges	34	**–**	6,792
Derivative financial instruments	27	**165,931**	–
Income tax liabilities		**63,738**	14,721
Bank loans	32	**533,841**	218,868
		2,867,585	550,417
Total liabilities		**4,240,467**	673,059
Total equity and liabilities		**7,524,509**	1,274,027
Net current assets		**91,860**	156,719
Total assets less current liabilities		**4,656,924**	723,610

Xu Huizhong
President and Director

Wang Lixin
Vice President and Director

The notes on pages 53 to 124 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	2004 HK$'000 (Restated)
ASSETS			
Non-current assets			
Property, plant and equipment	*15*	**1,460**	1,583
Investment properties	*16*	**13,630**	5,990
Interests in subsidiaries	*19*	**2,558,293**	292,208
		2,573,383	299,781
Current assets			
Other receivables	*26*	**2,181**	15,786
Amounts due from fellow subsidiaries		**–**	24,959
Cash and cash equivalents	*28*	**347,324**	114,511
		349,505	155,256
Total assets		**2,922,888**	455,037
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	*29*	**85,722**	30,367
Reserves	*30*	**2,779,532**	343,764
Total equity		**2,865,254**	374,131
LIABILITIES			
Current liabilities			
Other payables	*33*	**5,737**	16,829
Amounts due to subsidiaries	*19*	**51,897**	64,077
Total liabilities		**57,634**	80,906
Total equity and liabilities		**2,922,888**	455,037
Net current assets		**291,871**	74,350
Total assets less current liabilities		**2,865,254**	374,131

Xu Huizhong
President and Director

Wang Lixin
Vice President and Director

The notes on pages 53 to 124 are an integral part of this financial statement.

Consolidated Statement of Changes In Equity

For the year Ended 31 December 2005

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Special capital reserve (Note 30)	Revaluation reserve	General reserve	PRC statutory reserves	Exchange translation reserve	Accumulated losses	Minority interest	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2004, as previously reported as equity	131,973	800,030	–	–	558	15,600	69,614	2,877	(1,282,457)	–	(261,805)
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	–	–	–	–	–	–	165,157	165,157
Balance at 1 January 2004, as restated	131,973	800,030	–	–	558	15,600	69,614	2,877	(1,282,457)	165,157	(96,648)
Issue of new shares	23,768	394,563	–	–	–	–	–	–	–	–	418,331
Debts 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
Deconsolidation of subsidiaries	–	–	–	–	–	–	–	(848)	–	–	(848)
Profit for the year	–	–	–	–	–	–	–	–	217,726	16,694	234,420
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(2,888)	(2,888)
Balance at 31 December 2004	30,367	1,194,593	48,380	125,374	779	15,600	70,448	2,029	(1,065,565)	178,963	600,968

The notes on pages 53 to 124 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes In Equity

For the year Ended 31 December 2005

	Attributable to equity holders of the Company											
	Share capital	**Share premium**	**Capital reserve**	**Special capital reserve** *(Note 30)*	**Revaluation reserve**	**General reserve**	**PRC statutory reserves**	**Exchange translation reserve**	**Available-for-sale financial assets reserve**	**Accumu-lated losses**	**Minority interest**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2005, as previously reported as equity	30,367	1,194,593	48,380	125,374	779	15,600	70,448	2,029	–	(1,065,565)	178,963	600,968
Transfer as a result of the change in accounting policy for investment properties	–	–	–	–	(779)	–	–	–	–	779	–	–
Balance at 1 January 2005, as restated	30,367	1,194,593	48,380	125,374	–	15,600	70,448	2,029	–	(1,064,786)	178,963	600,968
Issue of new shares, net of issuing expenses	55,355	2,308,769	–	–	–	–	–	–	–	–	–	2,364,124
Minority interest – business combinations	–	–	–	–	–	–	–	–	–	–	516	516
Transfer to PRC statutory reveres	–	–	–	–	–	–	2,152	–	–	(2,152)	–	–
Currency translation differences	–	–	–	–	–	–	–	3,320	–	–	3,633	6,953
Fair value gain	–	–	–	–	–	–	–	–	109,828	–	–	109,828
Profit for the year	–	–	–	–	–	–	–	–	–	181,746	21,335	203,081
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(1,428)	(1,428)
Balance at 31 December 2005	85,722	3,503,362	48,380	125,374	–	15,600	72,600	5,349	109,828	(885,192)	203,019	3,284,042

The notes on pages 53 to 124 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Net cash (used in)/generated from operations	38	**(207,905)**	146,128
Interest paid		**(26,733)**	(22,776)
Taxes paid		**(80,484)**	(354)
Net cash (used in)/generated from operating activities		**(315,122)**	122,998
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	37(a)	**689,630**	–
Purchases of property, plant and equipment and land use rights		**(6,696)**	(10,860)
Proceeds from disposal of property, plant and equipment	38	**908**	2,619
Additions to construction in progress		**(43,999)**	(45,240)
Deconsolidation of subsidiaries, net cash disposed	37(b)	**–**	(310)
Proceeds from disposal of an associated company		**–**	5,873
Dividends received from associated companies		**1,557**	2,696
Interest received		**10,987**	1,620
Proceeds from disposal of investment securities		**–**	377
Decrease/(increase) in pledged bank deposits		**1,417**	(4,756)
Net cash inflow from/(used in) investing activities		**653,804**	(47,981)
Cash flows from financing activities			
Proceeds from issuance of shares		**219,806**	–
Proceeds from new bank loans		**258,195**	–
Repayment of bank loans		**(54,008)**	(30,448)
Dividends paid to minority shareholders		**(1,428)**	(2,888)
Decrease in amounts due to minority shareholders		**–**	(6,324)
Net cash inflow from/(used in) financing activities		**422,565**	(39,660)
Net increase in cash and cash equivalents		**761,247**	35,357
Cash and cash equivalents at 1 January		**176,236**	140,879
Exchange gains on cash and bank deposits		**603**	–
Cash and cash equivalents at 31 December		**938,086**	176,236
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**938,086**	176,236

The notes on pages 53 to 124 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Oriental Metals (Holdings) Company Limited (the "Company") was incorporated in Hong Kong on 29 July 1988. Pursuant to a shareholders' resolution on 25 July 2005, the Company changed its name from "Oriental Metals (Holdings) Company Limited" to "Minmetals Resources Limited" with effect from 4 August 2005.

The Company is an investment holding company. Its subsidiaries and associated companies are principally engaged in the trading of non-ferrous metals and the manufacturing and distribution of aluminum and copper products. During the year, the Company acquired certain subsidiaries of its ultimate holding company. The subsidiaries acquired are mainly engaged in sourcing of alumina and other aluminum products in the international markets and in the supply of alumina to aluminum smelters in the People's Republic of China ("PRC").

The Company is a limited liability company. The address of its registered office is 9/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings, available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.1 Basis of preparation *(cont'd)*

The adoption of new/revised HKFRS

In 2005, the Company and its subsidiaries (collectively referred to as the "Group") adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

The adoption of the above new/revised HKFRS has the following impacts on the Group's accounting policies:

(a) The adoption of HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33, 36, 38, HKFRS 3 and HKAS-Int 21 do not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associated companies and other disclosures.

– HKASs 7, 8, 16, 27 and 28 affect certain classifications and disclosures of the financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(a) *(cont'd)*

– HKASs 2, 10, 21, 23, 33, 36, 38, HKFRS 3 and HKAS-Int 21 do not have material effect as the Group's accounting policies already comply with those standards.

(b) The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously accounted for as finance leases and were stated at cost or valuation less accumulated depreciation and accumulated impairment losses. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building according to their fair value at inception. A lease of land is an operating lease and a lease of building is a finance lease unless the two elements cannot be allocated reliably, in which case the entire lease is classified as a finance lease. Pursuant to these requirements, the land premium paid for distinguishable leasehold land is accounted for as an operating lease and amortised over its unexpired lease term, whereas undistinguishable leasehold land and buildings are stated collectively at cost or valuation less accumulated depreciation and accumulated impairment losses.

The adoption of HKAS 17 resulted in:

(i) Property, plant and equipment decreased and land use rights increased by approximately HK$11,992,000 as at 31 December 2005;

(ii) Property, plant and equipment decreased and land use rights increased by approximately HK$8,943,000 as at 31 December 2004; and

(iii) No increase/decrease in reserves as at 1 January 2005 and 1 January 2004.

(c) The adoption of HKAS 32 and HKAS 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. The Group's discounted bills to banks with recourse, which were previously disclosed as contingent liabilities, have been accounted for as collateralised bank advances prospectively on and after 1 January 2005, as the financial assets derecognition conditions as stipulated in HKAS 39 have not been fulfilled. Similar to discounted bills, bills endorsed to suppliers, which were previously net off against trade payables, have been accounted for as trade payables under endorsed bills prospectively on and after 1 January 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(c) *(cont'd)*

The adoption of HKASs 32 and 39 resulted in:

(i) Bills endorsed to suppliers and trade payables under endorsed bills increased by approximately HK$216,011,000 as at 31 December 2005;

(ii) Bills discounted to banks and advances from banks for bills discounted increased by approximately HK$55,779,000 as at 31 December 2005; and

(iii) No increase/decrease in reserves as at 1 January 2005.

(d) The adoption of HKAS 40 has resulted in a change in accounting policy for the Group's investment properties. In prior years, increases in the valuation of investment properties were credited to the revaluation reserve while decreases in the valuation of investment properties were firstly set off against increases on earlier valuations on a portfolio basis and thereafter charged to the income statement. Following the adoption of HKAS 40, the Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the income statement for the period in which they arise. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in revaluation reserve amounting to approximately HK$779,000 at 1 January 2005 has been transferred to the Group's accumulated losses.

(e) In the current year, the Group has applied HKFRS 2 which requires an expense to be recognised where the Group acquires goods and services in exchange for shares or rights over shares, or in exchange for other asset equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and vested before 1 January 2005 in accordance with the transitional provisions set out in paragraph 53 of HKFRS 2.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.1 Basis of preparation *(cont'd)*

The HKICPA has issued a number of new/revised HKFRS that are effective for accounting periods commencing on or after 1 January 2006. The Group has started considering the potential impact of these HKFRS. Based on the preliminary assessment, the Group believes that the adoption of these HKFRS, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these new/revised HKFRS, if applicable, in the financial statements for the year ended 31 December 2005, as follows:

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosure[1]
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures[2]
HKAS 21 (Amendment)	Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts[2]
HKFRS 6	Exploration for and Evaluation of Mineral Resources[2]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS-Int 3	Emission Rights[2]
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease[2]
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds[2]

1: Effective for accounting periods commencing on or after 1 January 2007.
2: Effective for accounting periods commencing on or after 1 January 2006.

2.2 Consolidation

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

(a) Subsidiaries

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.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.2 Consolidation *(cont'd)*

(a) *Subsidiaries (cont'd)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interest*

The Group applies a policy of treating transactions with minority interest as transactions with parties external to the Group. Disposals to minority interest result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.2 Consolidation *(cont'd)*

(c) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associated companies' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

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 also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are, included in the fair value reserve in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.4 Foreign currency translation *(cont'd)*

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2.5 Property, plant and equipment

Buildings comprise mainly factories, offices and staff quarters. 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 80A of HKAS 16 "Property, Plant and Equipment", 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.5 Property, plant and equipment *(cont'd)*

Other property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

–	Buildings	20-50 years
–	Leasehold improvements	5 years or over the unexpired period of the leases
–	Plant and machinery	7-15 years
–	Office equipment	5-15 years
–	Furniture, fixtures and equipment	5-15 years
–	Motor vehicles	3-10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors. Investment property is valued annually by external valuer.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement as part of 'other (losses)/ gains – net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.8 Alumina purchasing rights

Alumina purchasing rights represents the rights to purchase pre-determined quantities of alumina from certain alumina suppliers over certain periods of time pursuant to the legal binding agreements entered into between the alumina suppliers and the Group. Alumina purchasing rights are stated at cost less accumulated amortisation and any impairment losses. Alumina purchasing rights are amortised over the unexpired periods of the agreements or in accordance with the quantities of alumina delivered.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) *Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, unless their maturities are greater than 12 months after the balance sheet date, in which case they are classified as non-current assets.

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.10 Financial assets *(cont'd)*

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on the trade-date being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category, including interest and dividend income, are presented in the income statement within 'other (losses)/gains – net', in the period in which they arise.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.10 Financial assets *(cont'd)*

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.11 Accounting for derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or (3) hedges of net investments in foreign operations (net investment hedge).

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability, if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.11 Accounting for derivative financial instruments and hedging activities *(cont'd)*

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recognised in the income statement, together with any changes in the fair value of the hedge asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other (losses)/gains – net'. Changes in the fair value of the hedged fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other (losses)/gains – net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.11 Accounting for derivative financial instruments and hedging activities *(cont'd)*

(c) *Net investment hedge*

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

(d) *Derivatives that do not qualify for hedge accounting*

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other (losses)/gains – net'.

2.12 Inventories

Inventories comprise goods-in-transit, commodities purchased for re-sale, finished goods from production, work in progress and raw materials. Inventories are stated at the lower of cost and net realisable value.

Cost of commodities purchased for re-sale, mainly comprising purchase costs and custom duty, is determined using the first-in, first-out basis. Costs of the finished goods from production and work in progress, comprising raw materials, direct labour, other direct costs and an appropriate proportion of all production overhead expenditure, are calculated on the weighted average basis. Borrowing costs are excluded. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

2.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within 'other (losses)/gains – net'.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction.

2.16 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

2.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.19 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

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

(b) Servicing income

Commission and logistics agency income are recognised when the related services are rendered.

(c) Dividend income

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

(d) Interest income

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

(e) Rental income

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

2.21 Employee benefits

(a) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.21 Employee benefits *(cont'd)*

(b) Retirement benefits

Arrangements for staff retirement benefits are made in accordance with local regulations and customs.

Mainland China employees are covered by various government-sponsored pension plans. These government agencies are responsible for the pension liability to these employees. The Group contributes on a monthly basis to these pension plans based on certain percentages of the salaries of the employees, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

Mainland China employees are also entitled to participate in various government-sponsored medical insurance plan and housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period. Contributions to these plans are expensed as incurred.

Hong Kong and overseas employees are entitled to participate 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.

(c) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont'd)*

2.21 Employee benefits *(cont'd)*

(c) Share-based compensation (cont'd)

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.22 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

2.23 Comparatives

Certain comparative figures have been reclassified in order to have a fairer representation of the Group's activities.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to monitor and reduce certain risk exposures.

Risk management is carried out by the risk management department under policies approved by the Board of Directors. The Group's risk management department identifies, evaluates and monitors financial risks in close co-operation with the operating units to ensure derivative financial instruments are employed solely for hedging purposes. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments (annual plan) and cash management.

3. FINANCIAL RISK MANAGEMENT *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(a) Foreign exchange risk

The Group's major businesses are conducted in United States dollars ("USD"), Renminbi ("RMB"), Australian dollars ("AUD") and Hong Kong dollars ("HKD"). Given the exchange rate peg between HKD and USD, it is not foreseen that the Group will be exposed to significant exchange rate risk exposure for the transactions conducted in USD. For the year ended 31 December 2005, 77.6% of the Group turnover was denominated in RMB. As at 31 December 2005, the total net assets shared by the Group in its PRC subsidiaries and associated companies amounted to approximately HK$390 million was denominated in RMB. Fluctuation of the exchange rate of RMB against HKD could affect the Group's results of operation. The exchange rate fluctuation between AUD and USD will affect the purchase cost of alumina under a long-term purchase contract with a quantity of approximately 400,000 tonnes per annum from 1997 to 2027. The Group monitors this AUD exchange exposure by using foreign exchange forward contracts.

(b) Cash flow and fair value interest rate risk

The Group's interest rate risk mainly arises from bank borrowings. Floating rate bank borrowings expose the Group to cash flow interest rate risk. As at 31 December 2005, the Group's bank borrowings of HK$763 million were at floating rates. When considered appropriate, the Group uses interest rate swaps to manage cash flow interest rate risk exposure associated with borrowings issued at floating rates.

(c) Commodity price risk

The price of alumina in the PRC domestic market fluctuates primarily on account of changes in the supply of, and demand for, alumina and aluminium in the domestic and international markets and on account of changes in the shipping costs to the PRC. In addition, due to the broad applications of aluminium, aluminium demand has generally been linked to the fluctuations in domestic and international economic conditions. Each of these factors may fluctuate beyond the Group's control.

To monitor the adverse impact that the volatility in alumina and aluminium prices could have on the Group's businesses, the Group enters into aluminium forward contracts with certain financial institutions. The Group does not and is prohibited (pursuant to its internal hedging policies and guidelines) to enter into aluminium forward contracts for speculative purposes.

3. FINANCIAL RISK MANAGEMENT *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(d) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods are made to customers with an appropriate credit history. Derivative counter parties and cash transactions are limited to high-credit-quality financial institutions.

(e) Liquidity risk

The Group's policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its trading, manufacturing and other business operations.

Any excess cash is invested mostly in term deposits with initial terms of two weeks to six months.

3.2 Fair value estimation

The fair value of publicly traded securities is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of derivative financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining derivative financial instruments.

The fair value of foreign exchange forward contracts is calculated by reference to current forward foreign exchange rates for contracts with similar maturity profiles. The fair value of interest rate swaps is determined by reference to market value for similar instruments. While the fair value of aluminium forward contracts is calculated by reference to current forward aluminium prices for contracts with similar maturity profiles.

The carrying amounts of the Group's financial assets including cash and cash equivalents, time deposits, trade and other receivables less impairment provision, and financial liabilities including trade and other payables and short-term borrowings, are assumed to approximate their fair values due to their short maturities. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated useful lives of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its plant and equipment. This estimate is based on the historical experience of the actual useful lives of plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to competition within the industry. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Estimated fair values of alumina purchasing rights and provision for sales contract obligations

The Group determines the fair values of alumina purchasing rights and provision for sales contract obligations with a range of reasonable fair value estimates. Estimating the values associated with the purchasing rights and provision for sales contract obligations requires a process that involves determining appropriate discount rates, forecasting future alumina prices and sourcing costs. Any changes in assumptions and estimates can affect the fair values of these purchasing rights and provision for sales contract obligations.

(c) Estimated provision for impairment of receivables

The Group makes provision for impairment of receivables based on an assessment of the collectibility of trade and other receivables. Provisions for impairment are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and doubtful debt expenses in the period in which such estimate has been changed.

5. SEGMENT INFORMATION

The Group is principally engaged in the trading of alumina and other non-ferrous metals, production and sales of aluminum foils and extrusions and plica tubes, and the provision of port logistics services. Revenues recognised during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales of goods, net of value-added tax, returns and discounts	**3,330,932**	1,288,485
Servicing income	**1,833**	–
	3,332,765	1,288,485
Other income		
Interest income	**12,197**	1,761
Rental income from investment properties	**565**	139
Other services income, sales of by-products and others	**1,946**	3,639
	14,708	5,539
	3,347,473	1,294,024

(a) Primary reporting format – Business segments

At 31 December 2005, the Group's operations comprised the following main business segments:

Trading : Trading of alumina and other non-ferrous metals

Aluminium fabrication : Production and sale of aluminium foils and extrusions

Other industrial operations and port logistics services :
(i) Other industrial operations include production and sale of plica tubes, aluminium cans, copper rods, copper cathodes and copper blisters.

(ii) Port logistics services include customs clearance, unloading and packing alumina, and receiving and delivering of alumina at the port of Lianyunggang in the PRC.

5. SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – Business segments *(cont'd)*

	Trading		Aluminium fabrication		Other industrial operations and port logistics services		Corporate and others		Inter-segment elimination		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover												
Sales of alumina and other non-ferrous metals	**2,086,494**	164,778	**–**	–	**–**	–	**–**	–	**(35,683)**	–	**2,050,811**	164,778
Manufacturing of aluminium foils and extrusions	**–**	–	**1,252,890**	1,058,593	**–**	–	**–**	–	**(2,982)**	–	**1,249,908**	1,058,593
Manufacturing of other non-ferrous metals products	**–**	–	**–**	–	**30,213**	65,114	**–**	–	**–**	–	**30,213**	65,114
Logistics agency fees	**–**	–	**–**	–	**3,322**	–	**–**	–	**(1,489)**	–	**1,833**	–
	2,086,494	164,778	**1,252,890**	1,058,593	**33,535**	65,114	**–**	–	**(40,154)**	–	**3,332,765**	1,288,485
Other income	**6,951**	150	**3,632**	3,000	**(682)**	952	**6,384**	1,437	**(1,577)**	–	**14,708**	5,539
	2,093,445	164,928	**1,256,522**	1,061,593	**32,853**	66,066	**6,384**	1,437	**(41,731)**	–	**3,347,473**	1,294,024
Results												
Segment results	**46,588**	87,158	**38,474**	47,138	**13,991**	86,536	**131,638**	31,407	**(1,569)**	–	**229,122**	252,239
Finance costs											**(26,555)**	(16,403)
Share of profits less losses of associated companies	**–**	–	**–**	–	**25,046**	9,135	**–**	–	**–**	–	**25,046**	9,135
Income tax expense											**(24,532)**	(10,551)
Profit for the year											**203,081**	234,420

5. SEGMENT INFORMATION *(cont'd)*

(a) Primary reporting format – Business segments *(cont'd)*

	Trading		Aluminium fabrication		Other industrial operations and port logistics services		Corporate and others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**5,478,410**	119,074	**1,216,734**	914,005	**41,016**	25,230	**365,721**	164,816	**7,101,881**	1,223,125
Interests in associated companies	**–**	–	**143**	221	**77,176**	42,838	**7,797**	–	**85,116**	43,059
Available-for-sale financial assets									**313,663**	–
Deferred income tax assets									**23,849**	7,843
Total assets									**7,524,509**	1,274,027
Segment liabilities	**2,668,825**	60,216	**790,664**	548,481	**21,753**	29,556	**7,049**	20,085	**3,488,291**	658,338
Income tax liabilities									**63,738**	14,721
Deferred income tax liabilities									**688,438**	–
Total liabilities									**4,240,467**	673,059
Capital expenditures	**69**	–	**49,499**	54,662	**20**	1,083	**1,107**	355	**50,695**	56,100
Depreciation of property, plant and equipment and amortisation of prepaid operating lease payments	**204**	2	**43,603**	31,746	**348**	9,596	**434**	404	**44,589**	41,748
Non-cash expenses/(income) other than depreciation and amortisation	**35,178**	(14,257)	**(1,691)**	(10,644)	**(6,857)**	4,207	**(7,799)**	(39,984)	**18,831**	(60,678)
Reversal of provision for impairment losses, net	**–**	–	**(2,407)**	(281)	**–**	(6,861)	**–**	607	**(2,407)**	(6,535)

5. SEGMENT INFORMATION *(cont'd)*

(b) Secondary reporting format – Geographical segments

The Group's activities are conducted predominately in the PRC except that a small portion of its turnover is derived from other areas.

	PRC		Australia		Others		Inter-segment elimination		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**3,008,366**	1,055,315	**12,313**	–	**513,755**	238,709	**(186,961)**	–	**3,347,473**	1,294,024
Contribution to gross profit	**251,728**	114,906	**1,767**	–	**55,147**	78,041	**(4,538)**	–	**304,104**	192,947
Capital expenditures	**49,555**	55,745	**33**	–	**1,107**	355	**–**	–	**50,695**	56,100
Segment assets	**2,790,505**	1,006,135	**3,769,643**	–	**541,733**	216,990	**–**	–	**7,101,881**	1,223,125

6. OTHER (LOSSES)/GAINS – NET

	2005 HK$'000	2004 HK$'000
Realised net gains/(losses) for derivative financial instruments	**(23,578)**	–
– Aluminium forward contracts	**(18,550)**	–
– Foreign exchange forward contracts	**1,838**	–
– Interest rate swaps	**(6,914)**	–
– Aluminium options	**48**	–
Unrealised net gains/(losses) for derivative financial instruments	**(110,148)**	–
– Aluminium forward contracts	**(107,971)**	–
– Foreign exchange forward contracts	**(3,625)**	–
– Interest rate swaps	**8,706**	–
– Aluminium options	**(7,258)**	–
Government grant income	**866**	715
Amortisation of deferred income *(Note 31)*	**1,691**	–
Reversal of provision for impairment of receivables	**75,093**	51,005
– Trade and other receivables	**59,814**	24,161
– Amounts due from fellow subsidiaries	**–**	24,959
– Amounts due from associated companies	**15,279**	1,885
Reversal of provision for a guarantee given to a third party	**6,857**	–
Write-back of trade payables and accrued charges	**5,831**	–
Trade payables waived by creditors	**–**	9,673
Reversal of provision for/(provision for) impairment loss of property, plant and equipment and construction in progress	**2,407**	8,494
– Properties	**14**	(481)
– Others	**2,393**	8,975
Gain/(loss) on disposal of property, plant and equipment	**36**	(4,884)
Fair value losses on investment properties	**(556)**	–
Gain on disposal of investment securities	**–**	119
Provision for impairment loss of investment securities	**–**	(1,959)
Exchange gains/(losses), net	**1,003**	(121)
Others	**3,516**	1,569
	(36,982)	64,611

7. OPERATING PROFIT

Operating profit is determined after charging the following:

	2005 HK$'000	2004 HK$'000
Auditors' remuneration	**1,800**	900
Depreciation and amortisation	**44,589**	41,748
Provision for inventory obsolescence	**572**	2,500
Staff costs (including directors' emoluments)	**75,617**	70,520
Operating lease rentals on properties	**2,550**	2,359
Direct operating expenses arising from investment properties that generate rental income	**325**	217
Direct operating expenses arising from investment properties that did not generate rental income	**318**	53

8. FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Bank loans wholly repayable within five years	**26,554**	23,360
Other loans wholly repayable within five years	**1**	33
	26,555	23,393
Less: Interest capitalised in construction in progress	**–**	(6,990)
	26,555	16,403

No interest was capitalised in 2005. The capitalisation rate applied to funds borrowed and used for construction in progress was 5.58% per annum for 2004.

9. INCOME TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profits for the year. Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the period at the rates prevailing in the relevant jurisdictions.

	2005	2004
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**–**	(8)
PRC enterprise income tax	**24,398**	5,486
Overseas income tax	**1,241**	–
	25,639	5,478
Deferred income tax (credit)/expense *(Note 24)*	**(1,107)**	5,073
Income tax expense	**24,532**	10,551

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the applicable tax rate to profits of the consolidated companies is as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before income tax	**227,613**	244,971
Calculated at a taxation rate of 33% (2004: 33%)	**75,112**	80,840
Effect of different taxation rates in other countries	**(23,332)**	(34,678)
Effect of tax exemption	**(946)**	(1,946)
Income not subject to taxation	**(56,328)**	(39,739)
Expenses not deductible for taxation purposes	**30,788**	6,368
Utilisation of unrecognised tax losses	**(3,630)**	(7,472)
Unrecognised tax losses	**2,868**	7,186
Overprovision in prior years	**–**	(8)
Income tax expense	**24,532**	10,551

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK$126,999,000 (2004: HK$156,002,000).

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$181,746,000 (2004: HK$217,726,000) and the weighted average number of 871,231,555 ordinary shares (2004: 593,062,328 ordinary shares) in issue during the year.

No disclosure of diluted earnings per share has been presented because the effect was anti-dilutive (the exercise price of the Group's options was higher than the average market price of the Company's shares for the year).

12. DIVIDENDS

No interim dividend was paid and the directors do not recommend the payment of a final dividend for the year ended 31 December 2005 (2004: Nil).

13. STAFF COSTS

	2005	2004
	HK$'000	*HK$'000*
Staff costs, including directors' emoluments, consist of:		
Wages and salaries	**63,708**	59,879
Retirement scheme contributions *(see Note 35)*	**11,901**	10,641
Social security costs	**8**	–
	75,617	70,520

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

	2005 *HK$'000*	2004 *HK$'000*
Executive directors		
– Fees	**127**	–
– Salaries and other emoluments	**2,889**	2,544
Independent non-executive directors		
– Fees	**610**	615
	3,626	3,159

The remuneration of every director for the year ended 31 December 2005 is set out below:

Name of Director	**Fees** *HK$'000*	**Basic salary, pay in lieu of leave and housing allowances** *HK$'000*	**Discretionary bonuses** *HK$'000*	**Total** *HK$'000*
Mr. ZHOU Zhongshu (a)	–	–	–	–
Dr. ZHU Guang (a)	31	–	–	31
Mr. XU Huizhong	–	1,935	210	2,145
Mr. WANG Lixin (a)	–	184	–	184
Ms. SHEN Ling (a)	24	–	–	24
Mr. LI Linhu (a)	24	–	–	24
Mr. ZONG Qingsheng (a)	24	–	–	24
Mr. ZHANG Shoulian (a)	24	–	–	24
Mr. LIU Hongru	200	–	–	200
Mr. CHAN Wai Dune	210	–	–	210
Mr. TING Leung Huel, Stephen	200	–	–	200
Mr. LIN Xizhong (b)	–	–	–	–
Mr. QIAN Wenchao (b)	–	–	–	–
Mr. TANG Xiaojin (b)	–	560	–	560
	737	2,679	210	3,626

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

The remuneration of every director for the year ended 31 December 2004 is set out below:

Name of Director	Fees	Basic salary, pay in lieu of leave and housing allowances	Discretionary bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Mr. LIN Xizhong	–	–	–	–
Mr. XU Huizhong	–	1,570	–	1,570
Mr. QIAN Wenchao	–	–	–	–
Mr. TANG Xiaojin	–	790	–	790
Mr. GAO Dezhu (c)	–	–	–	–
Mr. LAU Yat Ching (c)	–	102	–	102
Mr. WANG Xingdong (c)	–	–	–	–
Mr. DENG Weihua (c)	–	82	–	82
Mr. LIU Hongru (d)	55	–	–	55
Mr. CHAN Wai Dune	285	–	–	285
Mr. TING Leung Huel, Stephen	275	–	–	275
	615	2,544	–	3,159

(a) Appointed on 6 October 2005.

(b) Resigned on 6 October 2005.

(c) Resigned on 12 January 2004.

(d) Appointed on 22 September 2004.

During the year, Mr. ZHOU Zhongshu waived director's fee of HK$36,000 (2004: Nil).

No emoluments were paid or payable by the Group to any director as an inducement to join or as compensation for loss of office.

14. 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 (2004: two) executive directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Basic salaries, bonuses and other benefits	**2,380**	1,592
Retirement scheme contributions	**53**	51
	2,433	1,643

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Nil – HK$1,000,000	**3**	3

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

15. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings	Leasehold improvements	Plant & machinery	Office equipment	Furniture, fixtures & equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004							
Cost or valuation	230,193	1,053	733,491	7,231	18,538	18,121	1,008,627
Accumulated depreciation and impairment	(128,388)	(846)	(568,969)	(4,459)	(14,066)	(15,498)	(732,226)
Net book amount	101,805	207	164,522	2,772	4,472	2,623	276,401
Year ended 31 December 2004							
Opening net book amount	101,805	207	164,522	2,772	4,472	2,623	276,401
Reclassification *(Note 16)*	(7,523)	–	670	21	(10)	(27)	(6,869)
Additions	611	43	6,912	225	516	2,553	10,860
Transfer from construction in progress *(Note 18)*	9,697	–	41,710	–	–	234	51,641
Disposals *(Note 38)*	(3,827)	–	(3,456)	(12)	(81)	(127)	(7,503)
Depreciation	(9,068)	(74)	(29,254)	(319)	(966)	(1,074)	(40,755)
(Provision for)/reversal of provision for impairment loss	(481)	–	8,689	(65)	108	205	8,456
Closing net book amount	91,214	176	189,793	2,622	4,039	4,387	292,231
At 31 December 2004							
Cost or valuation	139,899	1,096	512,243	6,403	15,180	17,382	692,203
Accumulated depreciation and impairment	(48,685)	(920)	(322,450)	(3,781)	(11,141)	(12,995)	(399,972)
Net book amount	91,214	176	189,793	2,622	4,039	4,387	292,231

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(a) The Group *(cont'd)*

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant & machinery HK$'000	Office equipment HK$'000	Furniture, fixtures & equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Year ended 31 December 2005							
Opening net book amount	91,214	176	189,793	2,622	4,039	4,387	292,231
Exchange differences	1,683	–	3,320	39	65	79	5,186
Acquisition of subsidiaries *(Note 37(a))*	–	51	–	959	–	309	1,319
Reclassification *(Note 16)*	(796)	–	9	–	(9)	–	(796)
Additions	–	28	601	391	105	1,533	2,658
Transfer from construction in progress *(Note 18)*	25,331	–	219,523	–	–	642	245,496
Disposals *(Note 38)*	(82)	–	(741)	(7)	(25)	(17)	(872)
Depreciation	(5,196)	(72)	(35,164)	(785)	(814)	(1,408)	(43,439)
Reversal of provision for impairment loss	14	–	1,090	913	–	390	2,407
Closing net book amount	112,168	183	378,431	4,132	3,361	5,915	504,190
At 31 December 2005							
Cost or valuation	162,776	1,191	718,706	9,399	14,825	20,147	927,044
Accumulated depreciation and impairment	(50,608)	(1,008)	(340,275)	(5,267)	(11,464)	(14,232)	(422,854)
Net book amount	112,168	183	378,431	4,132	3,361	5,915	504,190

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(a) The Group *(cont'd)*

The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings	Leasehold improve-ments	Plant & machinery	Office equipment	Furniture, fixtures & equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	162,335	1,191	718,706	9,399	14,825	20,147	926,603
At valuation – 1994	441	–	–	–	–	–	441
	162,776	1,191	718,706	9,399	14,825	20,147	927,044

The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:

	Buildings	Leasehold improve-ments	Plant & machinery	Office equipment	Furniture, fixtures & equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	139,249	1,096	512,243	6,403	15,180	17,382	691,553
At valuation – 1994	650	–	–	–	–	–	650
	139,899	1,096	512,243	6,403	15,180	17,382	692,203

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(b) The Company

	Buildings	Leasehold improvements	Furniture, fixtures & equipment	Motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004					
Cost or valuation	26,073	1,057	1,933	1,440	30,503
Accumulated depreciation and impairment	(18,373)	(849)	(1,745)	(1,440)	(22,407)
Net book amount	7,700	208	188	–	8,096
Year ended 31 December 2004					
Opening net book amount	7,700	208	188	–	8,096
Reclassification *(Note 16)*	(5,783)	–	–	–	(5,783)
Additions	–	39	310	–	349
Disposals	–	–	(9)	–	(9)
Depreciation	(137)	(71)	(176)	–	(384)
Provision for impairment loss	(686)	–	–	–	(686)
Closing net book amount	1,094	176	313	–	1,583
At 31 December 2004					
Cost or valuation	5,292	1,096	879	1,440	8,707
Accumulated depreciation and impairment	(4,198)	(920)	(566)	(1,440)	(7,124)
Net book amount	1,094	176	313	–	1,583
Year ended 31 December 2005					
Opening net book amount	1,094	176	313	–	1,583
Reclassification *(Note 16)*	(796)	–	–	–	(796)
Additions	–	28	89	990	1,107
Depreciation	(9)	(66)	(161)	(198)	(434)
Closing net book amount	289	138	241	792	1,460
At 31 December 2005					
Cost or valuation	441	1,124	968	2,430	4,963
Accumulated depreciation and impairment	(152)	(986)	(727)	(1,638)	(3,503)
Net book amount	289	138	241	792	1,460

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(b) The Company *(cont'd)*

The analysis of the cost or valuation at 31 December 2005 of the above assets is as follows:

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures & equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At cost	–	1,124	968	2,430	4,522
At valuation – 1994	441	–	–	–	441
	441	1,124	968	2,430	4,963

The analysis of the cost or valuation at 31 December 2004 of the above assets is as follows:

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Furniture, fixtures & equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At cost	4,642	1,096	879	1,440	8,057
At valuation – 1994	650	–	–	–	650
	5,292	1,096	879	1,440	8,707

(c) Certain land and buildings were revalued at 30 September 1994 on an open market value 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 80A of HKAS 16, "Property, Plant and Equipment", 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.

15. PROPERTY, PLANT AND EQUIPMENT *(cont'd)*

(c) *(cont'd)*

If such buildings were stated on the historical cost basis, the amounts would be as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cost	**76**	76	**76**	76
Accumulated depreciation	**18**	17	**18**	17
Net book amount	**58**	59	**58**	59

(d) Certain banking facilities of the Group are secured on property, plant and equipment for the carrying amount of approximately HK$388 million (2004: HK$199 million).

16. INVESTMENT PROPERTIES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**7,090**	–	**5,990**	–
Reclassification *(Note 15)*	**796**	6,869	**796**	5,783
Properties received as settlement of receivables	**7,400**	–	**7,400**	–
Fair value (losses)/gains	**(556)**	221	**(556)**	207
At 31 December	**14,730**	7,090	**13,630**	5,990

The investment properties were revaluated at 31 December 2005 on an open market value basis by CB Richard Ellis Limited, an independent firm of registered professional surveyors and valuers. The valuation was prepared in accordance with the "HKIS Valuation Standards on Properties (First Edition 2005)" published by the Hong Kong Institute of Surveyors.

The Group's interests in investment properties at their net book values are analysed as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
In the PRC, held on:				
Leases of between 10 to 50 years	**7,230**	7,090	**6,130**	5,990
In Macau, held on:				
Freehold	**5,200**	–	**5,200**	–
Leases of between 10 to 50 years	**2,300**	–	**2,300**	–
	14,730	7,090	**13,630**	5,990

17. LAND USE RIGHTS – THE GROUP

The Group's interests in land use rights represent prepaid operating lease payments and their net book amounts are analysed as follows:

	2005	2004
	HK$'000	*HK$'000*
In the PRC, held on:		
Leases of between 10 to 50 years	**11,992**	8,943
At 1 January	**8,943**	9,936
Exchange difference	**161**	–
Additions	**4,038**	–
Amortisation of prepaid operating lease payments	**(1,150)**	(993)
At 31 December	**11,992**	8,943

Certain banking facilities of the Group are secured on the Group's land use rights for the carrying amount of HK$11,992,000 (2004: HK$8,160,000).

18. CONSTRUCTION IN PROGRESS – THE GROUP

	2005	2004
	HK$'000	*HK$'000*
At 1 January	**203,008**	202,381
Exchange difference	**3,904**	–
Additions	**43,999**	52,230
Transfer to property, plant and equipment *(Note 15)*	**(245,496)**	(51,641)
Reversal of provision for impairment loss	**–**	38
At 31 December	**5,415**	203,008

During the year, no interest expense (2004: HK$6,990,000) was capitalised and included in additions to construction in progress.

As at 31 December 2004, certain banking facilities of the Group are secured on the Group's construction in progress for the carrying amount of approximately HK$203 million.

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Investments, at cost		
Unlisted shares/investments	**2,179,317**	18,943
Less: Provision for impairment in value	**(15,283)**	(18,163)
	2,164,034	780
Amounts due from subsidiaries *(Note (i))*	**1,288,458**	1,278,632
Less: Provision for impairment	**(894,199)**	(987,204)
	394,259	291,428
	2,558,293	292,208
Amounts due to subsidiaries *(Note (ii))*	**51,897**	64,077

Note:

(i) The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms. These amounts are considered as quasi-equity loans to the subsidiaries.

(ii) The amounts due to subsidiaries are unsecured, interest-free and have no fixed repayment terms. The directors consider the carrying amounts of the balances due to subsidiaries approximate their fair value.

The following is a list of the principal subsidiaries as at 31 December 2005:

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued or paid-up capital	Proportion of issued capital held by the Company	
				Directly	Indirectly
Oriental Copper Company Limited	Hong Kong	Non-ferrous metals trading	28,800 shares of HK$100 each[1]	100%	–
Orienmet Aluminium Company Limited	Hong Kong	Non-ferrous metals trading	28,800 shares of HK$100 each[1]	100%	–
Orienmet Industry Company Limited	Hong Kong	Investment holding	5,000,000 shares of HK$1 each[1]	100%	–
Taiway Enterprises Limited	Hong Kong	Property holding	2 shares of HK$1 each[1]	100%	–

19. INTERESTS IN SUBSIDIARIES *(cont'd)*

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued or paid-up capital	Proportion of issued capital held by the Company Directly	Indirectly
Peak Strategic Industries Limited	British Virgin Islands	Investment holding	2 shares of US$1 each[1]	100%	–
Minmetals Aluminium Company Limited[2]	PRC	Trading of alumina and other aluminium products	RMB1,060,000,000	–	100%
Minmetals Non-ferrous Lianyungang Company Limited[2]	PRC	Provision of logistics services	RMB1,000,000	–	90%
North China Aluminium Company Limited[3]	PRC	Production and sale of aluminium foils and extrusions	RMB344,800,000	–	51%
Yingkou Orienmet Plica Tube Company Limited[3]	PRC	Production and sale of copper plica tubes	US$4,000,000	–	51%
Sino Mining International Limited	Cayman Islands/ Australia	Investment holding	115,000,000 shares of US$1 each[1]	–	100%
Sino Mining Alumina Limited	Cayman Islands/ Australia	Purchase and supply of alumina	85,000,000 shares of US$1 each[1]	–	100%
Sino Mining Trading Pty Limited	Australia	Provide logistics services for import and export activities	2,000,000 shares of A$0.5 each[1]	–	100%
Sino Mining Australia Pty Limited	Australia	Provide management and administrative services for other group companies	A$100	–	100%

Note:

1 The class of shares held is ordinary.

2 The statutory accounts of these companies were audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. for the year ended 31 December 2004 and by Zhongzhou Guanghua CPA Co., Ltd. for the year ended 31 December 2005.

3 These are sino-foreign equity joint ventures registered under the laws of the PRC and their statutory accounts are not audited by PricewaterhouseCoopers.

20. INTERESTS IN ASSOCIATED COMPANIES – THE GROUP

	2005 HK$'000	2004 HK$'000
Share of net assets at 1 January	**42,838**	42,272
Share of associated companies' results		
– Profit before income tax	**27,752**	10,272
– Income tax expense	**(2,706)**	(1,137)
	25,046	9,135
Acquisition of subsidiaries *(Note 37 (a))*	**10,257**	–
Exchange difference	**592**	–
Dividends received	**(1,557)**	(2,696)
Disposals	**–**	(5,873)
Share of net assets at 31 December	**77,176**	42,838
Amounts due from associated companies *(Note (i))*	**39,113**	46,048
Less: Provision for impairment	**(31,173)**	(45,827)
	7,940	221
	85,116	43,059

Note:

(i) The amounts due from associated companies are unsecured, interest-free and not repayable within twelve months. The directors consider the carrying amounts of the balances due from associated companies approximate their fair value.

20. INTERESTS IN ASSOCIATED COMPANIES – THE GROUP *(cont'd)*

The Group's interest in its principal associated companies, all of which are unlisted, are as follows:

Name	Particulars of paid-up capital	Country of incorporation	Assets HK$'000	Liabilities HK$'000	Revenues HK$'000	Profit HK$'000	Interest held
2004							
Changzhou Jinyuan Copper Company Limited[1]	Rmb100,000,000	PRC	138,806	96,390	711,261	8,645	25%
2005							
Changzhou Jinyuan Copper Company Limited[1]	Rmb100,000,000	PRC	168,286	112,687	844,144	13,791	25%
Qingdao M.C. Packaging Limited[1]	US$25,000,000	PRC	33,585	25,921	39,970	7,591	20%
Sino Nickel Pty Ltd	A$1,000,000	Australia	36,114	22,722	96,007	3,559	40%

Note:

1 These are sino-foreign equity joint ventures registered under the PRC laws.

21. ALUMINA PURCHASING RIGHTS AND PROVISION FOR SALES CONTRACT OBLIGATIONS – THE GROUP

On 6 October 2005, certain alumina purchase agreements and sales agreements were taken up by the Group through the acquisition of Peak Strategic Industries Limited (Note 37(a)). In applying the purchase method to account for the acquisition, the identifiable assets acquired and liabilities assumed, including the alumina purchase agreements and sales agreements, in the business combination were measured initially at their fair values at the completion date of the acquisition. The fair values were determined with reference to the independent professional appraisers' valuation report.

(a) Alumina purchasing rights under a long-term purchase agreement

	2005 **HK$'000**	2004 HK$'000
At 1 January	**–**	–
Acquisition of subsidiaries *(note 37 (a))*	**3,634,800**	–
Amortisation	**(33,499)**	–
At 31 December	**3,601,301**	–

21. ALUMINA PURCHASING RIGHTS AND PROVISION FOR SALES CONTRACT OBLIGATIONS – THE GROUP *(cont'd)*

(a) Alumina purchasing rights under a long-term purchase agreement *(cont'd)*

As at 31 December 2005, the amount represented the rights to purchase alumina up to 400,000 tonnes per annum for the period from 2006 to 2027 at a price determined pursuant to the long-term alumina purchase agreement.

As at 31 December 2005, the Group's alumina purchasing rights under the long-term purchase agreement was pledged to a bank to secure banking facilities of the Group.

(b) Alumina purchasing rights under short-term purchase agreements

	2005 **HK$'000**	2004 *HK$'000*
At 1 January	**–**	–
Acquisition of subsidiaries *(note 37 (a))*	**468,000**	–
Amortisation	**(174,840)**	–
At 31 December	**293,160**	–

As at 31 December 2005, the amount represented the rights to purchase alumina at prices determined pursuant to the alumina purchase agreements.

(c) Provision for sales contract obligations

	2005 **HK$'000**	2004 *HK$'000*
At 1 January	**–**	–
Acquisition of subsidiaries *(note 37(a))*	**1,336,140**	–
Realisation	**(277,482)**	–
At 31 December	**1,058,658**	–

The provision for sales contract obligations of the Group is analysed as follows:

	2005 **HK$'000**	2004 *HK$'000*
Current	**1,033,799**	–
Non-current	**24,859**	–
	1,058,658	–

As at 31 December 2005, the Group had outstanding obligations to sell alumina to certain customers in the PRC at prices determined pursuant to the alumina sales agreements.

22. LONG-TERM RECEIVABLES – THE GROUP

Long-term receivables of the Group represent the amounts due from a third party, which are unsecured, interest-free and repayable in 2007. The fair value of the long-term receivables is approximately HK$4,428,000 (2004: HK$4,087,000) and based on cash flows discounted using a borrowing rate of 6.4% (2004: 6.3%).

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS – THE GROUP

	2005 ***HK$'000***
At 1 January	–
Acquisition of subsidiaries *(Note 37 (a))*	**203,835**
Revaluation surplus transfer to equity *(Note 30)*	**109,828**
At 31 December	**313,663**

There were no disposals or impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets represent:

	2005 ***HK$'000***
Listed equity securities – Australia	**313,663**
Market value of listed securities	**313,663**

24. DEFERRED INCOME TAX – THE GROUP

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 33% (2004: 33%).

(a) The movements on the deferred income tax assets/(liabilities) account are as follows:

	Impairment of assets		Tax losses		Alumina purchasing rights		Provision for sales contract obligations		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**4,352**	2,037	**–**	7,009	**–**	–	**–**	–	**3,491**	3,870	**7,843**	12,916
Exchange differences	**236**	–	**–**	–	**–**	–	**–**	–	**65**	–	**301**	–
Acquisition of subsidiaries *(Note 37 (a))*	**–**	–	**–**	–	**(1,104,246)**	–	**440,926**	–	**(10,520)**	–	**(673,840)**	–
Credited/(charged) to the income statement *(Note 9)*	**16,025**	2,315	**–**	(7,009)	**66,451**	–	**(91,569)**	–	**10,200**	(379)	**1,107**	(5,073)
At 31 December	**20,613**	4,352	**–**	–	**(1,037,795)**	–	**349,357**	–	**3,236**	3,491	**(664,589)**	7,843

(b) Deferred income tax assets are recognised for tax losses available for carried forward 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$296 million (2004: HK$300 million) to carry forward against future taxable income. Deferred tax assets for these tax losses are not recognised as the future realisation is uncertain. The tax losses do not expire under current tax legislation.

(c) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

	2005	2004
	HK$'000	*HK$'000*
Net deferred tax assets recognised on the balance sheet	**23,849**	7,843
Net deferred tax liabilities recognised on the balance sheet	**(688,438)**	–
	(664,589)	7,843

25. INVENTORIES – THE GROUP

	2005 HK$'000	2004 HK$'000
Raw materials	**45,168**	44,155
Work in progress	**100,078**	100,738
Finished goods	**79,476**	79,625
Commodities held for sales	**100,902**	–
Goods-in-transit	**618,173**	–
	943,797	224,518

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$2,950 million (2004: HK$958 million).

26. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables	**301,318**	287,348	**–**	–
Less: Provision for impairment of receivables	**(70,938)**	(69,693)	**–**	–
Trade receivables – net	**230,380**	217,655	**–**	–
Prepayments and deposits	**28,810**	42,388	**–**	12,334
Other receivables	**14,829**	6,732	**2,181**	3,452
	274,019	266,775	**2,181**	15,786

The majority of sales derived from the trading of alumina are under the arrangement of delivery upon payment from customers, with the remaining amounts on letters of credit. For the aluminium fabrication and other industrial operations, sales are normally made with credit periods ranging from 30 days to 90 days. An aging analysis of trade receivables is shown as follows:

	The Group			
	2005		2004	
	HK$'000	**%**	*HK$'000*	%
Less than six months	**232,554**	**77**	199,291	69
Six months to one year	**4,770**	**2**	11,370	4
Over one year	**63,994**	**21**	76,687	27
	301,318	**100**	287,348	100

26. TRADE AND OTHER RECEIVABLES *(cont'd)*

The directors consider the carrying amount of trade and other receivables approximates their fair value.

There is no major concentration of credit risk with respect to trade receivables, as the Group has a large number of customers which are widely dispersed.

The Group has recognised a gain of HK$59,814,000 (2004: HK$24,161,000) resulting from reversal of a provision for impairment of its trade and other receivables during the year ended 31 December 2005. The gain has been recognised in the income statement as part of 'other (losses)/ gains – net'.

27. DERIVATIVE FINANCIAL INSTRUMENTS – THE GROUP

	2005	
	Assets	**Liabilities**
	HK$'000	***HK$'000***
Not qualified for hedge accounting – at fair value		
Aluminium forward contracts	–	139,118
Interest rate swaps	–	31,170
Foreign exchange forward contracts	6,009	–
Aluminium options	–	10,613
	6,009	180,901
Less: Non-current portion:		
Interest rate swaps	–	14,970
Current portion:		
Aluminium forward contracts	–	139,118
Interest rate swaps	–	16,200
Foreign exchange forward contracts	6,009	–
Aluminium options	–	10,613
	6,009	165,931

The total notional principal amount of the outstanding interest rate swaps as at 31 December 2005 was approximately HK$624 million (equivalent to USD80 million).

As at 31 December 2005, the fixed interest rate is 8.5% and the principal floating rate is LIBOR.

There were no outstanding aluminium forward contracts, interest rate swaps, foreign exchange forward contracts and aluminium options as at 31 December 2004.

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**576,930**	42,116	**75,967**	10,484
Short-term bank deposits	**361,156**	134,120	**271,357**	104,027
	938,086	176,236	**347,324**	114,511
Pledged bank deposits	**49,659**	14,648	**–**	–
	987,745	190,884	**347,324**	114,511

The effective interest rate on short-term bank deposits was 4.2% (2004: 1.2%); these deposits have an average maturity of 19 days.

Certain banking facilities of the Group are secured on the above pledged bank deposits.

The carrying amounts of the cash and cash equivalents and pledged bank deposits are denominated in the following currencies:

	2005	2004
	HK$'000	*HK$'000*
Renminbi	**361,078**	61,657
US dollar	**348,763**	125,828
Hong Kong dollar	**219,323**	3,399
Australian dollar	**58,581**	–
	987,745	190,884

29. SHARE CAPITAL

	Number of shares			
	HK$0.1 per share *(in thousand)*	**HK$1 per share** *(in thousand)*	**HK$0.05 per share** *(in thousand)*	**Ordinary shares** *HK$'000*
At 1 January 2004	1,319,727	–	–	131,973
Share consolidation *(Note (i))*	(1,319,727)	131,973	–	–
Capital reduction *(Note (i))*	–	(131,973)	131,973	(125,374)
Issue of new shares *(Note (ii))*	–	–	475,377	23,768
At 31 December 2004	–	–	607,350	30,367
Issue of new shares *(Note (iii))*	–	–	1,009,091	50,455
Placing of new shares *(Note (iii))*	–	–	98,000	4,900
At 31 December 2005	**–**	**–**	**1,714,441**	**85,722**

Note:

(i) On 2 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 6th January 2004.

(ii) Pursuant to the resolution passed by the Company on 2 December 2003 and the subscription agreement signed between the Company and Coppermine Resources Limited ("Coppermine") (the Company's immediate holding company for the period from 12 January 2004 to 5 October 2005), 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 from the Company's bankers. The remaining portion of HK$48,380,000 was waived by Coppermine and credited to capital reserve account.

(iii) The Company issued 1,009,090,909 new shares on 6 October 2005 to Top Create Resources Limited, a wholly owned subsidiary of its existing ultimate holding company, as the purchase consideration for the entire issued share capital of Peak Strategic Industries Limited, which is the holding company of a group of companies principally engaged in alumina and aluminum trading business. The ordinary shares issued have the same rights as the other shares in issue. The fair value of the new shares issued at the completion date of the acquisition amounted to approximately HK$2,144,318,000 (HK$2.125 per share) (Note 37 (a)).

29. SHARE CAPITAL *(cont'd)*

(iii) *(cont'd)*

To maintain the public float of not less than 25%, the Company (by way of issuing new shares) and Coppermine (by way of selling the existing shares it held) placed an aggregate 278,000,000 shares to independent third parties on 6 October 2005. The placing price was HK$2.3 per share. In this placing, the Company issued 98,000,000 new shares.

The Company's costs in relation to the above issuance of new shares amounted to approximately HK$5,594,000.

As at 31 December 2005 and 2004, the total authorised number of ordinary shares was 6,000 million shares with a par value of HK$0.05 per share. All issued shares were fully paid.

30. 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$'000	PRC statutory reserves HK$'000	Exchange translation reserve HK$'000	Available–for-sale financial assets reserve HK$'000	Acc-umulated losses HK$'000	Total HK$'000
Balance at 1 January 2004	800,030	–	–	558	15,600	69,614	2,877	–	(1,282,457)	(393,778)
Issue of new shares *(Note 29 (ii))*	394,563	–	–	–	–	–	–	–	–	394,563
Debts waived by immediate holding company *(Note 29 (ii))*	–	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
Deconsolidation of subsidiaries	–	–	–	–	–	–	(848)	–	–	(848)
Profit for the year	–	–	–	–	–	–	–	–	217,726	217,726
Balance at 31 December 2004	1,194,593	48,380	125,374	779	15,600	70,448	2,029	–	(1,065,565)	391,638
Transfer as a result of the change in accounting policy for investment properties	–	–	–	(779)	–	–	–	–	779	–
Issue of new shares, net of issuing expenses *(Note 29 (iii))*	2,308,769	–	–	–	–	–	–	–	–	2,308,769
Transfer to PRC statutory reveres	–	–	–	–	–	2,152	–	–	(2,152)	–
Currency translation differences	–	–	–	–	–	–	3,320	–	–	3,320
Fair value gain *(Note 23)*	–	–	–	–	–	–	–	109,828	–	109,828
Profit for the year	–	–	–	–	–	–	–	–	181,746	181,746
Balance at 31 December 2005	**3,503,362**	**48,380**	**125,374**	**–**	**15,600**	**72,600**	**5,349**	**109,828**	**(885,192)**	**2,995,301**

30. 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
Balance at 1 January 2004	800,030	–	–	–	15,600	(1,196,392)	(380,762)
Issue of new shares *(Note 29 (ii))*	394,563	–	–	–	–	–	394,563
Debts waived by immediate holding company *(Note 29 (ii))*	–	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
Balance at 31 December 2004	1,194,593	48,380	125,374	207	15,600	(1,040,390)	343,764
Transfer as a result of the change in accounting policy for investment properties	–	–	–	(207)	–	207	–
Issue of new shares, net of issuing expenses *(Note 29 (iii))*	2,308,769	–	–	–	–	–	2,308,769
Profit for the year	–	–	–	–	–	126,999	126,999
Balance at 31 December 2005	**3,503,362**	**48,380**	**125,374**	**–**	**15,600**	**(913,184)**	**2,779,532**

(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 financial statements 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 dividends 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.

(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 financial statements prepared under PRC accounting regulations to the statutory general reserve. Upon approval from the Board of Directors, the statutory reserve funds may be used to offset accumulated losses or to increase capital.

30. RESERVES *(cont'd)*

(e) As a result of the Capital Reduction (Note 29(i)), a credit of HK$125,374,060 was transferred from the share capital account to a special capital reserve account. The Company has undertaken that the special capital reserve will be used for the purpose of eliminating or reducing in future the accumulated losses of the Company.

31. DEFERRED INCOME – THE GROUP

	2005	2004
	HK$'000	*HK$'000*
At 1 January	**28,302**	28,302
Exchange differences	**527**	–
Amortisation *(Note 6)*	**(1,691)**	–
At 31 December	**27,138**	28,302

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

32. BANK LOANS – THE GROUP

	2005	2004
	HK$'000	*HK$'000*
Amount due within one year included under current liabilities	**533,841**	218,868
Amount due after one year	**617,477**	94,340
Total bank loans	**1,151,318**	313,208
Analysed as:		
– Secured	**1,036,691**	300,945
– Unsecured	**114,627**	12,263
	1,151,318	313,208
Bank loans are repayable as follows:		
– Within one year	**533,841**	218,868
– Between one to two years	**617,477**	47,170
– Between two to five years	**–**	47,170
	1,151,318	313,208

32. BANK LOANS – THE GROUP *(cont'd)*

An analysis of the carrying amounts of the Group's bank loans by type and currency is as follows:

	2005 **HK$'000**	2004 HK$'000
Renminbi		
– at fixed rates	**276,923**	313,208
US dollar		
– at fixed rates	**111,743**	–
– at floating rates	**762,652**	–
	1,151,318	313,208

The effective interest rates at the balance sheet date were as follows:

	2005		2004	
	US$	***RMB***	*US$*	*RMB*
Bank loans	**4.90%**	**5.25%**	–	6.41%

The directors consider the carrying amount of bank loans approximate their fair value.

As at 31 December 2005, the bank loans of the Group were secured by:

(i) all the equity interests of a wholly owned subsidiary, Sino Mining Alumina Limited ("Sino Mining") and all the assets of Sino Mining;

(ii) certain property, plant and equipment and land use rights of the Group with a carrying amount of approximately HK$400 million (2004: HK$207 million);

(iii) pledged bank deposits of approximately HK$49,659,000 (2004: HK14,648,000).

As at 31 December 2004, the Group's bank loans were also secured by the construction in progress with a carrying amount of approximately HK$203 million.

33. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables	**196,426**	125,399	**–**	–
Receipts in advance	**378,126**	53,064	**–**	–
Other payables	**153,853**	113,457	**5,737**	16,829
	728,405	291,920	**5,737**	16,829

An aging analysis of the trade payables is shown as follows:

	The Group			
	2005		2004	
	HK$'000	**%**	*HK$'000*	%
Less than six months	**196,264**	**100**	112,583	90
Six months to one year	**25**	**–**	4,631	4
One to two years	**26**	**–**	5,247	4
Over two years	**111**	**–**	2,938	2
	196,426	**100**	125,399	100

34. PROVISIONS FOR OTHER LIABILITIES AND CHARGES – THE GROUP

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

	2005	2004
	HK$'000	*HK$'000*
At 1 January	**6,792**	7,501
Exchange difference	**65**	–
Less: Reversal of unutilised amounts	**(6,857)**	–
Deconsolidation of a subsidiary under liquidation	**–**	(709)
At 31 December	**–**	6,792

35. 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.

In accordance with applicable PRC regulations, the PRC staff of the Group participates in retirement benefit plans organised by the provincial and municipal governments, under which the Group and its employees are each required to contribute an amount to the plan at the rate specified in the rules of such plans. The Group has no other material obligations for the payment of retirement benefit associated with such plans other than the required contributions. The contributions arising from the PRC provincial and municipal government retirement benefit plans are charged to the income statement of the Group, and represent contributions paid or payable by the Group at the rate specified in the rules of the plan.

The Group contributes to a superannuation fund for all Australian employees, which are established to provide benefits for employees and their dependants in retirement, disabilities or death. The superannuation plan requires defined contributions by reference to accumulated contributions plus income from fund contributed. Contributions by the Group of up to 9% of Australian employees' wages and salaries are legally enforceable in Australia.

The Group's total contributions to these schemes during the year ended 31 December 2005 amounted to approximately HK$11,901,000 (2004: HK$10,641,000). No contributions were forfeited for the years ended 31 December 2005 and 2004.

36. 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 share options were granted to certain directors and employees of the Company on 15 March 2004. The exercise price of the granted options is higher than the market price at the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	**Options**	Average exercise price in HK$ per share	Options
At 1 January	**3.115**	**11,110,000**	–	–
Granted	**–**	**–**	3.115	11,190,000
Lapsed	**3.115**	**(4,500,000)**	3.115	(80,000)
At 31 December	**3.115**	**6,610,000**	3.115	11,110,000

All outstanding options as at 31 December 2005 and 2004 were exercisable and have an expiry date of 15 March 2007.

The 1994 Share Option Scheme expired on 24 November 2004. No further options can be granted after its expiry date but its provisions shall remain in force to govern the exercise of the options that continue to be valid and outstanding.

(b) 2004 share option scheme

At the annual general meeting of the Company held on 28 May 2005, 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.

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

(b) 2004 share option scheme *(cont'd)*

The directors of the Company may in its absolute discretion determine the period during which an option may be exercised, save that such period shall not be more than ten years from the date on which such option is deemed to have been granted and accepted subject to the provisions for early termination thereof.

37. BUSINESS COMBINATIONS

(a) Acquisition of subsidiaries

On 6 October 2005, the Group acquired all the share capital of Peak Strategic Industries Limited, which was incorporated in the British Virgin Islands and is a holding company of a group of companies principally engaged in alumina and aluminum trading business. The total revenue and consolidated net profit of the acquired business amounted to HK$8,811,910,000 and HK$448,676,000 respectively for the year ended 31 December 2005. The contribution to the Group's total revenue and profit by the acquired business amounted to HK$2,017,150,000 and HK$56,202,000 (including a negative goodwill of HK$80,873,000 recognised in the acquisition) respectively for the period from 6 October 2005 to 31 December 2005.

Details of net assets acquired and negative goodwill are as follows:

	HK$'000
Purchase consideration:	
– Fair value of shares issued *(Note 29)*	2,144,318
– Direct costs relating to the acquisition	16,056
Total purchase consideration	2,160,374
Fair value of net assets acquired – shown as below	(2,241,247)
Negative goodwill recognised in the income statement	(80,873)

37. BUSINESS COMBINATIONS *(cont'd)*

(a) Acquisition of subsidiaries *(cont'd)*

The fair value of the shares issued was based on the published share price at the completion date of the acquisition.

The separately identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value *HK$'000*	**Acquiree's carrying amount** *HK$'000*
Property, plant and equipment *(Note 15)*	1,319	1,319
Interests in an associated company *(Note 20)*	10,257	10,257
Alumina purchasing rights		
– under a long-term purchase agreement *(Note 21(a))*	3,634,800	1,357,052
– under short-term purchase agreements *(Note 21(b))*	468,000	–
Available-for-sale financial assets *(Note 23)*	203,835	203,835
Inventories	392,185	360,307
Trade and other receivables	65,220	65,220
Amount due from an intermediate holding company	277,168	277,168
Pledged bank deposits	36,145	36,145
Cash and cash equivalents	705,686	705,686
Trade and other payables	(250,405)	(250,405)
Bills payable	(469,375)	(469,375)
Amounts due to fellow subsidiaries	(6,372)	(6,372)
Provision for sales contract obligations *(note 21(c))*	(1,336,140)	–
Derivative financial instruments	(85,281)	(85,281)
Income tax liabilities	(103,539)	(103,539)
Deferred income tax liabilities *(Note 24)*	(673,840)	–
Bank loans	(627,900)	(627,900)
Net assets	2,241,763	1,474,117
Minority interest	(516)	(516)
Net assets acquired	2,241,247	1,473,601
Purchase consideration settled in cash		(16,056)
Cash and cash equivalents in subsidiaries acquired		705,686
Net cash inflow on acquisition		689,630

There was no acquisition during the year ended 31 December 2004.

37. BUSINESS COMBINATIONS *(cont'd)*

(b) Deconsolidation of subsidiaries

During the year ended 31 December 2004, Zhangzhou International Aluminium Container Company Limited (60% owned by the Group) and Yixing Jinfeng Copper Materials company Limited (58% owned by the Group) were deconsolidated from the Group as a result of liquidation. The net liabilities disposed are as follows:

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

There were no disposals during the year ended 31 December 2005.

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit for the year to net cash (used in)/generated from operations is as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit for the year	**203,081**	234,420
Adjustments for:		
– Tax	**24,532**	10,551
– Depreciation and amortisation	**44,589**	41,748
– Amortisation of deferred income	**(1,691)**	–
– Amortisation of alumina purchasing rights	**208,339**	–
– Share of profits less losses of associated companies	**(25,046)**	(9,135)
– Interest income	**(12,197)**	(1,761)
– Interest expense	**26,555**	16,403
– (Gain)/loss on disposal of property, plant and equipment (see below)	**(36)**	4,884
– Reversal of provision for impairment loss of property, plant and equipment and construction in progress	**(2,407)**	(8,494)
– Fair value losses on investment properties	**556**	–
– Gain on disposal of investment securities	**–**	(119)
– Provision for impairment in value of investment securities	**–**	1,959
– Reversal of provision for a guarantee to a third party	**(6,857)**	–
– Trade payables waived by creditors	**–**	(9,673)
– Write-back of trade payable and accrued charges	**(5,831)**	–
– Negative goodwill recognised in the acquisition of subsidiaries	**(80,873)**	–
– Reversal of consolidated losses upon deconsolidation of subsidiaries	**–**	(97,350)
– Net foreign exchange translation gain	**(105)**	–
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
– Amounts due from associated companies	**(7,715)**	(1,514)
– Inventories	**(322,776)**	(54,432)
– Trade and other receivables	**55,024**	(35,077)
– Amount due from an intermediate holding company	**94,243**	–
– Amounts due from fellow subsidiaries	**24,959**	(24,959)
– Trade and other payables	**187,752**	71,882
– Derivative financial instruments	**89,611**	–
– Bills payable	**(424,648)**	6,795
– Amounts due to fellow subsidiaries	**518**	–
– Provision for sales contract obligations	**(277,482)**	–
Net cash (used in)/generated from operations	**(207,905)**	146,128

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

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2005 **HK$'000**	2004 HK$'000
Net book amount *(Note 15)*	**872**	7,503
Gain/(loss) on disposal of property, plant and equipment	**36**	(4,884)
Proceeds from sale of property, plant and equipment	**908**	2,619

Major non-cash transactions

Year ended 31 December 2005:

The major non-cash transaction was the issue of new shares as the consideration for the acquisition of Peak Strategic Industries Limited (Note 37(a)).

Year ended 31 December 2004:

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 (Notes 29 and 30).

39. CONTINGENT LIABILITIES

As at 31 December 2005 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$24,038,000 (2004: 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 directors believe that the possibility of settlement of these paybles by the Group is remote. The directors of the Company are of the opinion that the potential additional charges will not exceed HK$1,370,000 (2004: HK$1,300,000).

40. COMMITMENTS

(a) Operating leases

The Group leases various warehouses, offices and factory premises under non-cancellable operating leases. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**3,197**	1,396
Later than one year and not later than five years	**6,562**	849
	9,759	2,245

(b) Capital commitments

Capital expenditures not yet incurred are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**8,833**	15,724
Authorised but not contracted for	**41,778**	49,100
	50,611	64,824
Investment in an associated company		
Authorised but not contracted for	**18,721**	–

The Company had no material commitments as at 31 December 2005 and 2004.

41. RELATED PARTY TRANSACTIONS

The Group is controlled by Top Create Resources Limited ("Top Create") (incorporated in the British Virgin Islands), which owns 58.86% of the Company's shares. The second largest shareholder of the Company is Coppermine Resources Limited ("Coppermine") (incorporated in the British Virgin Islands), which owns 16.06% of the Company's shares. The remaining 25.08% of the shares are widely held. Both Top Create and Coppermine are subsidiaries of the Group's ultimate holding company, China Minmetals Corporation, a stated-owned enterprise established in the PRC.

China Minmetals Corporation itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of productive assets in the PRC. In accordance with HKAS 24 "Related Party Disclosures" issued by the Hong Kong Institute of Certified Public Accountants, other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include China Minmetals Corporation and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and China Minmetals Corporation as well as their close family members.

For the purpose of the related party transactions disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structure may also change over time as a result of the transfers and privatisation programmes. Nevertheless, management believes that all material related party transactions and balances have been adequately disclosed.

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

(a) Transactions with associated companies of the Group

	2005	2004
	HK$'000	*HK$'000*
Revenue		
Sales of non-ferrous metal	**32,422**	3,583
Rental income received	**76**	217
Expenses		
Purchases of non-ferrous metals	**–**	40,635
Transportation fees paid	**10,454**	10,154
Others		
Purchases of construction in progress	**–**	2,197
Purchases of property, plant and equipment	**–**	6,132

41. RELATED PARTY TRANSACTIONS *(cont'd)*

(b) Transactions with subsidiaries of China Minmetals Corporation

	2005 **HK$'000**	2004 *HK$'000*
Revenue		
Commission income received from an intermediate holding company	**74**	–
Expenses		
Purchases of non-ferrous metals from fellow subsidiaries	**84,520**	–
Transportation fees paid to fellow subsidiaries	**6,994**	–
Commission fees paid to an intermediate holding company	**135**	–
Rental expenses paid to fellow subsidiaries	**762**	695
Others		
Reimbursement of restructuring cost from immediate holding company	**–**	765

(c) Transactions with other state-owned enterprises

	2005 **HK$'000**	2004 *HK$'000*
Revenue		
Sales of non-ferrous metal	**1,051,528**	149,497
Expenses		
Purchases of non-ferrous metals	**1,045,125**	588,342
Transportation fee paid	**23,199**	–
Others		
Purchases of construction in progress	**9,432**	8,704

(d) Key management compensation

	2005 **HK$'000**	2004 *HK$'000*
Salaries and other short-term employee benefits	**5,154**	5,099

41. RELATED PARTY TRANSACTIONS *(cont'd)*

(e) Year-end balances

	2005 **HK$'000**	2004 HK$'000
Receivables, net from		
– an intermediate holding company	**182,925**	–
– associated companies	**7,940**	221
– fellow subsidiaries	**–**	24,959
– other state-owned enterprises	**80,119**	20,444
Payables to		
– fellow subsidiaries	**6,890**	–
– other state-owned enterprises	**189,340**	12,663

Note:

(i) 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.

(ii) The amount due from an intermediate holding company is unsecured, interest-free and repayable within twelve months.

The amounts due from associated companies are unsecured, interest-free and not repayable within twelve months.

The directors consider the carrying amounts of the balances due from an intermediate holding company and associated companies approximate their fair value.

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 below:

	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Turnover	**3,332,765**	1,288,485	1,363,072	875,676	1,234,277
Operating profit/(loss)	**229,122**	252,239	118,441	73,737	(777,378)
Finance costs	**(26,555)**	(16,403)	(38,195)	(52,084)	(58,325)
Share of profits less losses of associated companies	**25,046**	9,135	9,243	5,543	(43,184)
Profit/(loss) before income tax	**227,613**	244,971	89,489	27,196	(878,887)
Income tax (expense)/credit	**(24,532)**	(10,551)	8,548	(2,179)	(2,014)
Profit/(loss) for the year	**203,081**	234,420	98,037	25,017	(880,901)
Attributable to:					
Equity holders of the Company	**181,746**	217,726	89,202	19,676	(863,008)
Minority interest	**21,335**	16,694	8,835	5,341	(17,893)
	203,081	234,420	98,037	25,017	(880,901)

Five-year Financial Summary

	2005	2004	2003	2002	2001
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Property, plant and equipment, Land use rights and Investment properties	**530,912**	308,264	286,337	331,871	367,231
Construction in progress	**5,415**	203,008	202,381	84,892	44,891
Interests in associated companies	**85,116**	43,059	48,121	64,981	90,380
Inventories	**943,797**	224,518	170,620	208,155	250,340
Trade and other receivables	**274,019**	266,775	230,962	201,090	143,335
Cash, cash equivalents and pledged deposits	**987,745**	190,884	150,771	98,866	56,417
Alumina purchasing rights	**3,894,461**	–	–	–	–
Other assets	**803,044**	37,519	20,525	9,888	8,273
Total assets	**7,524,509**	1,274,027	1,109,717	999,743	960,867
Capital and reserves attributable to the Company's equity holders	**3,081,023**	422,005	(261,805)	(351,069)	(363,408)
Minority interest	**203,019**	178,963	165,157	158,007	155,902
Total equity	**3,284,042**	600,968	(96,648)	(193,062)	(207,506)
Bank loans	**1,151,318**	313,208	775,306	807,966	760,414
Trade and other payables and bills payable	**791,596**	311,036	291,327	240,399	200,295
Provision for sales contract obligations	**1,058,658**	–	–	–	–
Other liabilities	**1,238,895**	48,815	139,732	144,440	207,664
Total liabilities	**4,240,467**	673,059	1,206,365	1,192,805	1,168,373
Total equity and liabilities	**7,524,509**	1,274,027	1,109,717	999,743	960,867
Net current assets/(liabilities)	**91,860**	156,719	(488,918)	(478,461)	(571,111)
Total assets less current liabilities	**4,656,924**	723,610	68,446	11,655	(60,336)

All of the above are consolidated figures.