Annual Report 2006 年報

MINMETALS RESOURCES LIMITED
五礦資源有限公司

Stock Code 股份代號：1208

Contents

Corporate Information

BOARD OF DIRECTORS

Chairman
ZHOU Zhongshu *(Non-executive Director)*

Executive Directors
XU Huizhong
WANG Lixin
REN Suotang

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

Independent Non-executive Directors
LIU Hongru
CHAN Wai Dune, *FCCA, FTIHK, MSCA, FCPA (Practising)*
TING Leung Huel, Stephen, *FCCA, FCPA (Practising), ACA, FTIHK*

AUDIT COMMITTEE

Chairman
CHAN Wai Dune, *FCCA, FTIHK, MSCA, FCPA (Practising)*

Members
LIU Hongru
TING Leung Huel, Stephen, *FCCA, FCPA (Practising), ACA, FTIHK*
ZONG Qingsheng

REMUNERATION COMMITTEE

Chairman
TING Leung Huel, Stephen, *FCCA, FCPA (Practising), ACA, FTIHK*

Members
ZHOU Zhongshu
LIU Hongru
XU Huizhong
CHAN Wai Dune, *FCCA, FTIHK, MSCA, FCPA (Practising)*

COMPANY SECRETARY

LEUNG Suet Kam, Lucia, *FCIS, FCS*

CHIEF FINANCIAL OFFICER

MAK Hing Keung, Thomas, *CA, FCPA*

QUALIFIED ACCOUNTANT

CHU Charn Fai, Daniel, *FCCA, CPA*

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

The Stock Exchange of Hong Kong Limited
1208 (Ordinary Shares)
1508 (Convertible Bonds due 2011)

Chairman's Statement

Mr. ZHOU Zhongshu
Chairman

Chairman's Statement

2006 was the first financial year that the Group consolidated the full-year results of the alumina and aluminium businesses (mainly comprised Minmetals Aluminium Company Limited and its subsidiaries) acquired from our parent company, China Minmetals Corporation, since 6 October 2005. With enlarged business scale and leveraging on the "Minmetals" brand, the Group recorded encouraging results this year.

Driven by the strong performance of the newly acquired businesses for the year ended 2006, the Group reported a turnover of HK$12,829 million, an increase of 285% and a net profit attributable to equity holders of the Company of HK$865 million, an increase of 376% from HK$182 million over the last corresponding period. Basic earnings per share were HK$0.505 for 2006, compared to HK$0.209 for 2005.

As at 31 December 2006, the Company was still in accumulated losses, the board of directors did not recommend the payment of a final dividend. However the capital reduction of the Company was confirmed by the High Court of Hong Kong and became effective on 13 February 2007. The entire sum of the capital reduction as confirmed by the High Court has been used to eliminate the accumulated losses of the Company in the past years, thus enabling the Company to pay dividends in future.

Chairman's Statement

Although the international and PRC spot price for alumina fluctuated in 2006, affected by the expansion of the PRC new alumina production capacity resulting in an oversupply situation, the Group is still able to leverage on its competitive edge and recorded encouraging results for the full financial year after the assets injection.

For 2007, the alumina trading business will be relatively challenging. Positive aspects included the rebound of the PRC alumina price from a low level at the beginning of 2007 which gave the then gloomy market an encouragement; and the economic growth of the world and mainland China will cause an increase in aluminium consumption. On the other hand, substantial increase in the alumina production capacity in the PRC will reduce its demand for imported alumina. Due to the uncertainty in the products price, the Group's long-term sales contracts will be reduced by a large extent. The changes in the demand/supply phenomenon as well as the uncertainty on product prices will have a large impact on our trading business. However, the Group will endeavourer to maintain the profit margins as well as our leading position in the PRC imported alumina market.

In order to strengthen and broaden the businesses, Minmetals Resources served as the capital platform to raise fund for its up-coming mergers & acquisitions and successfully issued HK$1 billion convertible bonds at the end of last year. The Group will strive to push ahead the negotiations for the acquisition of Guangxi Huayin Alumina Company Limited and Sherwin L. P. from our parent company. The Group will also continue to improve the returns from the fabrication businesses and other industrial operations. In addition, the Group will consolidate its effort to move forward its business chain model by extending to up-stream and down-stream business in resources and smelting. The Group will ride on its professional knowledge and experience and expand to other non-ferrous metals businesses with an aim to develop ourselves as an integrated supply-chain conglomerate in resources, trading and fabrication businesses for non-ferrous metals.

As our business is growing, the Group will continue to strengthen our corporate governance, further enhance our governance structure, improve transparency and reinforce internal management structure to effectively control operating risk.

The good results achieved by the Group in 2006 were the effort from our experienced and professional staff. The board of directors thanks our employees for their dedications and invaluable contributions during the year and looks forward to their team spirit and support for the continuing success of the Group and create value to our shareholders.

ZHOU Zhongshu
Chairman

Hong Kong, 11 April 2007

Management Discussion and Analysis

OVERVIEW

2006 marked the first full calendar year of operations for Minmetals Resources after the acquisition of the alumina and aluminium businesses from its parent company in October 2005. The injected businesses provided significant contribution to the Group for the year and emerged as the key driving force for our growth.

With the contribution from the injected businesses, the Group reported significant increase in turnover and net profit over the past year. Turnover increased by 285% from HK$3,332.8 million in 2005 to HK$12,829.3 million in 2006. Net profit attributable to equity holders of the Company increased by 376% from HK$181.7 million in 2005 to HK$865.3 million in 2006. Basic earnings per share were HK$0.505 for 2006, compared to HK$0.209 for 2005.

FINANCIAL REVIEW

Turnover

Assets and businesses injections provided growth momentum for the year. As set out in the table below, all business segments showed remarkable growth in turnover in 2006.

	2006 HK$ million	2005 *HK$ million*	**Increase** *HK$ million*	
Trading	**9,286.4**	2,086.5	7,199.9	345%
Aluminium fabrication	**1,519.7**	1,252.9	266.8	21%
Copper fabrication and plica tubes production	**2,233.4**	30.2	2,203.2	7,295%
Port logistics services and other industrial operations	**6.5**	3.3	3.2	97%
Inter-segment elimination	**(216.7)**	(40.1)		
Total	**12,829.3**	3,332.8	9,496.5	285%

Trading business, with full-year contribution from the injected businesses in October 2005, continued to act as the Group's most important income generating engine. Turnover of the trading segment increased by 345% during the year, roughly in line with the increase in the trading volume of alumina, a growth of 375% from approximately 406,000 tonnes in 2005 to approximately 1,927,000 tonnes in 2006.

Another fast-growing segment was copper fabrication and plica tubes production. Starting from April 2006, turnover of this segment included the proportionate consolidated turnover derived from a jointly controlled entity engaging in copper rods production. This jointly controlled entity was owned as to 36% by the Group, of which 11% was acquired in March 2006 and 25% was previously held.

Management Discussion and Analysis

FINANCIAL REVIEW *(cont'd)*

Gross profit

During the year, gross profit increased by HK$1,134.8 million or 373%, representing a higher percentage increase than that of the turnover. Overall gross profit margin raised from 9.1% in 2005 to 11.2% in 2006, reflecting more emphasis on and higher contribution from the trading business, the most significant profit contributor of the Group.

Selling expenses

The Group's selling expenses mainly included port expenses relating to unloading, storing and packing of alumina, inspection fee, transportation costs and employees' costs. Selling expenses increased from HK$63.1 million in 2005 to HK$104.7 million in 2006, primarily due to the increase in port expenses and inspection fee as a result of the increase in trading volume of alumina. However, as benefited from economies of scale, when expressed as a percentage of the Group's turnover, selling expenses decreased from 1.9% in 2005 to 0.8% in 2006.

Administrative expenses

The Group's administrative expenses increased from HK$70.4 million in 2005 to HK$153.2 million in 2006, representing an increase of HK$82.8 million. The increase was mainly attributable to: (i) additional administrative expenses of HK$42.2 million were incurred in 2006 for the alumina trading business (expenses for 12-month's operation in 2006 versus expenses for less than 3-month's operation in 2005); (ii) share-based payments of HK$21.6 million were booked in 2006 in respect of the share options granted by the Company in April 2006; and (iii) additional legal and professional fees were incurred for the Group's capital reduction and corporate governance enhancement projects.

In terms of percentage to the Group's turnover, administrative expenses decreased from 2.1% in 2005 to 1.2% in 2006.

Assessment of alumina purchasing rights and provision for sales contract obligations

In response to the decline in alumina prices in the third quarter of 2006, an re-assessment on the valuation of the alumina purchasing rights and provision for sales contract obligations was made on 30 September 2006. Based on independent valuation results, provision for impairment of HK$877.6 million and a write-back of provision of HK$288.4 million were made in respect of the alumina purchasing rights and the sales contract obligations respectively. These resulted in a write-back of deferred income tax liabilities of HK$643.8 million during the year. The overall effect of the above has a net positive impact of approximately HK$54.6 million on the Group's results.

Other losses – net

Other losses – net decreased by HK$40.8 million from HK$133.2 million in 2005 to HK$92.4 million in 2006. The decrease was mainly attributable to the gain on disposal of available-for-sale financial assets. During the year, to partially lock up the gains resulting from the hiking gold prices, the Group disposed certain equity securities in Sino Gold Limited, a gold mining company listed in Australia, with secondary listing in Hong Kong since 16 March 2007. This produced after-tax gains of approximately HK$32.0 million.

Management Discussion and Analysis

FINANCIAL REVIEW *(cont'd)*

Other losses – net *(cont'd)*

During the year, the Group incurred net aggregate losses of HK$135.5 million on derivative financial instruments. Included in these net aggregate losses were net losses of HK$138.1 million incurred for aluminium forward contracts, aluminium options and copper futures contracts entered into by the Group to hedge against the commodity price risk arising from its alumina trading, aluminium fabrication and copper fabrication businesses. Such derivative transactions, while the objective is for hedging purposes under the Group's risk management policies, have not qualified for hedge accounting treatment under the relevant accounting standards. The remaining net gains of HK$2.6 million was related to the ineffective hedge portion for the foreign exchange forward contracts and the interest rate swaps entered by the Group.

Finance costs – net

With enlarged operating scale and assets base, the Group's net finance costs increased by HK$14.8 million from HK$14.4 million in 2005 to HK$29.2 million in 2006. Such increase was resulted from the increase in interest expenses of HK$47.1 million (net of the gain on interest rate swaps), after netting off the increase in interest income from bank deposits of HK$32.3 million.

During the year, the Group earned gain on interest rate swaps of HK$23.0 million, which helped to reduce the Group's interest expenses amid the hiking interest rates in 2006.

Share of profits less losses in associates

Among the associates of the Group, Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan") and Sino Nickel Pty Ltd ("Sino Nickel") provided the majority of profit contribution during the year. Changzhou Jinyuan and Sino Nickel contributed after-tax profit of HK$8.6 million and HK$19.8 million respectively to the Group in 2006.

Starting from April 2006, Changzhou Jinyuan was reclassified as a jointly controlled entity of the Group and no longer treated as an associate. Sino Nickel is owned as to 40% by the Group and is primarily involved in sourcing mineral resources, especially nickel and copper, from Australia for exportation to the PRC market.

Income tax credit/(expense)

The Group reported income tax credit of HK$343.1 million in 2006 and income tax expense of HK$24.5 million in 2005. Current income tax increased by HK$155.1 million from HK$25.6 million in 2005 to HK$180.7 million in 2006, mainly due to the increase in profit of the trading operation. The Group's deferred income tax credit increased by HK$522.6 million from HK$1.1 million in 2005 to HK$523.7 million in 2006. It was mainly attributable to the write-back of deferred tax liabilities amounting to HK$643.8 million as a result of the reassessment of alumina purchasing rights and provision for sales contract obligations during the year.

Management Discussion and Analysis

SEGMENTAL ANALYSIS

The Group's business comprises four main business segments: (1) Trading; (2) Aluminium fabrication; (3) Copper fabrication and plica tubes production; and (4) Port logistics services and other industrial operations.

Trading

In the year under review, trading business accounted for 71% of the Group's turnover (2005: 62%) and contributed 91% (2005: 18%) of the Group's operating profit. Alumina remained the major trading item for the year. About 82% turnover in this segment was derived from alumina trading.

In 2006, alumina prices experienced volatile changes. Around April and May, the imported alumina sale prices of the Group reached historical new high of approximately RMB6,500 (or US$804) per tonne. However, after that, prices dropped vigorously in the latter part of the year and stated at approximately RMB2,500 (or US$309) per tonne near the year end.

The supply of PRC domestically produced alumina increased sharply in 2006, causing a drop in the demand of imported alumina and eroding the importers' market share. In PRC, the volume of imported alumina dropped slightly by 1.5% to approximately 6,910,000 tonnes in 2006.

Competition and negative market sentiment intensified in the last few months of 2006, consequently caused the ease back in the Group's alumina sales volume and average alumina sales price in the second-half of the year. Nevertheless, with about half of its sales for 2006 were secured by long-term contracts, the Group still maintained a leading position in the market.

		Year Ended 31 December 2006		
Alumina Trading		**First six months**	**Last six months**	**Full year**
Sales volume	*('000 tonnes)*	1,042	885	1,927
Turnover	*(HK$ million)*	4,553	3,071	7,624
Average sales price	*(HK$ per tonne)*	4,369	3,470	3,956
	(US$ per tonne)	560	445	507

During the year, the Group also engaged in the trading of other non-ferrous metals. Approximately 77,000 tonnes of aluminium ingots and approximately 9,600 tonnes of copper concentrates were sold, which together accounted for approximately 18% of the turnover in this segment.

Management Discussion and Analysis

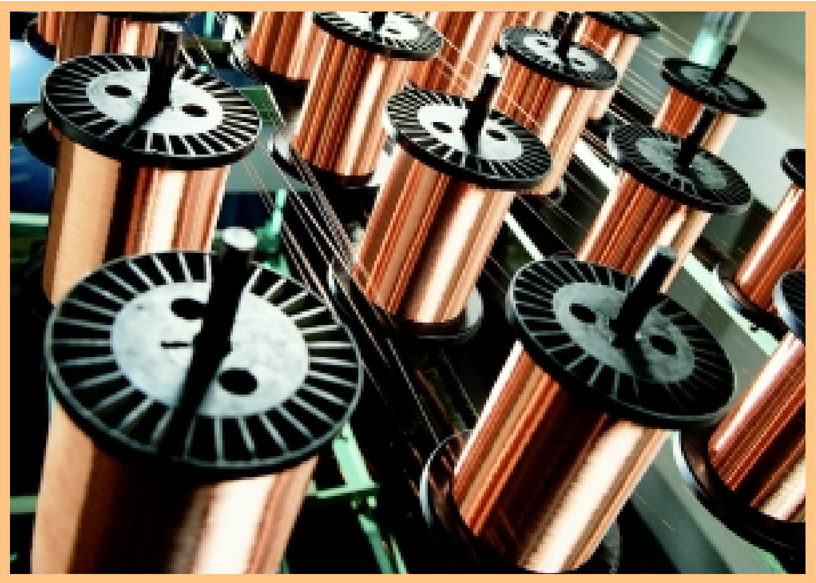
SEGMENTAL ANALYSIS *(cont'd)*

Aluminium Fabrication

Aluminium fabrication business accounted for 12% (2005: 38%) of the Group's turnover and contributed 10% (2005: 17%) of the Group's operating profit for 2006.

During the year, the Group had implemented measures to enhance the production yields of its manufacturing processes and rationalise the product and sales mix, thereby maintaining its competitive edge in the market. Sales volume of aluminium foils and extrusion products reached a new high of 63,282 tonnes in 2006, representing a 6% increase over previous year. Increase in sales volume and higher aluminium prices lead to a 21% increase in turnover.

Copper Fabrication and Plica Tubes Production



This segment accounted for 17% (2005: 1%) of the Group's turnover and contributed 5% (2005: 6%) of the Group's operating profit for 2006.

For copper fabrication, the Group operated copper rods production through a jointly controlled entity, which was owned as to 36% by the Group as at 31 December 2006. Since April 2006, the Group has proportionately consolidated the results of this jointly controlled entity. Sales

Management Discussion and Analysis

SEGMENTAL ANALYSIS *(cont'd)*

Copper Fabrication and Plica Tubes Production *(cont'd)*

volume of this entity was about 151,000 tonnes in 2006. In 2006, copper rods business faced both threats and opportunities. Surging copper prices not only drove up the production cost but also tightened the working capital of the business. However, it also helped to speed up the market consolidation by excluding out small-scale and less competitive producers. By strengthening cost controls, the copper rods business sustained a reasonable margin of return and contributed operating profit of approximately HK$24.0 million to the Group during the year.

For plica tubes production, despite competition from new entrants into the market, sales volume of the Group can still be managed to boost by 26% from 1.55 million metres in 2005 to 1.95 million metres in 2006. Contribution to operating profit from plica tubes operation amounted to HK$5.0 million in 2006.

OTHER FINANCIAL INFORMATION

Financial Resources and Liquidity

The Group continued to maintain a strong financial and liquidity position in 2006. Total assets increased by HK$600.2 million to HK$8,124.7 million and total equity increased by HK$1,161.5 million to HK$4,445.6 million during the year. As at 31 December 2006, the current ratio was 1.8, based on current assets of HK$4,414.8 million and current liabilities of HK$2,501.7 million.

As at 31 December 2006, the Group had approximately HK$2,706.3 million liquid funds in cash (including cash and cash equivalents and pledged bank deposits). Even after setting off with the total bank borrowings of HK$1,072.2 million and convertible bonds of HK$980.1 million, the Group would still in a net cash surplus position of HK$654.0 million. Hence, gearing ratio (defined as total borrowings less cash and cash equivalents and pledged bank deposits, divided by capital and reserves attributable to the Company's equity holders) is not applicable.

Increase in the Group's cash liquid funds during the year was mainly due to the issuance of convertible bonds in December 2006 and the profits generated from operations. Save for those reserved for general working capital purposes, the Group intends to use the funds for future acquisition of alumina-related or aluminium-related businesses and/or other projects.

About 45% and 33% of the Group's cash and cash equivalents at 31 December 2006 were denominated in Hong Kong dollars and Renminbi respectively, while the remaining balance was mainly denominated in US dollars.

The Group's total bank borrowings, of which 53% bears interest at floating interest rate and 47% bears interest at fixed interest rate, reduced by 7% to HK$1,072.2 million at 31 December 2006. About 58% and 42% of the Group's bank loans were denominated in US dollars and Renminbi respectively. All bank borrowings at 31 December 2006 are repayable within one year. The Group is preparing to refinance a bank loan of HK$569.4 million (which has been used to finance the initial payment of alumina purchasing rights and becoming due in June 2007) on a long-term basis.

Management Discussion and Analysis

OTHER FINANCIAL INFORMATION *(cont'd)*

Significant Investments Held and Material Acquisitions and Disposals

(a) *Investment securities*

As mentioned above, the Group partially disposed the equity securities it held in Sino Gold Limited and realised after-tax gains of approximately HK$32.0 million during the year. As at 31 December 2006, the market value of the remaining securities held amounted to HK$450.9 million, showing an appreciation of about 125% during the year.

(b) *Increase in interest in Changzhou Jinyuan*

Near the end of March 2006, the Group increased its equity stake in Changzhou Jinyuan from 25% to 36%. The purchase consideration for the 11% interest acquired was HK$18.7 million and was settled by the Group's internal funds. Due to the change in shareholding structure and the composition of board of directors, the classification of Changzhou Jinyuan has been changed from associate to jointly controlled entity since April 2006.

(c) *Bauxite and alumina joint venture*

In relation to the Group's proposed establishment of a joint venture to develop a bauxite mine and an associated alumina refining facility in Jamaica, an initial pre-feasibility study to assess the quality and quantity of the bauxite reserves is now in progress. Preliminary assessment result is expected to be available in the second-half of 2007.

Issuance of Convertible Bonds

In December 2006, the Group issued zero coupon guaranteed convertible bonds of an aggregate principal amount of HK$1,000,000,000 (with maturity date on 7 December 2011) and raised net proceeds of approximately HK$976.1 million. The net proceeds are intended to be used by the Company for future acquisition of alumina-related or aluminium-related businesses such as Guangxi Huayin Aluminium Company Limited, Sherwin Alumina L.P. and/or other projects.

Capital Expenditure and Commitments

The Group's capital expenditure for 2006 amounted to approximately HK$29.7 million. It was mainly used for the expansion and upgrade of the production facilities in the aluminium fabrication operation.

As at 31 December 2006, the Group had capital commitments of approximately HK$180.2 million in relation to the expansion of production facilities and the proposed acquisition of additional equity interests in an existing non-wholly owned subsidiary of the Group.

Charge on Assets

As at 31 December 2006, the following assets of the Group had been pledged to certain banks for the banking facilities granted to the Group:

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

Management Discussion and Analysis

OTHER FINANCIAL INFORMATION *(cont'd)*

Charge on Assets *(cont'd)*

(b) Property, plant and equipment, land use rights and inventories of the Group with a total carrying amount of approximately HK$382.7 million; and

(c) Bank deposits of approximately HK$38.2 million.

Contingent Liabilities

As at 31 December 2006, 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$1.5 million (2005: HK$1.4 million).

Events After the Balance Sheet Date

In January 2007, the Company filed a petition to the high court of the Hong Kong Special Administrative Region to seek the court's confirmation of the cancellation of the special capital reserve account of the Company and the reduction of the share premium account of the Company for the purpose of eliminating the accumulated losses of the Company as at 31 October 2006. On 13 February 2007, the court ordered that the cancellation of the special capital reserve account of approximately HK$125,374,000 and the reduction of the share premium account from approximately HK$3,503,362,000 to approximately HK$2,738,934,000 was confirmed.

Risk Management

The Group does not and is prohibited to enter into derivative contracts for speculative purpose. All derivative instruments are only used for the purpose of mitigating the risks arising from operating activities. The Group's major risk exposures and the related hedges are as follows:

(a) *Commodity price risk*

The Group's major exposure to commodity price risk includes the price fluctuation in relation to: (i) alumina purchases and sales in its trading operation and (ii) aluminium ingots used in the production process for its aluminium fabrication operation. In 2006, the Group entered into aluminium forward contracts and options to hedge against these risks. Under no circumstances, the Group had entered into derivative contracts that were greater than the actual physical stocks that it purchased or sold during the year. At 31 December 2006, the Group's open position was as follows:

Maturity profile	**Aluminium forward sales contract** *Tonnes*
2007	33,330
2008	7,500
Total	40,830

Management Discussion and Analysis

OTHER FINANCIAL INFORMATION *(cont'd)*

Risk Management *(cont'd)*

(b) *Foreign exchange risk*

The Group's major businesses are conducted in United States dollars ("USD"), Renminbi ("RMB") and Australian dollars ("AUD"). Given the exchange rate peg between Hong Kong dollars ("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/HKD. For 2006, 82% of the Group turnover was denominated in RMB. At 31 December 2006, the total net assets shared by the Group in its PRC subsidiaries, associates and jointly controlled entity amounting to HK$1,464.0 million were denominated in RMB. Fluctuation of the exchange rate between RMB and USD/HKD could affect the Group's performance. Exchange rate fluctuation between AUD and USD/HKD will partially affect the purchase cost of alumina under a long-term purchase contract with a quantity of 400,000 tonnes per year until 2027. The Group has hedged against this AUD exchange exposure by using forward contracts.

(c) *Interest rate risk*

The Group's interest rate risk mainly arises from bank borrowings. At 31 December 2006, 53% of the Group's bank borrowings amounting to HK$569.4 million bore interest at floating interest rate. To stabilise its interest expenses against interest rate movements, the Group had arranged interest rate swaps to hedge against the risk, which covered about 94% of the Group's floating rate bank borrowings.

Dividend

As at 31 December 2006, the Company was still in accumulated losses and had no available profits for distribution purpose. Hence the Board does not recommend the payment of a final dividend for the year.

On 13 February 2007, the High Court of the Hong Kong Special Administrative Region made an order confirming the capital reduction of the Company. Credits arising from the cancellation of the special capital reserve account and the reduction of the share premium amount of the Company were then used to set off against the Company's accumulated losses. These adjustments will be reflected in the Company's financial statements for the year ending 31 December 2007.

Since the above court's order date, the Company has a capital structure that would permit the payment of dividends. However, at this stage, there is no assurance that a dividend will be declared or paid in future.

Human Resources

At 31 December 2006, the Group (not including the jointly controlled entity and associates) employed a total of 2,420 employees, of which 16 were based in Hong Kong, 2,392 in mainland China and 12 in Australia. The total staff costs, including the directors' emoluments and share-based payments for the share options granted, amounted to HK$109.3 million for 2006. During the year, the Company's directors and certain eligible employees of the Group were awarded share options of the Company for their past and potential contributions to the Group.

The Group has adopted salary policies in line with market practice and motivated its staff with performance-based remuneration. Besides, to cope with its business development, the Group has organised in-house training, knowledge sharing and skills transfer activities for its staff as and when appropriate.

Directors and Senior Management

DIRECTORS

Chairman

Mr. ZHOU Zhongshu, aged 54, 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 a non-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 Peak Strategic Industries Limited, a subsidiary of the Company. 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 one years of experience in non-ferrous metals industry.

Executive Directors

Mr. XU Huizhong, aged 49, 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 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 twenty years. Mr. Xu has extensive experience in international trading, property development and investment, investment strategies and corporate management.

Mr. WANG Lixin, aged 39, was appointed as an executive director and a 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 six subsidiaries of the Company, namely First Harvest Limited, Minmetals Aluminium Company Limited (also acts as the general manager), Minmetals Non-ferrous Lianyungang Company Limited, Orienmet Aluminium Company Limited, Sino Mining Alumina Limited and Sino Mining International Limited. 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 eleven years of experience in foreign trade and corporate management, as well as five years of experience with government services.

Mr. REN Suotang, aged 43, was appointed as an executive director and a vice president of the Company in September 2006. He has also served as a director of two subsidiaries of the Company, namely First Harvest Limited and Orienmet Aluminium Company Limited. Mr. Ren holds a Bachelor of Engineering degree in Metallurgy of Non-ferrous Metals from the Hebei Institute of Mining and Metallurgy in the PRC and a Master of Science degree in Chemical Metallurgy from the Institute of Chemical Metallurgy, Chinese Academy of Sciences in the PRC. He also obtained a Certificate for Senior Economist in International Business from the Ministry of Foreign Trade and Economics Cooperation in the PRC in 1996. Mr. Ren joined China Minmetals Corporation ("China Minmetals") in 1987 and worked for a number of subsidiaries of China Minmetals both in the PRC and overseas. From 1995 to 1999, he was the deputy general manager of Division 2 of General Import Department of China Minmetals. From 1999 to 2005, he held senior management positions in the overseas subsidiaries of China Minmetals in Brazil. Mr. Ren has extensive experience in international metals trading and corporate management.

Directors and Senior Management

DIRECTORS *(cont'd)*

Non-executive Directors

Ms. SHEN Ling, aged 45, 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 Peak Strategic Industries Limited, a subsidiary of the Company. 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 one years of experience in accounting and corporate financial management.

Mr. ZHANG Shoulian, aged 52, 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 of each of North China Aluminium Company Limited, Minmetals Aluminium Company Limited and Sino Mining International Limited, all of which are the subsidiaries of the Company. He graduated from the Dongbei University of Finance and Economics in the PRC majoring 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 was the general manager of the Strategy and Planning Division of the group from 1999 to 2000 and the vice president of CMN from 2001 to 2003. Mr. Zhang also served as the executive commissioner of the International Tungsten Industry Association since September 2006. He has over eleven years of experience in the non-ferrous metals industry.

Mr. LI Linhu, aged 52, 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 eleven years of experience in foreign trade and corporate management.

Mr. ZONG Qingsheng, aged 47, 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 North China Aluminium Company Limited, a subsidiary of the Company. 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 one years of experience in foreign trade, business management and investment.

Directors and Senior Management

DIRECTORS *(cont'd)*

Non-executive Directors *(cont'd)*

Dr. ZHU Guang, aged 50, was appointed as the vice chairman and a non-executive director of the Company in October 2005 and retired in May 2006 at the annual general meeting of the Company. 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 served as a director of Peak Strategic Industries Limited, a subsidiary of the Company. 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 eleven years of experience in non-ferrous metals industry.

Independent Non-executive Directors

Mr. LIU Hongru, aged 76, 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.

Mr. CHAN Wai Dune, aged 54, 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, Chuang's Consortium International Limited, Hualing Holdings Limited, Hunan Nonferrous Metals Corporation Limited, Mexan Limited, Sam Woo Holdings Limited, Jinheng Automotive Safety Technology Holdings Limited and Sino Union Petroleum & Chemical International Limited. Mr. Chan has over twenty six 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 53, 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.

Directors and Senior Management

SENIOR MANAGEMENT OF THE COMPANY

Mr. TANG Xiaojin, aged 45, was appointed as the vice president of the Company in October 2003. 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, a subsidiary of the Company, 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 three years of experience in the non-ferrous metals industry.

Mr. MAK Hing Keung, Thomas, aged 44, 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 37, joined the Group in 1998 and was appointed as the financial controller of the Company in August 2002. Mr. Chu holds a Master Degree in Corporate Finance from The Hong Kong Polytechnic University. 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 fourteen years of experience in financial management and auditing.

SENIOR MANAGEMENT OF SUBSIDIARY COMPANIES

Mr. LI Liangang, aged 43, 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, both are the subsidiaries of the Company. Mr. Li is a director of six subsidiaries of the Company, namely Minmetals Aluminium Company Limited, Minmetals Non-ferrous Lianyungang Company Limited, Sino Mining Alumina Limited, SMI, Sino Mining Trading Pty Ltd and Sino Nickel Pty Ltd. He is responsible for sourcing and importing alumina. He graduated from the Teacher's College for Foreign Language of Beijing Union University in the PRC 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 ten years of working experience in the non-ferrous metals industry.

Directors and Senior Management

SENIOR MANAGEMENT OF SUBSIDIARY COMPANIES *(cont'd)*

Mr. WANG Ji, aged 45, 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, both are the subsidiaries of the Company. 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 eleven years of experience in foreign trade and corporate management.

Mr. WANG Xiaolei, aged 35, joined the Group in October 2005, is the vice general manager of Minmetals Aluminium Company Limited and a director of Sino Mining Alumina Limited, both are the subsidiaries of the Company. He is mainly responsible for hedging and sales of metal products. He graduated from the Central University of Finance and Economics in the PRC 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 eleven years of working experience in the trading of metal products.

Mr. JIANG Shixiong, aged 44, joined the Group in 1994, is a director and the general manager of North China Aluminium Company Limited, a subsidiary of the Company. Mr. Jiang graduated from the University of Science and Technology Beijing in the PRC in 1984 with a Bachelor degree in Mining and obtained a MBA degree from the Renmin University of China in the PRC in 2005. Mr. Jiang joined the previous China National Non-ferrous Metals Industry Corporation in 1984 and subsequently, the China Minmetals Group in 2000. He has over twenty two years of experience in foreign trade and corporate management.

Mr. MA Jianxiang, aged 52, joined the Group in 1998, is the general manager of Yingkou Orienmet Plica Tube Company Limited ("YOPT"), a subsidiary of the Company. He earned his Bachelor degree in Ferrous Metal Refining from Shenyang North Eastern University in the PRC 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 "Board") 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 2006.

PRINCIPAL ACTIVITIES

The Company is principally engaged in investment holding. The activities of its subsidiaries, jointly controlled entity and associates are set out in Notes 19 to 21 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 2006 is set out in Note 5 to the financial statements.

MAJOR CUSTOMERS & SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers during the year is as follows:

	Percentage of the Group's Total	
	Sales	**Purchases**
The largest customer	10%	–
Five largest customers in aggregate	31%	–
The largest supplier	–	15%
Five largest suppliers in aggregate	–	47%

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 43.

No interim dividend was declared during the year. The Board does not recommend the payment of a final dividend, and recommend that the consolidated accumulated losses of approximately HK$107,630,000 at 31 December 2006 (2005: HK$885,192,000) 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.

Directors' Report

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.

CONVERTIBLE BONDS

Details of the convertible bonds of the Group are set out in Note 33 to the financial statements.

DIRECTORS

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

Chairman

Mr. Zhou Zhongshu *(non-executive director)*

Vice Chairman

Dr. Zhu Guang *(non-executive director)* (Retired on 15 May 2006)

Executive Directors

Mr. Xu Huizhong
Mr. Wang Lixin
Mr. Ren Suotang (Appointed on 18 September 2006)

Non-executive Directors

Ms. Shen Ling
Mr. Zhang Shoulian
Mr. Li Linhu
Mr. Zong Qingsheng

Independent Non-executive Directors

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

Directors' Report

DIRECTORS *(cont'd)*

Dr. Zhu Guang retired as a non-executive director and a vice chairman of the Company at the annual general meeting of the Company held on 15 May 2006.

Mr. Ren Suotang was appointed as an executive director by the Board of the Company on 18 September 2006 to fill a casual vacancy of the Board. In compliance with Article 85 of the Articles of Association of the Company, Mr. Ren had retired and offered himself for re-election at the extraordinary general meeting of the Company held on 27 December 2006 and was re-elected at the same meeting.

In accordance with Article 101 of the Articles of Association of the Company, Mr. Xu Huizhong, Mr. Wang Lixin, Mr. Liu Hongru and Mr. Ting Leung Huel, Stephen will retire by rotation and, being eligible, offer themselves 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 2006, 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 (the "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 Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules 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)*
Zhou Zhongshu	Personal	3,000,000	0.17%
Xu Huizhong	Personal	4,600,000	0.27%
Wang Lixin	Personal	2,000,000	0.12%
Shen Ling	Personal	1,500,000	0.09%
Zhang Shoulian	Personal	1,500,000	0.09%
Li Linhu	Personal	1,500,000	0.09%
Zong Qingsheng	Personal	1,500,000	0.09%

Directors' Report

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES *(cont'd)*

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

Notes:

1. The directors' interests in the underlying shares are share options granted by the Company pursuant to the 1994 Share Option Scheme and 2004 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 2006.

Save as disclosed above, as at 31 December 2006, 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 OF SIGNIFICANCE

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.

Directors' Report

SHARE OPTION SCHEMES

1994 Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 25 November 1994 (the "1994 Share Option Scheme"), there were 6,030,000 options outstanding as at 31 December 2006. 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 and shall continue to be valid and outstanding until the expiry of the exercise period. The exercise period for the 6,030,000 outstanding options had expired on 15 March 2007 and no options had been exercised prior to that date.

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.

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

Directors' Report

SHARE OPTION SCHEMES *(cont'd)*

1994 Share Option Scheme *(cont'd)*

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 Board 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.

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 the 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 2006	Exercised during the period	Cancelled during the period	Lapsed during the period	Balance as at 31 December 2006
Director								
Xu Huizhong	15 March 2004 *(Note 1)*	3.115	16 March 2004 to 15 March 2007	2,000,000	–	–	–	2,000,000
Employees of the Group	15 March 2004 *(Note 1)*	3.115	16 March 2004 to 15 March 2007	4,610,000	–	–	580,000 *(Note 2)*	4,030,000
				6,610,000	–	–	580,000	6,030,000

Notes:

1. 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.

2. Options lapsed due to cessation of employment.

Directors' Report

SHARE OPTION SCHEMES *(cont'd)*

2004 Share Option Scheme

Pursuant to the new share option scheme adopted by the Company on 28 May 2004 (the "2004 Share Option Scheme"), a total number of 23,500,000 options have been granted to certain directors and employees of the Group during the year ended 31 December 2006.

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 Board 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 60,734,961 shares, representing approximately 3.54% 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 Board of the Company may in its absolute discretion determines 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.

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 Board of the Company may determine in its absolute discretion in relation to the minimum period of the options to be held.

Directors' Report

SHARE OPTION SCHEMES *(cont'd)*

2004 Share Option Scheme *(cont'd)*

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 Board 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 Board 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.

Directors' Report

SHARE OPTION SCHEMES *(cont'd)*

2004 Share Option Scheme *(cont'd)*

Details of the outstanding options which have been granted under the 2004 Share Option Scheme during the year are as follows:

Category and name of participant	Date of grant	Exercise price per share *HK$*	Exercise period	Number of options: Balance as at 1 January 2006	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Balance as at 31 December 2006
Directors									
Zhou Zhongshu	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009	–	3,000,000	–	–	–	3,000,000
Xu Huizhong	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009	–	2,600,000	–	–	–	2,600,000
Wang Lixin	18 April 2006 *(Note1)*	2.725	18 April 2006 to 17 April 2009	–	2,000,000	–	–	–	2,000,000
Shen Ling	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009	–	1,500,000	–	–	–	1,500,000
Zhang Shoulian	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009	–	1,500,000	–	–	–	1,500,000
Li Linhu	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009	–	1,500,000	–	–	–	1,500,000
Zong Qingsheng	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009	–	1,500,000	–	–	–	1,500,000
Employees of the Group	18 April 2006 *(Note 1)*	2.725	18 April 2006 to 17 April 2009 *(Note 2)*	–	9,900,000	–	–	–	9,900,000
				–	23,500,000	–	–	–	23,500,000

Notes:

1. In respect of the options granted on 18 April 2006, the closing price of the shares of the Company immediately before the date on which the options were granted was HK$2.60 per share.

2. Save as one employee who has been granted 1,000,000 options on 18 April 2006 with a vesting period of 18 months starting from 22 February 2006 till 21 August 2007.

Directors' Report

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

As at 31 December 2006, 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 the 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)*	1,284,467,826	74.92%
China Minmetals Non-ferrous Metals Company Limited ("CMN")	Interest of controlled corporation *(Note 2)*	1,009,090,909	58.86%
Top Create Resources Limited ("Top Create")	Beneficial owner *(Note 2)*	1,009,090,909	58.86%
China Minmetals H.K. (Holdings) Limited ("Minmetals HK")	Interest of controlled corporation *(Note 3)*	275,376,917	16.06%
Coppermine Resources Limited ("Coppermine")	Beneficial owner *(Note 3)*	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 2006.

2. 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 2006.

3. 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 2006.

Save as disclosed above, as at 31 December 2006, 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.

Directors' Report

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

During the year ended 31 December 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2006, the Group had the following continuing connected transactions, details of which are set out below:

1. Agreement on non-transferred contracts

Prior to the completion of the acquisition of the entire interest in the 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, there were three subsisting sourcing contracts (the "Non-transferred Sourcing Contracts", or individually the "Non-transferred Sourcing Contract") and nine subsisting sales contracts (the "Non-transferred Sales Contracts" or individually the "Non-transferred Sales Contract", together with the Non-transferred Sourcing Contracts collectively referred to as the "Non-transferred Contracts") held under the name of China Minmetals Non-ferrous Metals Company Limited ("CMN"). On 28 June 2005, CMN entered into an agreement on Non-transferred Contracts with its wholly owned subsidiary, Minmetals Aluminium Company Limited ("Minmetals Aluminium") (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 had expired on 31 December 2006.

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

Among the three Non-transferred Sourcing Contracts and nine Non-transferred Sales Contracts, two of the Non-transferred Sourcing Contracts had expired on 31 December 2005 and eight out of the nine Non-transferred Sales Contracts have been transferred from CMN to Minmetals Aluminium respectively. Accordingly, there is one Non-transferred Sourcing Contract and one Non-transferred Sales Contract subsisted during the year and these two contracts had expired on 31 December 2006.

The total purchase price paid under the Non-transferred Sourcing Contract and the sales proceeds received under the Non-transferred Sales Contract for the year ended 31 December 2006 amounted to approximately RMB291,108,000 and RMB703,268,000 respectively and did not exceed the proposed annual cap of RMB340,000,000 for the purchase price payable and RMB2,570,000,000 for the sales proceeds receivable prescribed for the year ended 31 December 2006 as disclosed in the Company's circular dated 30 June 2005.

Directors' Report

CONTINUING CONNECTED TRANSACTIONS *(cont'd)*

2. 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 for the year ended 31 December 2006 amounted to approximately RMB66,186,000 which did not exceed the proposed annual cap of RMB100,000,000 prescribed for the year ended 31 December 2006 as disclosed in the Company's circular dated 30 June 2005.

The continuing connected transactions for the year ended 31 December 2006 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 2006 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.

Directors' Report

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 of the Company 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-based 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 36 to the financial statements.

DIRECTORS AND SENIOR MANAGEMENT

Particulars of the directors and senior management of the Company are set out on pages 15 to 19 of this annual report.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans of the Company and the Group as at 31 December 2006 are set out in Note 32 to the financial statements.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 119 to 120 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 34 to 40 of this annual report.

Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Board, 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, 11 April 2007

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 2006 except for certain deviations from code provisions A.4.2 and E.1.2 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 directors of the Company (the "Directors" or individually the "Director"), 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 during the year ended 31 December 2006.

BOARD OF DIRECTORS

Composition

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

Executive Directors

Mr. Xu Huizhong
Mr. Wang Lixin
Mr. Ren Suotang

Non-executive Directors

Mr. Zhou Zhongshu *(Chairman)*
Mr. Shen Ling
Mr. Zhang Shoulian
Mr. Li Linhu
Mr. Zong Qingsheng

Independent Non-executive Directors

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

Corporate Governance Report

BOARD OF DIRECTORS *(cont'd)*

Composition *(cont'd)*

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 control 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 19 under the section headed "Directors and Senior Management" of this annual report.

Board meetings are held regularly at approximately quarterly intervals and also held on ad hoc basis as required by business needs. Regular Board meetings and ad hoc Board meetings are attended to by a majority of the directors in person or through other electronic means of communication. In addition, special Board meetings are convened from time to time for the Board to discuss issues that require the Board's timely attention. Since the special Board meetings are concerned with the day-to-day management of the Company which often requires prompt decisions, usually only the executive Directors and senior management attend the meetings. During the year ended 31 December 2006, other than resolutions passed in writing by all the Directors, the Board held a total of twelve regular and ad hoc Board meetings and a total of nine special Board 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 regular and ad hoc Board meetings attended**	**Number of special Board meetings attended**
Executive Directors			
Mr. Xu Huizhong		12/(12)	9/(9)
Mr. Wang Lixin	*(i)*	12/(12)	8/(9)
Mr. Ren Suotang	*(ii)*	2/(2)	2/(2)
Non-executive Directors			
Mr. Zhou Zhongshu *(Chairman)*		12/(12)	
Dr. Zhu Guang *(Vice Chairman)*	*(iii)*	3/(5)	
Ms. Shen Ling		12/(12)	
Mr. Zhang Shoulian	*(iv)*	12/(12)	
Mr. Li Linhu		12/(12)	
Mr. Zong Qingsheng		12/(12)	
Independent Non-executive Directors			
Mr. Liu Hongru		11/(12)	
Mr. Chan Wai Dune		12/(12)	
Mr. Ting Leung Huel, Stephen		12/(12)	

Corporate Governance Report

BOARD OF DIRECTORS *(cont'd)*

Composition *(cont'd)*

Notes:

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

(ii) Appointed as executive Director and vice president of the Company on 18 September 2006.

(iii) Retired as vice chairman of the Board and non-executive Director at the annual general meeting of the Company held on 15 May 2006.

(iv) 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 regular 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.

Under code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting. The chairman of the Board had not attended the Company's annual general meeting held on 15 May 2006 due to other business commitment.

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 independence judgment on issues relating to the Group's strategies, development, performance and risk management through their contribution at Board and committee meetings.

Corporate Governance Report

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 2006 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

Nomination of Directors

The Company does not have a nomination committee. 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. Ren Suotang as the executive Director to fill a casual vacancy of the Board. In accordance with the articles of association of the Company, Mr. Ren had retired and was re-elected at the extraordinary general meeting of the Company held on 27 December 2006 and thereafter is subject to retirement by rotation and re-election at the annual general meeting of the Company.

Re-election of Directors

Each of the non-executive Directors has entered into a service agreement with the Company for a term of three years but is subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the articles of association of the Company.

Under code provision A.4.2 of the CG Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

To comply with the code provision A.4.2, a special resolution was passed to amend the articles of the association of the Company at the Company's annual general meeting held on 15 May 2006 to the effect that (a) all directors appointed to fill a casual vacancy shall retire and be elegible for re-election at the next general meeting, and (b) every director shall be subject to retirement by rotation at least once every three years.

Corporate Governance Report

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 which have been adopted by the Board are posted on the Company's website.

During the year ended 31 December 2006, 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	**Number of meetings attended**
Executive Director	
Mr. Xu Huizhong	2/(2)
Non-executive Director	
Mr. Zhou Zhongshu	2/(2)
Independent Non-executive Directors	
Mr. Liu Hongru	2/(2)
Mr. Chan Wai Dune	2/(2)
Mr. Ting Leung Huel, Stephen *(Chairman)*	2/(2)

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. Mr. Chan Wai Dune is the Chairman of the audit committee.

The audit committee is accountable to the Board and the principle duties of the audit committee include the review and supervision of the financial reporting process and internal control system of the Group. The terms of reference of the audit committee incorporating all the duties set out in code provision C.3.3 of the CG Code are posted on the Company's website.

Corporate Governance Report

THE BOARD COMMITTEES *(cont'd)*

Audit Committee *(cont'd)*

During the year ended 31 December 2006, the audit committee held three 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 control 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 2006.

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	**Number of meetings attended**
Non-executive Director	
Mr. Zong Qingsheng	3/(3)
Independent Non-executive Directors	
Mr. Liu Hongru	3/(3)
Mr. Chan Wai Dune *(Chairman)*	3/(3)
Mr. Ting Leung Huel, Stephen	3/(3)

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 2006 as disclosed in this annual report. The Directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, 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 2006, 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 Independent Auditor's Report on pages 41 to 42 of this annual report.

Corporate Governance Report

ACCOUNTABILITY AND AUDIT *(cont'd)*

Internal Controls

The Board is entrusted with overall responsibility for establishing and maintaining the Group's internal control systems and reviewing their effectiveness to safeguard the Group's assets and to protect shareholders' interest. The management throughout the Group maintains and monitors the internal control system on an ongoing basis. During the year, the Group engaged an international independent external professional consultant (the "Consultant"), to perform the internal control review. The review included an assessment based on the approach adopted by the COSO (Committee of Sponsoring Organizations of the Treadway Commission, a globally recognized framework) and a risk assessment review. The Consultant reported his review findings and made his recommendations directly to the audit committee. The audit committee reported the findings to the Board.

Auditors' Remuneration

An anlaysis of the remuneration of the Company's auditors, Messrs PricewaterhouseCoopers, for the year ended 31 December 2006 is set out as follows:

Services rendered	**Fee paid/payable**
	HK$'000
Audit services	2,382
Non-audit services	
– Services in connection with the issuance of convertible bonds and capital reduction	1,200
– Other services (including taxation services)	357
	3,939

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.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF
MINMETALS RESOURCES LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Minmetals Resources Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 43 to 118, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR's RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 11 April 2007

Consolidated Income Statement

	Note	Year ended 31 December 2006 HK$'000	2005 HK$'000
Turnover	5	**12,829,280**	3,332,765
Cost of sales		**(11,390,423)**	(3,028,661)
Gross profit		**1,438,857**	304,104
Selling expenses		**(104,664)**	(63,136)
Administrative expenses		**(153,191)**	(70,445)
Negative goodwill recognised		**8,518**	80,873
Provision for impairment in alumina purchasing rights		**(877,613)**	–
Write-back of provision for sales contract obligations		**288,395**	–
Other income – net	6	**26,919**	98,772
Other losses – net	6	**(92,399)**	(133,243)
Operating profit	7	**534,822**	216,925
Finance costs – net	8	**(29,150)**	(14,358)
Share of profits less losses of associates	21	**29,870**	25,046
Profit before income tax		**535,542**	227,613
Income tax credit/(expense)	9	**343,066**	(24,532)
Profit for the year		**878,608**	203,081
Attributable to:			
Equity holders of the Company	10	**865,320**	181,746
Minority interest		**13,288**	21,335
		878,608	203,081
Earnings per share for profit attributable to the equity holders of the Company during the year	11		
– Basic		**HK$0.505**	HK$0.209
– Diluted		**HK$0.500**	HK$0.209
Dividends	12	**–**	–

The notes on pages 49 to 118 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	15	**538,892**	504,190
Investment properties	16	**9,590**	14,730
Land use rights	17	**16,053**	11,992
Construction in progress	18	**4,576**	5,415
Interests in associates	21	**47,885**	85,116
Alumina purchasing rights	22	**2,622,149**	3,601,301
Long-term receivables		**–**	4,808
Available-for-sale financial assets	23	**450,933**	313,663
Deferred income tax assets	24	**19,915**	23,849
		3,709,993	4,565,064
Current assets			
Inventories	25	**598,579**	943,797
Trade and bills receivable	26	**937,890**	502,170
Prepayments, deposits and other receivables		**163,406**	43,639
Amounts due from fellow subsidiaries and an intermediate holding company	42	**7,779**	182,925
Alumina purchasing rights	22	**–**	293,160
Derivative financial instruments	27	**818**	6,009
Pledged bank deposits	28	**38,209**	49,659
Cash and cash equivalents	28	**2,668,075**	938,086
		4,414,756	2,959,445
Total assets		**8,124,749**	7,524,509
Capital and reserves attributable to the Company's equity holders			
Share capital	29	**85,722**	85,722
Reserves	30	**4,139,659**	2,995,301
		4,225,381	3,081,023
Minority interest		**220,206**	203,019
Total equity		**4,445,587**	3,284,042

The notes on pages 49 to 118 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

	Note	As at 31 December 2006 HK$'000	2005 HK$'000
Non-current liabilities			
Deferred income	31	**25,824**	27,138
Provision for sales contract obligations	22	**–**	24,859
Derivative financial instruments	27	**7,968**	14,970
Deferred income tax liabilities	24	**163,572**	688,438
Bank loans	32	**–**	617,477
Convertible bonds	33	**980,137**	–
		1,177,501	1,372,882
Current liabilities			
Trade and bills payable	35	**642,318**	475,628
Accruals, receipts in advance and other payables		**365,387**	531,979
Advances from banks for bills discounted		**295,699**	55,779
Amounts due to ultimate holding company, an intermediate holding company, fellow subsidiaries and associates	42	**1,506**	6,890
Provision for sales contract obligations	22	**–**	1,033,799
Derivative financial instruments	27	**58,853**	165,931
Income tax liabilities		**65,728**	63,738
Bank loans	32	**1,072,170**	533,841
		2,501,661	2,867,585
Total liabilities		**3,679,162**	4,240,467
Total equity and liabilities		**8,124,749**	7,524,509
Net current assets		**1,913,095**	91,860
Total assets less current liabilities		**5,623,088**	4,656,924

XU Huizhong
Executive Director and President

REN Suotang
Executive Director and Vice President

The notes on pages 49 to 118 are an integral part of these consolidated financial statements.

Balance Sheet

	Note	2006 HK$'000	2005 HK$'000
		As at 31 December	
Non-current assets			
Property, plant and equipment	*15*	**1,269**	1,460
Investment properties	*16*	**8,460**	13,630
Interests in subsidiaries	*19*	**2,597,648**	2,528,943
		2,607,377	2,544,033
Current assets			
Other receivables		**2,220**	2,181
Loans to subsidiaries	*19*	**111,899**	29,350
Cash and cash equivalents	*28*	**1,238,385**	347,324
		1,352,504	378,855
Total assets		**3,959,881**	2,922,888
Capital and reserves			
Share capital	*29*	**85,722**	85,722
Reserves	*30*	**2,830,363**	2,779,532
Total equity		**2,916,085**	2,865,254
Current liabilities			
Other payables		**11,342**	5,737
Amounts due to subsidiaries	*19*	**1,032,454**	51,897
Total liabilities		**1,043,796**	57,634
Total equity and liabilities		**3,959,881**	2,922,888
Net current assets		**308,708**	321,221
Total assets less current liabilities		**2,916,085**	2,865,254

XU Huizhong
Executive Director and President

REN Suotang
Executive Director and Vice President

The notes on pages 49 to 118 are an integral part of this financial statement.

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company												
	Share capital	Share premium	Capital reserve	Special capital reserve *(Note 30(d))*	General reserve	PRC statutory reserves	Exchange translation reserve	Available-for-sale financial assets reserve	Hedging reserve	Share options reserve	Accu-mulated 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*	*HK$'000*
Balance at 1 January 2006	85,722	3,503,362	48,380	125,374	15,600	72,600	5,349	109,828	–	–	(885,192)	203,019	3,284,042
Acquisition of interests in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(749)	(749)
Transfer to PRC statutory reserves	–	–	–	–	–	87,758	–	–	–	–	(87,758)	–	–
Currency translation differences	–	–	–	–	–	–	45,676	–	–	–	–	8,442	54,118
Available-for-sale financial assets													
– Disposals	–	–	–	–	–	–	–	(39,663)	–	–	–	–	(39,663)
– Fair value gain	–	–	–	–	–	–	–	250,545	–	–	–	–	250,545
Cash flow hedges	–	–	–	–	–	–	–	–	818	–	–	–	818
Recognition of equity-settled share-based payment	–	–	–	–	–	–	–	–	–	21,662	–	–	21,662
Profit for the year	–	–	–	–	–	–	–	–	–	–	865,320	13,288	878,608
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	–	(3,794)	(3,794)
Balance at 31 December 2006	85,722	3,503,362	48,380	125,374	15,600	160,358	51,025	320,710	818	21,662	(107,630)	220,206	4,445,587

	Attributable to equity holders of the Company										
	Share capital	Share premium	Capital reserve	Special capital reserve *(Note 30(d))*	General reserve	PRC statutory reserves	Exchange translation reserve	Available-for-sale financial assets reserve	Accu-mulated 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 2005	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 arising on business combinations	–	–	–	–	–	–	–	–	–	516	516
Transfer to PRC statutory reserves	–	–	–	–	–	2,152	–	–	(2,152)	–	–
Currency translation differences	–	–	–	–	–	–	3,320	–	–	3,633	6,953
Fair value gain on available-for-sale financial assets	–	–	–	–	–	–	–	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 49 to 118 are an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2006 HK$'000	2005 HK$'000
Cash flows from operating activities			
Net cash generated from/(used in) operations	39	**971,003**	(207,905)
Interest paid		**(92,619)**	(26,733)
Income tax paid		**(181,329)**	(80,484)
Net cash generated from/(used in) operating activities		**697,055**	(315,122)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	38	**–**	689,630
Acquisition of a jointly controlled entity, net of cash acquired		**33,901**	–
Acquisition of additional interest in a subsidiary		**(318)**	–
Acquisition of additional interest in an associate		**(41)**	–
Purchase of property, plant and equipment and land use rights		**(3,708)**	(6,696)
Proceeds from disposal of property, plant and equipment and investment properties	39	**5,345**	908
Additions to construction in progress		**(25,950)**	(43,999)
Dividends received from associates		**7,804**	1,557
Interest received		**44,045**	10,987
Proceeds from disposal of available-for-sale financial assets		**146,577**	–
Decrease in pledged bank deposits		**11,516**	1,417
Net cash inflow from investing activities		**219,171**	653,804
Cash flows from financing activities			
Proceeds from issuance of convertible bonds		**976,103**	–
Proceeds from issuance of shares		**–**	219,806
Proceeds from new bank loans		**134,122**	258,195
Repayments of bank loans		**(334,289)**	(54,008)
Dividends paid to minority shareholders		**(3,794)**	(1,428)
Net cash inflow from financing activities		**772,142**	422,565
Net increase in cash and cash equivalents		**1,688,368**	761,247
Cash and cash equivalents at 1 January		**938,086**	176,236
Exchange gains on cash and bank balances		**41,621**	603
Cash and cash equivalents at 31 December		**2,668,075**	938,086
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**2,668,075**	938,086

The notes on pages 49 to 118 are an integral part of these consolidated financial statements.

Notes to the Financial Statements

1. GENERAL INFORMATION

Minmetals Resources Limited (the "Company") is a limited liability company and was incorporated in Hong Kong on 29 July 1988. The address of its registered office is 9/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

The Company is an investment holding company. Its subsidiaries and associates are principally engaged in the trading of non-ferrous metals and the manufacturing and distribution of aluminium and copper products.

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 11 April 2007.

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 Group 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.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group'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.

The adoption of new accounting standards, amendments and interpretations to existing standards:

(a) In 2006, the Company and its subsidiaries (collectively referred to as the "Group") adopted the following amendments and interpretations to existing standards that were effective in 2006 and relevant to the Group's operations.

HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option;
HKAS 39 and HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining Whether an Arrangement Contains a Lease

The adoption of the these amendments and interpretations to existing standards had no material impact on the Group for the year ended 31 December 2006.

Notes to the Financial Statements

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

2.1 Basis of preparation *(cont'd)*

(b) The following standard, amendments and interpretations to existing standards are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations.

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plan and Disclosures
HKFRS 1 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 6 (Amendment)	Exploration for and Evaluation of Mineral Resources
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

(c) The following standards and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 March 2006 or later periods. The Group has started considering their potential impact. Based on the preliminary assessment, the Group believes that the adoption of these standards and interpretations to existing standards, if applicable, will not result in substantial changes to the Group's accounting policies. The Group has not early adopted these standards and interpretations to existing standards, if applicable, in the financial statements for the year ended 31 December 2006.

HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[2]
HK(IRFIC)-Int 7	Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 March 2006
4 Effective for annual periods beginning on or after 1 May 2006
5 Effective for annual periods beginning on or after 1 June 2006
6 Effective for annual periods beginning on or after 1 November 2006
7 Effective for annual periods beginning on or after 1 March 2007
8 Effective for annual periods beginning on or after 1 January 2008

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

Notes to the Financial Statements

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

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 all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

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 consolidated 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.

Notes to the Financial Statements

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

2.2 Consolidation *(cont'd)*

(c) Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

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

(d) Associates

Associates 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 associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' 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 associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Notes to the Financial Statements

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

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.

2.4 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 Company's functional currency is US dollars while the consolidated financial statements are presented in HK dollars.

(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.

(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;

Notes to the Financial Statements

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

2.4 Foreign currency translation *(cont'd)*

(c) Group companies (cont'd)

(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 partially disposed of or 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.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Notes to the Financial Statements

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

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

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised in the income statement.

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. 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. Changes in fair values are recognised in the income statement.

Notes to the Financial Statements

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 associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates and is tested annually for impairment as part of the overall balance. 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 certain 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 investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment. 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). Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, 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.

Notes to the Financial Statements

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

2.10 Financial assets *(cont'd)*

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(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) *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. Financial assets 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 are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other gains/(losses)-net, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

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 on monetary securities are recognised in the income statement, translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

Notes to the Financial Statements

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

2.10 Financial assets *(cont'd)*

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.

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 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 liabilities (fair value hedge);

(2) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge); or

(3) hedges of a net investment in foreign operation (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. Trading derivatives are classified as a current asset or liability.

Notes to the Financial Statements

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

2.11 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 hedged 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 gains/(losses)-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 hedged 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 gains/(losses)-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 variables 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), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

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 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.

Notes to the Financial Statements

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

2.11 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 or sold.

(d) Derivatives that do not qualify for hedge accounting

Certain derivatives instruments do not qualify for hedge accounting are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(losses)-net.

2.12 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

2.13 Inventories

Inventories comprise goods-in-transit, commodities purchased for re-sale, raw materials, work in progress and finished goods. 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. The cost of work in progress and finished goods, comprising raw materials, direct labour, other direct costs and an appropriate proportion of all production overheads, 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 the purchase costs.

Notes to the Financial Statements

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

2.14 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 the 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.

2.15 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.

2.16 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, net of tax, from the proceeds.

2.17 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.

2.18 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.

Notes to the Financial Statements

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

2.18 Provisions and contingent liabilities *(cont'd)*

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.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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.

2.20 Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the derivative component is determined using an option-pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. In subsequent periods, the derivative component is measured at fair value with gains and losses recognised in the income statement until extinguished on conversion or redemption.

2.21 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.

Notes to the Financial Statements

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

2.21 Deferred income tax *(cont'd)*

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 associates, 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.

2.22 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.23 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 is recognised when the related services are rendered.

(c) *Interest income*

Interest income is recognised on a time proportion basis, using the effective interest method.

(d) *Rental income*

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

Notes to the Financial Statements

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

2.24 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.

(b) Retirement benefits

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

The Group's employees in Mainland China are covered by various government-sponsored pension plans. These government agencies are responsible for the pension liabilities to these employees. The relevant group companies pay monthly contributions to these pension plans based on certain percentages of the salaries, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation to make further payments once the required contributions have been paid. Contributions to these plans are expensed as incurred.

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

The Group's 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.

(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 vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

Notes to the Financial Statements

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

2.24 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.

2.25 Leases (as the lessee for 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 to the income statement on a straight-line basis over the period of the lease.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group is exposed 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 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 reduce certain risk exposures.

Risk management is carried out by the Group's risk management department under policies approved by the Board of Directors. The 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.

(a) Foreign exchange risk

The Group's major businesses are conducted in United States dollar ("USD"), Renminbi ("RMB"), Australian dollar ("AUD") and Hong Kong dollar ("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 for the transactions conducted in USD or HKD. As substantial part of the Group's businesses and net assets were conducted or denominated in RMB. Fluctuation of the exchange rate of RMB against USD or HKD could affect the Group's results of operation. The exchange rate fluctuation between AUD and USD or HKD will affect the purchase cost of alumina under a long-term purchase contract with a quantity of approximately 400,000 tonnes per annum until June 2027. The Group aims to reduce this AUD exchange exposure by using foreign exchange forward contracts.

Notes to the Financial Statements

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

3.1 Financial risk factors *(cont'd)*

(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. To stabilise its interest expense against interest rate movements, the Group had arranged interest rate swaps to hedge against the risk.

(c) *Commodity price risk*

The price of alumina in the People's Republic of China (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 change 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.

(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 the working capital requirements of its trading, manufacturing and other business operations. Excess cash is generally invested in term deposits with original maturities of less than three 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. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining derivative financial instruments.

Notes to the Financial Statements

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

3.2 Fair value estimation *(cont'd)*

The fair values of foreign exchange forward contracts, interest rate swaps and aluminium forward contracts are calculated by reference to current contracts with similar maturity profiles.

The carrying amounts of the Group's financial assets including trade and bills receivable, prepayments, deposits and other receivables, amounts due from fellow subsidiaries and an intermediate holding company, pledged bank deposits, cash and cash equivalents and financial liabilities including trade and bills payable, accruals, receipts in advance and other payables, amounts due to ultimate holding company, an intermediate holding company, fellow subsidiaries and associates, 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

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 provision for impairment of alumina purchasing rights

The discounted cash flow technique is adopted to estimate the value of the alumina purchasing rights. Forecasted projections used in the discounted cash flow models are subject to numerous assumptions, risks and uncertainties which include, but are not limited to, determining the appropriate discount rates, forecasting future alumina prices and sourcing costs as well as assessing the economic outlook and environment in general and for the industry. Any changes in these assumptions and estimates can affect the result of the assessment.

(b) 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.

Notes to the Financial Statements

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(cont'd)*

(c) Derivative component of convertible bonds

The fair value of the derivative component of convertible bonds is estimated by using the binomial model, which is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in these assumptions or inputs may materially affect the fair value estimation.

(d) 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 amount of receivables and doubtful debt expenses in the period in which such estimate is changed.

(e) Income tax expense

The Group is subject to income tax in a number of jurisdictions. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the period in which such determination is made.

(f) Employee benefits – share-based payments

The valuation of the fair value of the share options at the grant date requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of the share options that are expected to vest. Where the number of options that are expected to vest is different, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

(g) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at each balance sheet date.

Notes to the Financial Statements

5. SEGMENT INFORMATION

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

	2006 *HK$'000*	2005 *HK$'000*
Turnover		
Sales of goods, net of value-added tax, returns and discounts	**12,827,977**	3,330,932
Servicing income	**1,303**	1,833
	12,829,280	3,332,765

(a) Primary reporting format – Business segments

At 31 December 2006, 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
Copper fabrication and plica tubes production	:	Production and sale of copper rods and plica tubes
Port logistics services and other industrial operations	:	(i) Port logistics services include customs clearance, unloading and packing alumina, and receiving and delivering of alumina at the port of Lianyunggang in the PRC. (ii) Other industrial operations include production and sale of aluminium cans, copper cathodes and copper blister.

Notes to the Financial Statements

5. SEGMENT INFORMATION *(cont'd)*

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

	Trading		Aluminium fabrication		Copper fabrication and plica tubes production		Port logistics services and other industrial operations		Corporate and others		Inter-segment elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Turnover														
Sales of alumina and other non-ferrous metals	**9,286,422**	2,086,494	**-**	-	**-**	-	**-**	-	**-**	-	**(208,405)**	(35,683)	**9,078,017**	2,050,811
Manufacturing of aluminium foils and extrusions	**-**	-	**1,519,701**	1,252,890	**-**	-	**-**	-	**-**	-	**(3,148)**	(2,982)	**1,516,553**	1,249,908
Manufacturing of copper rods and plica tubes	**-**	-	**-**	-	**2,233,407**	30,213	**-**	-	**-**	-	**-**	-	**2,233,407**	30,213
Logistics agency fees	**-**	-	**-**	-	**-**	-	**6,479**	3,322	**-**	-	**(5,176)**	(1,489)	**1,303**	1,833
	9,286,422	2,086,494	**1,519,701**	1,252,890	**2,233,407**	30,213	**6,479**	3,322	**-**	-	**(216,729)**	(40,154)	**12,829,280**	3,332,765
Results														
Segment results	**489,073**	39,490	**51,325**	37,793	**28,952**	13,050	**3,494**	765	**(38,015)**	125,819	**(7)**	8	**534,822**	216,925
Finance costs – net													**(29,150)**	(14,358)
Share of profits less losses of associates	**-**	-	**-**	-	**8,636**	13,791	**21,234**	11,255	**-**	-	**-**	-	**29,870**	25,046
Income tax credit/(expense)													**343,066**	(24,532)
Profit for the year													**878,608**	203,081
Minority interest													**(13,288)**	(21,335)
Profit attributable to equity holders of the Company													**865,320**	181,746

Notes to the Financial Statements

5. SEGMENT INFORMATION *(cont'd)*

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

	Trading		Aluminium fabrication		Copper fabrication and plica tubes production		Port logistics services and other industrial operations		Corporate and others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**4,318,772**	5,478,410	**1,306,389**	1,216,734	**716,671**	32,957	**12,635**	8,059	**1,251,549**	365,721	**7,606,016**	7,101,881
Interests in associates	**–**	–	**–**	143	**–**	55,599	**40,088**	21,577	**7,797**	7,797	**47,885**	85,116
Available-for-sale financial assets											**450,933**	313,663
Deferred income tax assets											**19,915**	23,849
Total assets											**8,124,749**	7,524,509
Segment liabilities	**1,074,397**	2,668,825	**778,884**	790,664	**596,490**	19,836	**4,929**	1,917	**995,162**	7,049	**3,449,862**	3,488,291
Income tax liabilities											**65,728**	63,738
Deferred income tax liabilities											**163,572**	688,438
Total liabilities											**3,679,162**	4,240,467
Capital expenditures	**1,217**	69	**27,135**	49,499	**725**	8	**93**	12	**488**	1,107	**29,658**	50,695
Depreciation of property, plant and equipment	**345**	204	**53,747**	42,453	**3,615**	317	**63**	31	**678**	434	**58,448**	43,439
Amortisation												
– Land use rights	**–**	–	**1,503**	1,150	**207**	–	**6**	–	**–**	–	**1,716**	1,150
– Alumina purchasing rights	**394,699**	208,339	**–**	–	**–**	–	**–**	–	**–**	–	**394,699**	208,339
Other major non-cash expenses/(income)												
– Provision for impairment in alumina purchasing rights	**877,613**	–	**–**	–	**–**	–	**–**	–	**–**	–	**877,613**	–
– Provision for/(Write-back of) inventory impairment	**75,088**	–	**54**	–	**(23)**	–	**–**	–	**–**	572	**75,119**	572
– Write-back of provision for sales contract obligations	**(288,395)**	–	**–**	–	**–**	–	**–**	–	**–**	–	**(288,395)**	–
– Realisation of provision for sales contract obligations	**(770,263)**	(277,482)	**–**	–	**–**	–	**–**	–	**–**	–	**(770,263)**	(277,482)

Notes to the Financial Statements

5. SEGMENT INFORMATION *(cont'd)*

(b) Secondary reporting format – Geographical segments

The Group's activities are conducted predominately in mainland China, Australia and Hong Kong, with the remaining portion of its turnover derived from other countries.

	Mainland China		Australia		Hong Kong		Others		Inter-segment elimination		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	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	**12,541,206**	3,004,071	**11,969**	9,662	**10,546**	8,180	**1,475,778**	496,236	**(1,210,219)**	(185,384)	**12,829,280**	3,332,765
Contribution to gross profit	**1,350,043**	256,266	**872**	1,767	**615**	1,024	**97,408**	49,585	**(10,081)**	(4,538)	**1,438,857**	304,104
Capital expenditures	**27,996**	49,555	**1,174**	33	**488**	1,107	**-**	–	**-**	–	**29,658**	50,695
Segment assets	**3,150,814**	2,790,505	**2,773,746**	3,769,643	**1,492,495**	392,182	**188,961**	149,551	**-**	–	**7,606,016**	7,101,881

Segment assets consist primarily of property, plant and equipment, alumina purchasing rights, inventories, trade and bills receivable, prepayments, deposits and other receivables, and cash and cash equivalents. Unallocated assets comprise available-for-sale financial assets and deferred income tax assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise income tax liabilities and deferred income tax liabilities.

Capital expenditure comprises additions to property, plant and equipment, land use rights and construction in progress.

Notes to the Financial Statements

6. OTHER INCOME AND OTHER LOSSES – NET

(a) Other income – net

	2006 HK$'000	2005 HK$'000
Reversal of provision for impairment of receivables	**10,115**	75,093
– Trade and other receivables	**6,223**	59,814
– Amounts due from associates	**3,892**	15,279
Compensation received from customer for cancellation of contract	**5,943**	–
Sales of by-products and other services income	**5,250**	1,946
Amortisation of deferred income *(Note 31)*	**2,315**	1,691
Government grant income	**873**	866
Rental income from investment properties	**268**	565
Reversal of provision for impairment loss of property, plant and equipment and construction in progress	**209**	2,407
Reversal of provision for a guarantee given to a third party	**–**	6,857
Write-back of trade payables and accruals	**–**	5,831
Others	**1,946**	3,516
	26,919	98,772

(b) Other losses – net

	2006 HK$'000	2005 HK$'000
(Loss)/Gain on derivative financial instruments	**(135,530)**	(133,726)
– Aluminium forward contracts	**(153,568)**	(126,521)
– Aluminium options	**10,613**	(7,210)
– Copper futures contracts	**4,840**	–
– Foreign exchange forward contracts	**2,585**	(1,787)
– Interest rate swaps	**–**	1,792
Gain on disposal of available-for-sale financial assets	**31,956**	–
Exchange gains – net	**11,425**	1,003
Gain on disposal of property, plant and equipment	**146**	36
Fair value gain/(loss) on investment properties	**60**	(556)
Loss on disposal of investment properties	**(456)**	–
	(92,399)	(133,243)

Notes to the Financial Statements

7. OPERATING PROFIT

Operating profit is determined after charging/(crediting) the following:

	2006	2005
	HK$'000	*HK$'000*
Auditors' remuneration	**2,382**	1,800
Depreciation	**58,448**	43,439
Amortisation		
– Land use rights	**1,716**	1,150
– Alumina purchasing rights	**394,699**	208,339
Provision for inventory impairment	**75,119**	572
Realisation of provision for sales contract obligations	**(770,263)**	(277,482)
Employee benefit expenses (including directors' emoluments and share-based payments in relation to the share options granted during the year) *(Note 13)*	**109,322**	75,617
Operating lease rentals on properties	**4,123**	2,550

8. FINANCE COSTS – NET

	2006	2005
	HK$'000	*HK$'000*
Finance costs		
– Interest on bank loans wholly repayable within five years	**(92,619)**	(26,555)
– Interest on convertible bonds wholly repayable within five years	**(4,034)**	–
– Gain on interest rate swaps	**22,961**	–
	(73,692)	(26,555)
Finance income		
– Interest income on short-term bank deposits	**44,542**	12,197
Finance costs – net	**(29,150)**	(14,358)

Notes to the Financial Statements

9. INCOME TAX CREDIT/(EXPENSE)

No provision for Hong Kong profits tax has been made as the Group has no estimated assessable profit generated in Hong Kong for the year (2005: Nil). Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the year at the rates prevailing in the relevant jurisdictions.

	2006	2005
	HK$'000	*HK$'000*
Current income tax credit/(expense)		
Hong Kong profits tax	**512**	–
PRC enterprise income tax	**(177,212)**	(24,398)
Overseas income tax	**(3,961)**	(1,241)
	(180,661)	(25,639)
Deferred income tax credit *(Note 24)*	**523,727**	1,107
Income tax credit/(expense)	**343,066**	(24,532)

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 as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before income tax	**535,542**	227,613
Calculated at a taxation rate of 33% (2005: 33%)	**(176,729)**	(75,112)
Effect of different taxation rates in other countries	**7,536**	23,332
Effect of tax exemption	**687**	946
Income not subject to taxation	**114,552**	56,328
Effect of changes in value of alumina purchasing rights	**449,404**	–
Expenses not deductible for taxation purposes	**(49,778)**	(30,788)
Utilisation of unrecognised tax losses	**466**	3,630
Unrecognised tax losses	**(4,235)**	(2,868)
Overprovision in prior years	**1,163**	–
Income tax credit/(expense)	**343,066**	(24,532)

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 approximately HK$29,169,000 (2005: HK$126,999,000).

Notes to the Financial Statements

11. EARNINGS PER SHARE

(a) Basic

The calculation of basic earnings per share is based on the Group's profit attributable to equity holders of the Company of approximately HK$865,320,000 (2005: HK$181,746,000) and the weighted average number of 1,714,440,521 ordinary shares (2005: 871,231,555 ordinary shares) in issue during the year.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding with assumed conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the interest expense. For the share options, a calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006 *HK$'000*	2005 *HK$'000*
Profit attributable to equity holders of the Company	**865,320**	181,746
Add: Interest expense on convertible bonds	**4,034**	–
Profit used to determine diluted earnings per share	**869,354**	181,746
	Number of shares	Number of shares
Weighted average number of ordinary shares in issue	**1,714,440,521**	871,231,555
Adjustments for assumed conversion of convertible bonds	**23,416,462**	–
Weighted average number of ordinary shares for diluted earnings per share	**1,737,856,983**	871,231,555
Diluted earnings per share	**HK$0.500**	HK$0.209

The effect of share options was anti-dilative as the exercise price of the Company's share options was higher than the average market price of the Company's shares for 2006 and 2005.

Notes to the Financial Statements

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 2006 (2005: Nil).

13. EMPLOYEE BENEFIT EXPENSES, INCLUDING DIRECTORS' EMOLUMENTS

	2006	2005
	HK$'000	*HK$'000*
Wages and salaries	**75,385**	63,708
Share-based payments in relation to the share options granted to directors and employees	**21,662**	–
Retirement scheme contributions *(Note 36)*	**10,817**	11,901
Social security costs	**1,458**	8
	109,322	75,617

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

The remuneration of every director for the year ended 31 December 2006 is set out below:

Name of Director	**Fees**	**Basic salary and other benefits in kind (Note (i))**	**Discretionary bonuses**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Mr. ZHOU Zhongshu	–	–	–	–
Dr. ZHU Guang *(a)*	**49**	–	–	**49**
Mr. XU Huizhong	–	**2,479**	**470**	**2,949**
Mr. WANG Lixin	–	**1,892**	**807**	**2,699**
Mr. REN Suotang *(b)*	–	**417**	–	**417**
Ms. SHEN Ling	**100**	–	–	**100**
Mr. LI Linhu	**100**	–	–	**100**
Mr. ZONG Qingsheng	**100**	–	–	**100**
Mr. ZHANG Shoulian	**100**	–	–	**100**
Mr. LIU Hongru	**200**	–	–	**200**
Mr. CHAN Wai Dune	**210**	–	–	**210**
Mr. TING Leung Huel, Stephen	**200**	–	–	**200**
	1,059	**4,788**	**1,277**	**7,124**

Notes to the Financial Statements

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

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

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

(a) Resigned on 15 May 2006.

(b) Appointed on 18 September 2006.

(c) Appointed on 6 October 2005.

(d) Resigned on 6 October 2005.

Note:

(i) Other benefits in kind include housing allowances and leave pay.

During the year ended 31 December 2006, 13,600,000 (2005: nil) share options were granted to the directors of the Company in respect of their services provided to the Group. Further details of which are set out in Note 37 to these financial statements. Share-based payments in respect of the above share options granted have not been included in the above directors' emoluments disclosure.

No director waived any emoluments in 2006. Mr. ZHOU Zhongshu waived director's fee of HK$36,000 in 2005. No emoluments were paid or payable by the Group to any director as an inducement to join or as compensation for loss of office.

Notes to the Financial Statements

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 (2005: two) executive directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2005: three) individuals (not including the share-based payments in respect of the share options, if any, granted to them during the year) are as follows:

	2006	2005
	HK$'000	*HK$'000*
Basic salaries, bonuses and other benefits in kind	**4,824**	2,380
Retirement scheme contributions	**–**	53
	4,824	2,433

The emoluments (not including the share-based payments in respect of the share options, if any, granted during the year) fell within the following bands:

	Number of individuals	
	2006	2005
Nil – HK$1,000,000	**–**	3
HK$1,000,001 – HK$1,500,000	**2**	–
HK$2,000,001 – HK$2,500,000	**1**	–
	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.

Notes to the Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005							
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
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 38)*	–	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	(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

Notes to the Financial Statements

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

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

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Office equipment *HK$'000*	Furniture, fixtures and equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Year ended 31 December 2006							
Opening net book amount	112,168	183	378,431	4,132	3,361	5,915	504,190
Exchange differences	4,729	2	15,482	248	108	230	20,799
Proportionate consolidation of a jointly controlled entity	10,925	–	30,975	105	–	259	42,264
Reclassification	288	–	(312)	295	5	(276)	–
Additions	–	13	212	537	367	2,235	3,364
Transfer from construction in progress *(Note 18)*	1,146	–	24,231	1,801	–	–	27,178
Disposals	(15)	–	(296)	(23)	(48)	(73)	(455)
Depreciation	(6,378)	(74)	(48,300)	(1,034)	(874)	(1,788)	(58,448)
Closing net book amount	122,863	124	400,423	6,061	2,919	6,502	538,892
At 31 December 2006							
Cost or valuation	187,892	1,208	825,152	14,807	15,268	21,675	1,066,002
Accumulated depreciation and impairment	(65,029)	(1,084)	(424,729)	(8,746)	(12,349)	(15,173)	(527,110)
Net book amount	122,863	124	400,423	6,061	2,919	6,502	538,892

Notes to the Financial Statements

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

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

The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:

	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Office equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	**187,451**	**1,208**	**825,152**	**14,807**	**15,268**	**21,675**	**1,065,561**
At valuation – 1994	**441**	**–**	**–**	**–**	**–**	**–**	**441**
	187,892	**1,208**	**825,152**	**14,807**	**15,268**	**21,675**	**1,066,002**

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	Plant and machinery HK$'000	Office equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total 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

Notes to the Financial Statements

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

(b) The Company

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1 January 2005					
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
At 1 January 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
At 1 January 2006					
Opening net book amount	**289**	**138**	**241**	**792**	**1,460**
Additions	**–**	**–**	**54**	**434**	**488**
Disposals	**–**	**–**	**(1)**	**–**	**(1)**
Depreciation	**(9)**	**(62)**	**(160)**	**(447)**	**(678)**
Closing net book amount	**280**	**76**	**134**	**779**	**1,269**
At 31 December 2006					
Cost or valuation	**441**	**1,124**	**951**	**2,579**	**5,095**
Accumulated depreciation and impairment	**(161)**	**(1,048)**	**(817)**	**(1,800)**	**(3,826)**
Net book amount	**280**	**76**	**134**	**779**	**1,269**

Notes to the Financial Statements

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

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

The analysis of the cost or valuation at 31 December 2006 of the above assets is as follows:

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At cost	–	1,124	951	2,579	4,654
At valuation – 1994	441	–	–	–	441
	441	1,124	951	2,579	5,095

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 and 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

(c) Certain buildings were revalued at 30 September 1994 on an open market value basis by C.Y. Leung & Company Limited, 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 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.

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

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Cost	**76**	76	**76**	76
Accumulated depreciation	**(18)**	(18)	**(18)**	(18)
	58	58	**58**	58

(d) Certain banking facilities of the Group are secured by the Group's property, plant and equipment with a total carrying amount of approximately HK$356 million (2005: HK$388 million).

Notes to the Financial Statements

16. INVESTMENT PROPERTIES

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
At 1 January	**14,730**	7,090	**13,630**	5,990
Reclassification *(Note 15)*	**–**	796	**–**	796
Properties received as settlement of receivables	**–**	7,400	**–**	7,400
Disposals	**(5,200)**	–	**(5,200)**	–
Fair value gains/(losses)	**60**	(556)	**30**	(556)
At 31 December	**9,590**	14,730	**8,460**	13,630

A revaluation of investment properties was performed by CB Richard Ellis Limited, an independent firm of registered professional surveyors and valuers, on 31 October 2006. The valuation was performed 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	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
In the PRC, held on:				
Leases of between 10 to 50 years	**7,390**	7,230	**6,260**	6,130
In Macau, held on:				
Freehold	**–**	5,200	**–**	5,200
Leases of between 10 to 50 years	**2,200**	2,300	**2,200**	2,300
	9,590	14,730	**8,460**	13,630

Notes to the Financial Statements

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:

	2006 HK$'000	2005 HK$'000
In the PRC, held on:		
Leases of between 10 to 50 years	**16,053**	11,992
At 1 January	**11,992**	8,943
Exchange difference	**622**	161
Proportionate consolidation of a jointly controlled entity	**4,811**	–
Additions	**344**	4,038
Amortisation of prepaid operating lease payments	**(1,716)**	(1,150)
At 31 December	**16,053**	11,992

Certain banking facilities of the Group are secured by the Group's land use rights with a total carrying amount of approximately HK$11,471,000 (2005: HK$11,992,000).

18. CONSTRUCTION IN PROGRESS – THE GROUP

	2006 HK$'000	2005 HK$'000
At 1 January	**5,415**	203,008
Exchange difference	**179**	3,904
Proportionate consolidation of a jointly controlled entity	**1**	–
Additions	**25,950**	43,999
Transfer to property, plant and equipment *(Note 15)*	**(27,178)**	(245,496)
Reversal of provision for impairment loss	**209**	–
At 31 December	**4,576**	5,415

Notes to the Financial Statements

19. INTERESTS IN SUBSIDIARIES

	The Company	
	2006	2005
	HK$'000	*HK$'000*
Investments in subsidiaries		
Unlisted shares/investments at costs	**2,179,317**	2,179,317
Less: Provision for impairment in value	**(13,403)**	(15,283)
	2,165,914	2,164,034
Amounts due from subsidiaries *(Note (i))*	**1,269,140**	1,259,108
Less: Provision for impairment	**(837,406)**	(894,199)
	431,734	364,909
	2,597,648	2,528,943
Loans to subsidiaries *(Note (ii))*	**111,899**	29,350
Amounts due to subsidiaries *(Note (iii))*	**(1,032,454)**	(51,897)

Note:

(i) The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

(ii) Except for an amount of HK$50,907,000 (2005: HK$29,350,000) which bears interest at prevailing market interest rate, all the loans to subsidiaries are unsecured, interest free and have repayment terms of less than one year. The directors consider the carrying amounts of the loans to subsidiaries approximate their fair values.

(iii) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand. The directors consider the carrying amounts of the amounts due to subsidiaries approximate their fair values.

Notes to the Financial Statements

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

The following is a list of the principal subsidiaries as at 31 December 2006:

Name of company	Place of incorporation/ operation	Principal activities	Particular 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%	–
First Harvest Limited	British Virgin Islands	Issuance of convertible bonds	1 share of US$1 each[1]	100%	–
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[3]	PRC	Provision of logistics services	RMB1,000,000	–	100%
North China Aluminium Company Limited[4]	PRC	Production and sale of aluminium foils and extrusions	RMB344,800,000	–	51%
Yingkou Orienmet Plica Tube Company Limited[4]	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%

Notes to the Financial Statements

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

Name of company	Place of incorporation/ operation	Principal activities	Particular of issued or paid up capital	Proportion of issued capital held by the Company Directly	Indirectly
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 Ltd	Australia	Provide logistics services for import and export activities	2,000,000 shares of A$0.5 each[1]	–	100%
Sino Mining Australia Pty Ltd	Australia	Provide management and administrative services to other group companies	100 share of A$1 each[1]	–	100%

Note:

1 The class of shares held is ordinary.

2 Wholly foreign-owned enterprise registered under the laws of the PRC. Statutory accounts of which are not audited by PricewaterhouseCoopers.

3 Wholly sino-owned enterprise registered under the laws of the PRC. Statutory accounts of which are not audited by PricewaterhouseCoopers.

4 Sino-foreign equity joint venture registered under the laws of the PRC. Statutory accounts of which are not audited by PricewaterhouseCoopers.

20. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP

On 24 March 2006, the Group acquired an additional 11% equity interest in Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan"), an associate owned as to 25% previously by the Group. The purchase consideration was HK$18,721,000 and was settled by cash. A negative goodwill of approximately HK$8,066,000 was recognised during the year as follows:

	HK$'000
Purchase consideration	18,721
Less: Fair value of the 11% interest acquired	(26,787)
Negative goodwill recognised in income statement	(8,066)

Because of the changes in shareholding and composition of the board of directors, Changzhou Jinyuan has been accounted for as a jointly controlled entity of the Group. The Group has adopted proportionate consolidation method to account for its interest in Changzhou Jinyuan since the effective date of these changes.

Notes to the Financial Statements

20. INTEREST IN A JOINTLY CONTROLLED ENTITY – THE GROUP *(cont'd)*

Changzhou Jinyuan is engaged in the production and sales of copper rods. As at 31 December 2006, the Group had a 36% interest in this jointly controlled entity. The following amounts represent the Group's 36% share of the assets and liabilities, sales and results of Changzhou Jinyuan. They are included in the Group's consolidated balance sheet and income statement:

	HK$'000
Share of assets and liabilities at 31 December 2006	
Non-current assets	**45,115**
Current assets	**392,664**
Total assets	**437,779**
Non-current liabilities	**(3,967)**
Current liabilities	**(334,769)**
Total liabilities	**(338,736)**
Net assets	**99,043**
Share of results for the year ended 31 December 2006	
Turnover	**2,201,480**
Profit after income tax	**7,590**

The Group has provided a corporate guarantee of RMB36,000,000 (equivalent to approximately HK$36,000,000) in respect of a banking facility granted to Changzhou Jinyuan. Changzhou Jinyuan itself has no significant contingent liabilities.

Notes to the Financial Statements

21. INTERESTS IN ASSOCIATES – THE GROUP

	2006 HK$'000	2005 HK$'000
Share of net assets at 1 January	**77,176**	42,838
Share of associates' results		
– Profit before income tax	**40,224**	27,752
– Income tax expense	**(10,354)**	(2,706)
	29,870	25,046
Acquisition of subsidiaries *(Note 38)*	**–**	10,257
Acquisition of additional interests in an associate	**62**	–
Exchange difference	**2,178**	592
Dividends received	**(7,804)**	(1,557)
Reclassified as jointly controlled entity	**(60,881)**	–
Share of net assets at 31 December	**40,601**	77,176
Amounts due from associates *(Note)*	**34,565**	39,113
Less: Provision for impairment	**(27,281)**	(31,173)
	7,284	7,940
	47,885	85,116

Note: The amounts due from associates are unsecured, interest-free and not repayable within twelve months.

Notes to the Financial Statements

21. INTERESTS IN ASSOCIATES – THE GROUP *(cont'd)*

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

Name	Particulars of paid-up capital	Country of incorporation	Assets	Liabilities	Revenue	Profit	Interest held
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	
2006							
Qingdao M. C. Packaging Limited[1]	**US$25,000,000**	**PRC**	**33,995**	**24,795**	**44,475**	**1,186**	**20%**
Sino Nickel Pty Ltd	**A$1,000,000**	**Australia**	**98,359**	**67,580**	**521,523**	**19,796**	**40%**
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.

22. 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 38). 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. Such fair values were determined with reference to the independent professional appraisers' valuation report.

Subsequent to the above valuation and in response to the decline in alumina market prices in the third quarter of 2006, the Group appointed independent professional appraisers to perform another valuation on 30 September 2006 for the alumina purchase agreements and sales agreements. With reference to the valuation, provisions for impairment losses of approximately HK$818,474,000 and HK$59,139,000 were made by the directors in respect of the alumina purchasing rights under the long-term purchase agreement and short-term purchase agreements respectively. In addition, a write-back of provision for sales contract obligations of approximately HK$288,395,000 were recorded. As a result of these changes, there was a net write-back of deferred income tax liabilities of approximately HK$643,846,000.

Notes to the Financial Statements

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

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

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**3,601,301**	–
Acquisition of subsidiaries *(Note 38)*	**–**	3,634,800
Provision for impairment	**(818,474)**	–
Amortisation	**(160,678)**	(33,499)
At 31 December	**2,622,149**	3,601,301

The balance as at 31 December 2006 represented the rights to purchase alumina up to 400,000 tonnes per annum for the period from 2007 to 2027 at a price determined pursuant to the long-term alumina purchase agreement.

As at 31 December 2006, the above alumina purchasing rights were pledged to a bank to secure certain banking facilities of the Group.

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

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**293,160**	–
Acquisition of subsidiaries *(Note 38)*	**–**	468,000
Provision for impairment	**(59,139)**	–
Amortisation	**(234,021)**	(174,840)
At 31 December	**–**	293,160

As at 31 December 2006, all the short-term alumina purchase agreements taken up by the Group through the acquisition of Peak Strategic Industries Limited had expired.

Notes to the Financial Statements

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

(c) Provision for sales contract obligations

	2006 **HK$'000**	2005 HK$'000
At 1 January	**1,058,658**	–
Acquisition of subsidiaries *(Note 38)*	**–**	1,336,140
Write-back of provision	**(288,395)**	–
Realisation	**(770,263)**	(277,482)
At 31 December	**–**	1,058,658

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

	2006 **HK$'000**	2005 HK$'000
Current	**–**	1,033,799
Non-current	**–**	24,859
	–	1,058,658

As at 31 December 2006, all but one of the alumina sales agreements taken up by the Group through the acquisition of Peak Strategic Industries Limited had expired. No provision was made for this remaining alumina sales agreement as at 31 December 2006.

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

	2006 **HK$'000**	2005 HK$'000
At 1 January	**313,663**	–
Acquisition of subsidiaries *(Note 38)*	**–**	203,835
Disposals	**(113,275)**	–
Revaluation surplus transfer to equity *(Note 30)*	**250,545**	109,828
At 31 December	**450,933**	313,663

There were no impairment provisions on available-for-sale financial assets in 2006 or 2005.

Notes to the Financial Statements

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS – THE GROUP *(cont'd)*

Available-for-sale financial assets represent:

	2006 **HK$'000**	2005 *HK$'000*
Listed equity securities – Australia	**450,933**	313,663
Market value of listed securities	**450,933**	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% (2005: 33%).

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

	Impairment of assets		Alumina purchasing rights		Provision for sales contract obligations		Others		Total	
	2006 **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*	**2006** **HK$'000**	2005 *HK$'000*
At 1 January	**20,613**	4,352	**(1,037,795)**	–	**349,357**	–	**3,236**	3,491	**(664,589)**	7,843
Exchange differences	**1,640**	236	**-**	–	**-**	–	**(35)**	65	**1,605**	301
Acquisition of subsidiaries *(Note 38)*	**-**	–	**-**	(1,104,246)	**-**	440,926	**-**	(10,520)	**-**	(673,840)
Proportionate consolidation of a jointly controlled entity	**-**	–	**-**	–	**-**	–	**(4,400)**	–	**(4,400)**	–
Credited/(charged) to the income statement *(Note 9)*	**22,212**	16,025	**854,012**	66,451	**(349,357)**	(91,569)	**(3,140)**	10,200	**523,727**	1,107
At 31 December	**44,465**	20,613	**(183,783)**	(1,037,795)	**-**	349,357	**(4,339)**	3,236	**(143,657)**	(664,589)

(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$269 million (2005: HK$296 million) to carry forward against future taxable income. Deferred income 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.

Notes to the Financial Statements

24. DEFERRED INCOME TAX – THE GROUP *(cont'd)*

(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:

	2006	2005
	HK$'000	*HK$'000*
Net deferred income tax assets recognised on the balance sheet	**19,915**	23,849
Net deferred income tax liabilities recognised on the balance sheet	**(163,572)**	(688,438)
	(143,657)	(664,589)

25. INVENTORIES – THE GROUP

	2006	2005
	HK$'000	*HK$'000*
Raw materials	**130,720**	45,168
Work in progress	**83,908**	100,078
Finished goods	**172,153**	79,476
Commodities held for sales	**103,472**	100,902
Goods-in-transit	**108,326**	618,173
	598,579	943,797

The cost of inventories recognised as expense and included in cost of sales amounted to approximately HK$10,937,000,000 (2005: HK$2,950,000,000). During the year, the Group has written down certain commodities held for sales and finished goods by approximately HK$75,119,000 (2005: HK$572,000). Such write-down has been included in cost of sales in the income statement.

Certain banking facilities of the Group are secured by the Group's inventories with a total carrying amount of approximately HK$14,400,000 (2005: Nil).

Notes to the Financial Statements

26. TRADE AND BILLS RECEIVABLE – THE GROUP

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

	2006		2005	
	HK$'000	**%**	*HK$'000*	%
Trade receivables				
Less than 6 months	**275,199**	**81**	232,554	77
6 months – 1 year	**2,583**	**1**	4,770	2
Over 1 year	**63,094**	**18**	63,994	21
	340,876	**100**	301,318	100
Less: Provision for impairment of receivables	**(65,144)**		(70,938)	
Trade receivables – net	**275,732**		230,380	
Bills receivable *(Note)*	**662,158**		271,790	
	937,890		502,170	

Note: Bills receivable are with maturity dates of less than 6 months. Approximately HK$554,968,000 (2005: HK$271,790,000) of which has been discounted to banks or endorsed to suppliers.

The directors consider the carrying amount of trade and bills receivable 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 reversal of impairment provision for trade and bills receivable of HK$6,223,000 during the year ended 31 December 2006 (2005: HK$59,814,000). Such amount has been recognised in the income statement as part of other income-net.

Notes to the Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS – THE GROUP

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Carried at fair value				
– Aluminium forward contracts	**–**	**(55,038)**	–	(139,118)
– Interest rate swaps	**–**	**(8,210)**	–	(31,170)
– Foreign exchange forward contracts	**818**	**–**	6,009	–
– Aluminium options	**–**	**–**	–	(10,613)
– Copper futures contracts	**–**	**(3,573)**	–	–
	818	**(66,821)**	6,009	(180,901)
The derivative financial instruments are analysed as follows:				
Non-current portion				
– Aluminium forward contracts	**–**	**(7,968)**	–	–
– Interest rate swaps	**–**	**–**	–	(14,970)
	–	**(7,968)**	–	(14,970)
Current portion				
– Aluminium forward contracts	**–**	**(47,070)**	–	(139,118)
– Interest rate swaps	**–**	**(8,210)**	–	(16,200)
– Foreign exchange forward contracts	**818**	**–**	6,009	–
– Aluminium options	**–**	**–**	–	(10,613)
– Copper futures contracts	**–**	**(3,573)**	–	–
	818	**(58,853)**	6,009	(165,931)
Total	**818**	**(66,821)**	6,009	(180,901)

(a) Aluminium forward contracts

The total notional principal amount of the outstanding aluminium forward contracts as at 31 December 2006 was approximately HK$655 million (2005: HK$466 million). Under the terms of the contracts, the Group will sell 40,830 tonnes (2005: 34,875 tonnes) of aluminium with prices ranging from US$2,395 to US$2,747 per tonne (2005: US$1,700 to US$1,800 per tonne).

Notes to the Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS – THE GROUP *(cont'd)*

(b) Copper futures contracts

The Group's share of the total notional principal amount of the outstanding copper futures contracts entered into by a jointly controlled entity, which was owned as to 36% by the Group at 31 December 2006, amounted to approximately HK$113 million (2005: Nil) as at 31 December 2006.

(c) Interest rate swaps

The total notional principal amount of the outstanding interest rate swaps as at 31 December 2006 was approximately HK$534 million (2005: HK$624 million).

As at 31 December 2006, the fixed interest rate was 8.5% (2005: 8.5%) per annum and the principal floating rate was LIBOR.

(d) Foreign exchange forward contracts

The total notional principal amount of the outstanding foreign exchange forward contracts as at 31 December 2006 was approximately HK$12 million (2005: HK$31 million). Under the terms of the contracts, the Group will buy approximately A$2 million (2005: A$7 million) at an average exchange rate of US$0.7255:A$1 (2005: US$0.6022:A$1).

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	The Group		The Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**1,354,788**	576,930	**28,916**	75,967
Short-term bank deposits	**1,313,287**	361,156	**1,209,469**	271,357
	2,668,075	938,086	**1,238,385**	347,324
Pledged bank deposits	**38,209**	49,659	**–**	–
	2,706,284	987,745	**1,238,385**	347,324

The effective interest rate on short-term bank deposits was 3.9% (2005: 4.2%) per annum. These deposits have an average maturity of 20 days (2005: 19 days).

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

Notes to the Financial Statements

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS *(cont'd)*

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

	The Group		The Company	
	2006	*2005*	**2006**	*2005*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Renminbi	**891,965**	361,078	**102**	66,550
US dollar	**539,443**	348,763	**46,918**	61,731
Hong Kong dollar	**1,191,641**	219,323	**1,191,356**	219,043
Australian dollar	**83,235**	58,581	**9**	–
	2,706,284	987,745	**1,238,385**	347,324

29. SHARE CAPITAL

	Number of shares *(in thousand)*	Ordinary shares *HK$'000*
At 1 January 2005	607,350	30,367
Issue of new shares *(Note)*	1,009,091	50,455
Placing of new shares *(Note)*	98,000	4,900
At 31 December 2005 and 31 December 2006	1,714,441	85,722

Note: 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 aluminium 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 38).

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 2006 and 2005, the total number of authorised ordinary shares is 6,000 million shares with a par value of HK$0.05 per share. All issued shares are fully paid.

Notes to the Financial Statements

30. RESERVES

(a) The Group

	Share premium HK$'000	Capital reserve HK$'000	Special capital reserve *(Note (d))* HK$'000	General reserve HK$'000	PRC statutory reserves HK$'000	Exchange translation reserve HK$'000	Available-for-sale financial assets reserve HK$'000	Hedging reserve HK$'000	Share options reserve HK$'000	Accumu-lated losses HK$'000	Total HK$'000
Balance at 1st January 2005	1,194,593	48,380	125,374	15,600	70,448	2,029	–	–	–	(1,064,786)	391,638
Issue of new shares, net of issuing expenses *(Note 29)*	2,308,769	–	–	–	–	–	–	–	–	–	2,308,769
Transfer to PRC statutory reserves	–	–	–	–	2,152	–	–	–	–	(2,152)	–
Currency translation differences	–	–	–	–	–	3,320	–	–	–	–	3,320
Fair value gain on available-for-sale financial assets *(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
Transfer to PRC statutory reserves	–	–	–	–	87,758	–	–	–	–	(87,758)	–
Currency translation differences	–	–	–	–	–	45,676	–	–	–	–	45,676
Available-for-sale financial assets											
– Disposals	–	–	–	–	–	–	(39,663)	–	–	–	(39,663)
– Fair value gain *(Note 23)*	–	–	–	–	–	–	250,545	–	–	–	250,545
Cash flow hedge	–	–	–	–	–	–	–	818	–	–	818
Recognition of equity-settled share-based payment *(Note 37)*	–	–	–	–	–	–	–	–	21,662	–	21,662
Profit for the year	–	–	–	–	–	–	–	–	–	865,320	865,320
Balance at 31 December 2006	3,503,362	48,380	125,374	15,600	160,358	51,025	320,710	818	21,662	(107,630)	4,139,659

Notes to the Financial Statements

30. RESERVES

(b) The Company

	Share premium HK$'000	Capital reserve HK$'000	Special capital reserve (Note (d)) HK$'000	General reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2005	1,194,593	48,380	125,374	15,600	–	(1,040,183)	343,764
Issue of new shares, net of issuing expenses *(Note 29)*	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
Recognition of equity-settled share-based payment *(Note 37)*	–	–	–	–	21,662	–	21,662
Profit for the year	–	–	–	–	–	29,169	29,169
Balance at 31 December 2006	3,503,362	48,380	125,374	15,600	21,662	(884,015)	2,830,363

(c) PRC statutory reserves comprise statutory reserve fund and enterprise expansion reserve, which are reserves required by the relevant PRC laws applicable to the Group's subsidiaries and cannot be used for distribution in the form of cash dividends.

For the Group's subsidiaries registered under the Laws of the PRC on Joint Ventures with Chinese and Foreign Investment, the appropriations to statutory reserve fund and enterprise expansion reserve are determined at the discretion of the board of directors of the respective subsidiaries.

For the Group's subsidiaries registered under the Laws of the PRC on Enterprises Operated Exclusively with Foreign Capital, the appropriations to statutory reserve fund and enterprise expansion reserve are determined at the discretion of the board of directors of the respective subsidiaries. However, the appropriation to statutory reserve fund should not be less than 10% of their profit after income tax as stated in the PRC statutory financial statements unless the statutory reserve fund reaches 50% of their registered capital.

The statutory reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or to increase the capital of the subsidiaries upon approval by the regulatory authority.

(d) With a capital reduction taking effect on 6 January 2004, 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.

Notes to the Financial Statements

31. DEFERRED INCOME – THE GROUP

	2006 HK$'000	2005 HK$'000
At 1 January	**27,138**	28,302
Exchange differences	**1,001**	527
Amortisation *(Note 6)*	**(2,315)**	(1,691)
At 31 December	**25,824**	27,138

Deferred income represents grants obtained from the PRC government in relation to the purchase of certain plant and machinery of the Group.

32. BANK LOANS – THE GROUP

	2006 HK$'000	2005 HK$'000
Amount due within one year and included under current liabilities	**1,072,170**	533,841
Amount due after one year	**–**	617,477
Total bank loans	**1,072,170**	1,151,318
Analysed as:		
– Secured	**865,800**	1,036,691
– Unsecured	**206,370**	114,627
	1,072,170	1,151,318
Bank loans are repayable as follows:		
– Within 1 year	**1,072,170**	533,841
– Between 1 to 2 years	**–**	617,477
	1,072,170	1,151,318

Notes to the Financial Statements

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:

	2006	2005
	HK$'000	*HK$'000*
Renminbi		
– at fixed rates	**450,777**	276,923
US dollar		
– at fixed rates	**51,993**	111,743
– at floating rates	**569,400**	762,652
	1,072,170	1,151,318

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

	2006		2005	
	US$	***RMB***	*US$*	*RMB*
Bank loans	**6.20%**	**5.62%**	4.90%	5.25%

The directors consider the carrying amounts of bank loans approximate their fair values.

As at 31 December 2006, 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, land use rights and inventories of the Group with a total carrying amount of approximately HK$382,680,000 (2005: HK$399,809,000); and

(iii) pledged bank deposits of approximately HK$38,209,000 (2005: HK$49,659,000).

Notes to the Financial Statements

33. CONVERTIBLE BONDS – THE GROUP

On 7 December 2006, First Harvest Limited ("First Harvest"), a wholly-owned subsidiary of the Group, issued zero coupon guaranteed convertible bonds of an aggregate principal amount of HK$1,000,000,000 (the "Bonds"). Each bond will, at the option of the holder, be convertible on or after 17 January 2007 up to 28 November 2011 into fully paid ordinary share with a par value of HK$0.05 each of the Company at an initial conversion price of HK$2.925 per share (subject to adjustment in certain events) (the "Conversion Option"). Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed at 127.236% of their principal amount on 7 December 2011 ("Maturity Date").

At any time on or after 7 December 2009 but not less than seven business days prior to the Maturity Date, the Group may redeem the Bonds in whole but not in part at an early redemption amount if the share price of the Company reached 130% or more of such early redemption amount divided by the conversion ratio (the "Mandatory Option"). The conversion ratio is equal to the principal amount of each bond divided by the then conversion price.

The derivative component, as represented by the Conversion Option and Mandatory Option, will be remeasured at fair value on each balance sheet date by using the binominal model. The initial carrying amount of the liability component, as represented by the residual amount after separating the above derivative component on initial recognition, is subsequently carried at amortised cost by using the effective interest method.

The Bonds recognised in the balance sheet are calculated as follows:

	2006 ***HK$'000***
Face value of the Bonds issued on 7 December 2006	**1,000,000**
Issuing expenses	**(23,897)**
Derivative component	**(304,300)**
Liability component at the issuance date	**671,803**
Interest expense *(Note 8)*	**4,034**
Liability component at 31 December 2006	**675,837**
Derivative component at 31 December 2006	**304,300**
	980,137

Notes to the Financial Statements

33. CONVERTIBLE BONDS – THE GROUP *(cont'd)*

The fair value of the derivative component of the Bonds is estimated by using the binominal model, which is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in these assumptions or inputs may materially affect the fair value estimation. The major inputs used in the valuation on 7 December 2006 (the initial recognition date) are as follows:

Stock price	HK$2.37
Exercise price	HK$2.925
Volatility	46%
Dividend yield	0%
Risk-free rate	3.704%

Interest expense is calculated using the effective interest method by applying the effective interest rate of 12.83% to the adjusted liability component. Should the abovementioned derivative component not be separated and the entire bond be considered as the liability component, the effective interest rate would have been 5.44%.

During the year ended 31 December 2006, no Bonds were redeemed, converted or purchased and cancelled.

34. FINANCIAL GUARANTEE CONTRACTS

(a) Granted by the Company to a jointly controlled entity

In relation to a financial guarantee of RMB36,000,000 (equivalent to approximately HK$36,000,000) granted to a bank over the repayment of a loan by a jointly controlled entity (formerly an associate), no recognition was made because the fair value of such guarantee was insignificant.

(b) Granted by the Company to a subsidiary

The Company has provided a guarantee in relation to the issuance of convertible bonds by a wholly-owned subsidiary (Note 33). The net proceeds from the issuance of the convertible bonds was advanced to the Company and recorded as current liabilities in the Company's balance sheet.

Notes to the Financial Statements

35. TRADE AND BILLS PAYABLE – THE GROUP

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

	2006		2005	
	HK$'000	**%**	*HK$'000*	%
Trade payables				
Less than 6 months	**245,173**	**95**	196,264	100
6 months – 1 year	**4,134**	**2**	25	–
1 – 2 years	**7,767**	**3**	26	–
Over 2 years	**102**	**–**	111	–
	257,176	**100**	196,426	100
Trade payables under endorsed bills	**259,269**		216,011	
Bills payable	**125,873**		63,191	
	642,318		475,628	

36. 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 is 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.

Notes to the Financial Statements

36. RETIREMENT SCHEMES *(cont'd)*

The Group's total contributions to these schemes during the year ended 31 December 2006 amounted to approximately HK$10,817,000 (2005: HK$11,901,000).

37. SHARE OPTION SCHEME

(a) 1994 share option scheme

This share option scheme was adopted by the Company on 25 November 1994 and expired on 24 November 2004. After its expiry, no further options have been granted but its provisions remain in force to govern the exercise of the options that continue to be valid and outstanding.

The movements of the share options granted under the 1994 share option scheme during the year are as follows:

				Number of options		
Category and name of participant	Date of grant	Exercise price per share	Exercise period	Balance as at 1 January 2006	Lapsed during the period	Balance as at 31 December 2006
		HK$				
Director						
Xu Huizhong	15 March 2004	3.115	16 March 2004 to 15 March 2007	2,000,000	–	2,000,000
Employees of the Group	15 March 2004	3.115	16 March 2004 to 15 March 2007	4,610,000	(580,000)	4,030,000
				6,610,000	(580,000)	6,030,000

There were no share options granted, exercised or cancelled under the 1994 share option scheme during the year.

Notes to the Financial Statements

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

(b) 2004 share option scheme

This share option scheme was adopted by the Company on 28 May 2004, 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. On 18 April 2006, 23,500,000 share options were granted to certain directors and employees of the Group. The exercise price of these options is equal to the market price at the grant date.

Details of the share options granted under the 2004 share option scheme during the year are as follows:

				Number of options		
Category and name of participant	Date of grant	Exercise price per share	Exercise period	Balance as at 1 January 2006	Granted during the period	Balance as at 31 December 2006
		HK$				
Directors						
Zhou Zhongshu	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	3,000,000	3,000,000
Xu Huizhong	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	2,600,000	2,600,000
Wang Lixin	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	2,000,000	2,000,000
Shen Ling	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Zhang Shoulian	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Li Linhu	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Zong Qingsheng	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	1,500,000	1,500,000
Employees of the Group (Note)	18 April 2006	2.725	18 April 2006 to 17 April 2009	–	9,900,000	9,900,000
				–	23,500,000	23,500,000

Note: One of the employees was granted 1,000,000 options on 18 April 2006 with a vesting period of 18 months starting from 22 February 2006 till 21 August 2007.

There were no options exercised, cancelled or lapsed under the 2004 share option scheme during the year.

Notes to the Financial Statements

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

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

The fair value of the share options granted during the year ended 31 December 2006, amounted to approximately HK$22,064,000. It was estimated as at the date of grant by using a binominal model, taking into account the terms and conditions upon which the options were granted. The significant assumptions and inputs used in the valuation model are as follows:

Expected volatility	:	50%, based on historical volatility of the Company's shares for the past 100 days before the day of grant.
Risk-free interest rate	:	4.309% per annum, based on the rate of Hong Kong Exchange Fund Notes.
Expected life of the share options	:	2.5 years
Expected dividend yield	:	0%

Binominal model is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in the above assumptions or inputs may materially affect the fair value estimation.

The fair value of the 23,500,000 share options granted, amounting to approximately HK$22,064,000, is to be recognised as an employee benefit expense of the Group according to the vesting conditions. An amount of approximately HK$21,662,000 (2005: Nil) was charged as employee benefit expense for the year ended 31 December 2006.

Notes to the Financial Statements

38. BUSINESS COMBINATIONS

Acquisition of subsidiaries

(i) Year ended 31 December 2006:

On 27 December 2006, the Group acquired the remaining 10% interest in Minmetals Non-ferrous Lianyungang Company Limited, a subsidiary engaged in the provision of logistics services and was owned as to 90% by the Group before the acquisition. The purchase consideration was HK$318,000 and was settled by cash. A negative goodwill of approximately HK$431,000 was recognised in the consolidated income statement.

(ii) Year ended 31 December 2005:

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 aluminium 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 2006. 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 income statement	(80,873)

Notes to the Financial Statements

38. BUSINESS COMBINATIONS *(cont'd)*

Acquisition of subsidiaries *(cont'd)*

(ii) Year ended 31 December 2005: *(cont'd)*

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

	Fair value	Acquiree's carrying amount
	HK$'000	*HK$'000*
Property, plant and equipment *(Note 15)*	1,319	1,319
Interest in an associate *(Note 21)*	10,257	10,257
Alumina purchasing rights		
– under a long-term purchase agreement *(Note 22)*	3,634,800	1,357,052
– under short-term purchase agreements *(Note 22)*	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 bills payable	(719,780)	(719,780)
Amounts due to fellow subsidiaries	(6,372)	(6,372)
Provision for sales contract obligations *(Note 22)*	(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

Notes to the Financial Statements

39. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

	2006 HK$'000	2005 HK$'000
Profit for the year	**878,608**	203,081
Adjustments for:		
– Income tax (credit)/expense	**(343,066)**	24,532
– Share of profits less losses of associates	**(29,870)**	(25,046)
– Interest income	**(44,542)**	(12,197)
– Interest expense	**96,653**	26,555
– Depreciation of property, plant and equipment and amortisation of land use rights	**60,164**	44,589
– Loss/(gain) on disposal of property, plant and equipment and investment properties (see below)	**310**	(36)
– Provision for inventory impairment	**75,119**	572
– Reversal of provision for impairment of receivables	**(10,115)**	(75,093)
– Reversal of provision for impairment loss of property, plant and equipment and construction in progress	**(209)**	(2,407)
– Fair value (gain)/loss on investment properties	**(60)**	556
– Gain on disposal of available-for-sale financial assets	**(31,956)**	–
– Amortisation of deferred income	**(2,315)**	(1,691)
– Amortisation of alumina purchasing rights	**394,699**	208,339
– Provision for impairment of alumina purchasing rights	**877,613**	–
– Write-back of provision for sales contract obligations	**(288,395)**	–
– Realisation of provision for sales contract obligations	**(770,263)**	(277,482)
– Reversal of provision for a guarantee to a third party	**–**	(6,857)
– Write-back of trade payable and accruals	**–**	(5,831)
– Negative goodwill recognised	**(8,518)**	(80,873)
– Share-based payments in relation to share options granted to directors and employees	**21,662**	–
– Net foreign exchange gains on operating activities	**–**	(105)
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
– Amounts due from associates	**4,530**	7,564
– Inventories	**378,313**	(323,348)
– Trade and bills receivable and prepayments, deposits and other receivables	**(130,707)**	114,838
– Amount due from an intermediate holding company	**183,199**	94,243
– Amounts due from fellow subsidiaries	**(7,483)**	24,959
– Trade and bills payable and accruals, receipt in advance and other payables	**(223,473)**	(236,896)
– Derivative financial instruments	**(103,424)**	89,611
– Amounts due to holding companies	**390**	–
– Amounts due to fellow subsidiaries	**(6,671)**	518
– Amounts due to associates	**810**	–
Net cash generated from/(used in) operations	**971,003**	(207,905)

Notes to the Financial Statements

39. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

In the cash flow statement, proceeds from disposal of property, plant and equipment and investment properties comprise:

	2006 HK$'000	2005 HK$'000
Net book amount	**5,655**	872
(Loss)/gain on disposal of property, plant and equipment and investment properties	**(310)**	36
Proceeds from disposal of property, plant and equipment and investment properties	**5,345**	908

Major non-cash transactions

For the year ended 31 December 2005, the major non-cash transaction was the issue of new shares as the consideration for the acquisition of a subsidiary, Peak Strategic Industries Limited.

40. CONTINGENT LIABILITIES

As at 31 December 2006, 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 payables by the Group is remote. The directors of the Company are of the opinion that the potential additional charges will not exceed HK$1,500,000 (2005: HK$1,400,000).

41. 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	
	2006 HK$'000	2005 HK$'000
Not later than one year	**3,034**	3,197
Later than one year and not later than five years	**3,354**	6,562
	6,388	9,759

The Company has no outstanding operating lease commitment as at 31 December 2006 and 2005.

Notes to the Financial Statements

41. COMMITMENTS *(cont'd)*

(b) Capital commitments

Capital expenditures not yet incurred are as follows:

	The Group	
	2006	2005
	HK$'000	*HK$'000*
Property, plant and equipment		
Contracted but not provided for	**10,416**	8,833
Authorised but not contracted for	**99,817**	41,778
	110,233	50,611
Acquisition of additional equity interests in a subsidiary or an associate		
Authorised but not contracted for	**70,000**	18,721

The Company had no material commitment as at 31 December 2006 and 2005.

42. 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 state-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 (other than subsidiaries of China Minmetals Corporation), 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.

Notes to the Financial Statements

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

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

(a) Transactions with associates of the Group

	2006 *HK$'000*	2005 *HK$'000*
Revenue		
Sales of non-ferrous metals	–	32,422
Rental income received	**123**	76
Expenses		
Purchase of non-ferrous metals	**280,851**	–
Transportation fees paid	**12,777**	10,454

(b) Transactions with subsidiaries of China Minmetals Corporation

	2006 *HK$'000*	2005 *HK$'000*
Revenue		
Commission income received from an intermediate holding company	–	74
Expenses		
Purchase of non-ferrous metals from an intermediate holding company	**391,998**	–
Purchase of non-ferrous metals from fellow subsidiaries	**280,804**	84,520
Transportation fees paid to fellow subsidiaries	**63,844**	6,994
Commission fees paid to an immediate holding company	**156**	135
Rental expenses paid to ultimate holding company	**282**	67
Rental expenses paid to fellow subsidiaries	**973**	695

Notes to the Financial Statements

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

(c) Transactions with other state-owned enterprises

	2006	2005
	HK$'000	*HK$'000*
Revenue		
Sales of non-ferrous metals	**4,471,966**	1,051,528
Expenses		
Purchase of non-ferrous metals	**1,468,380**	1,045,125
Transportation fees paid	**41,469**	23,199
Others		
Purchase of construction in progress	**–**	9,432

(d) Key management compensation

	2006	2005
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**14,581**	5,154
Share-based payments	**17,531**	–
	32,112	5,154

(e) Year-end balances

	2006	2005
	HK$'000	*HK$'000*
Receivables, net from		
– an intermediate holding company	**–**	182,925
– associates	**7,284**	7,940
– fellow subsidiaries	**7,779**	–
– other state-owned enterprises	**94,278**	80,119
Payables to		
– ultimate holding company	**75**	–
– an intermediate holding company	**331**	–
– fellow subsidiaries	**260**	6,890
– associates	**840**	–
– other state-owned enterprises	**49,950**	189,340

Notes to the Financial Statements

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

(e) Year-end balances *(cont'd)*

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

(iii) The amounts due from associates are unsecured, interest-free and not repayable within twelve months.

(iv) The amounts due to ultimate holding company, an intermediate holding company, fellow subsidiaries and associates are unsecured, interest-free and repayable on demand.

The directors consider the carrying amounts of the above balances approximate their fair values.

43. EVENTS AFTER THE BALANCE SHEET DATE

In January 2007, the Company filed a petition to the high court of the Hong Kong Special Administrative Region to seek the court's confirmation of the cancellation of the special capital reserve account of the Company and the reduction of the share premium account of the Company for the purpose of eliminating the accumulated losses of the Company as at 31 October 2006. On 13 February 2007, the court ordered that the cancellation of the special capital reserve account of approximately HK$125,374,000 and the reduction of the share premium account from approximately HK$3,503,362,000 to approximately HK$2,738,934,000 was confirmed.

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:

	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	(Restated)
Results					
Turnover	**12,829,280**	3,332,765	1,288,485	1,363,072	875,676
Operating profit	**534,822**	216,925	250,478	117,751	73,346
Finance costs – net	**(29,150)**	(14,358)	(14,642)	(37,505)	(51,693)
Share of profits less losses of associates	**29,870**	25,046	9,135	9,243	5,543
Profit before income tax	**535,542**	227,613	244,971	89,489	27,196
Income tax credit/(expense)	**343,066**	(24,532)	(10,551)	8,548	(2,179)
Profit for the year	**878,608**	203,081	234,420	98,037	25,017
Attributable to:					
Equity holders of the Company	**865,320**	181,746	217,726	89,202	19,676
Minority interest	**13,288**	21,335	16,694	8,835	5,341
	878,608	203,081	234,420	98,037	25,017

Five-Year Financial Summary

	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Property, plant and equipment, investment properties, land use rights and construction in progress	**569,111**	536,327	511,272	488,718	416,763
Interests in associates	**47,885**	85,116	43,059	48,121	64,981
Alumina purchasing rights	**2,622,149**	3,894,461	–	–	–
Available-for-sale financial assets	**450,933**	313,663	–	2,217	2,146
Inventories	**598,579**	943,797	224,518	170,620	208,155
Trade and bills receivable	**937,890**	502,170	217,655	179,595	174,974
Cash, cash equivalents and pledged deposits	**2,706,284**	987,745	190,884	150,771	98,866
Other assets	**191,918**	261,230	86,639	69,675	33,858
Total assets	**8,124,749**	7,524,509	1,274,027	1,109,717	999,743
Capital and reserves attributable to the Company's equity holders	**4,225,381**	3,081,023	422,005	(261,805)	(351,069)
Minority interest	**220,206**	203,019	178,963	165,157	158,007
Total equity	**4,445,587**	3,284,042	600,968	(96,648)	(193,062)
Bank loans	**1,072,170**	1,151,318	313,208	775,306	807,966
Convertible bonds	**980,137**	–	–	–	–
Trade and bills payable	**642,318**	475,628	143,515	122,499	105,550
Provision for sales contract obligations	**–**	1,058,658	–	–	–
Other liabilities	**984,537**	1,554,863	216,336	308,560	279,289
Total liabilities	**3,679,162**	4,240,467	673,059	1,206,365	1,192,805
Total equity and liabilities	**8,124,749**	7,524,509	1,274,027	1,109,717	999,743
Net current assets/(liabilities)	**1,913,095**	91,860	156,719	(488,918)	(478,461)
Total assets less current liabilities	**5,623,088**	4,656,924	723,610	68,446	11,655

All of the above are consolidated figures.