



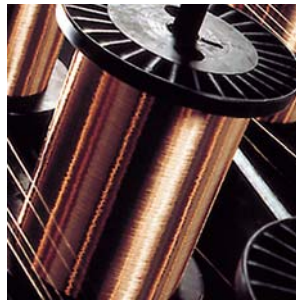
五礦資源有限公司

MINMETALS RESOURCES LIMITED

Stock Code 股份代號: 1208

Interim Report 中期報告

2006





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CORPORATE INFORMATION

Board of Directors

Chairman

ZHOU Zhongshu (*Non-executive Director*)

Executive Directors

XU Huizhong

WANG Lixin

Non-executive Directors

SHEN Ling

ZHANG Shoulian

LI Linhu

ZONG Qingsheng

Independent Non-executive Directors

LIU Hongru

CHAN Wai Dune, *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

1208

FINANCIAL HIGHLIGHTS

The acquisition in October 2005 is delivering results:

	Six months ended 30 June		
	2006	2005	% Increase
	<i>HK\$ million</i>	<i>HK\$ million</i>	
Turnover	6,858.4	664.2	↑933%
Net profit	579.6	100.3	↑478%
Earnings per share	HK\$0.34	HK\$0.17	↑100%

Strong balance sheet and cash flow:

	At 30 June 2006
	<i>HK\$ million</i>
Total assets	8,115.5
Total cash & cash equivalents	1,393.3
Net assets value per share	HK\$2.31

The Board of directors of Minmetals Resources Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006. These interim results have been reviewed by the Company’s audit committee and the Company’s auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 “Engagements to review interim financial reports” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

2006 is the first financial year that the Group consolidates the full-year results of the alumina and aluminium businesses (mainly comprised Minmetals Aluminium Company Limited and its subsidiaries, collectively referred as “Minmetals Aluminium” thereafter) 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 in the first half of this year.

Driven by the strong performance of the newly acquired businesses, the Group reported a turnover of HK\$6,858.4 million, an increase of 933% over the last corresponding period and a net profit attributable to equity holders of the Company of HK\$579.6 million, an increase of 478% from HK\$100.3 million for the six months ended 30 June 2005. Earnings per share were HK\$0.34 for the first half of 2006, compared to HK\$0.17 for the same period in 2005.

Financial Review

Turnover

For the six months ended 30 June 2006, the Group achieved significant increase in turnover, which was primarily attributed to the contribution from the trading business acquired. The table below sets out the change in the different business segments.

	Six months ended 30 June		% Increase
	2006 (Unaudited) HK\$ million	2005 (Unaudited) HK\$ million	
Trading business	5,449.2	29.4	↑18,435%
Aluminium fabrication business	731.7	618.7	↑18%
Other industrial operations and port logistics services	677.5	16.1	↑4,108%
Total	6,858.4	664.2	↑933%

The newly acquired alumina and aluminium businesses have greatly enhanced the operating scale of the Group’s trading business since October last year and is now the most important revenue source of the Group. The Group’s aluminium fabrication business as well as other industrial operations and port logistics services, however, also achieved impressive growth in turnover for the six months ended 30 June 2006.

Financial Review (Continued)

Gross profit

The Group's gross profit for the period amounted to HK\$1,037.5 million, an increase of HK\$969.6 million or 1,428% from corresponding period last year. The Group's gross profit margin increased from 10.2% to 15.1%, which is primarily due to the higher contribution from the trading business – the most significant profit contributor of the Group.

Other gains, net

"Other gains, net" increased by HK\$21.5 million during the first half of 2006, mainly due to increase in bank interest income. Strong cash flow was generated from the trading operation. The total cash generated from the Group's operating activities amounted to HK\$553.1 million for the period, leading to the significant increase in the Group's bank balances and hence bank interest income.

Selling and administrative expenses

The Group's selling and administrative expenses in aggregate increased by HK\$72.7 million from HK\$45.9 million for the first half of 2005 to HK\$118.6 million. The increase was mainly due to the expenses incurred by the trading business acquired in October 2005. Economies of scale and faster income growth have reduced the Group's cost-to-income ratio. Operating efficiency improved significantly, with selling expenses to turnover ratio decreased from 3.5% to 0.8% and administrative expenses to turnover ratio decreased from 3.4% to 0.9%.

Other operating income/expenses

As for other operating income/expenses, expenses of HK\$46.3 million were recorded for the first six months in 2006 while income of HK\$80.5 million was reported in last corresponding period. The significant change is mainly due to: (i) Decrease in the reversal of provision for impairment of receivables amounting to HK\$62.8 million; and (ii) net loss of HK\$72.0 million for derivative financial instruments (for more details, please refer to paragraph (a) "Commodity price risk" in the section headed "Risk Management" below).

Finance costs

Notwithstanding the increase in the Group's funding requirements as a result of the rapid business growth, the Group succeeded in controlling its finance costs by imposing tighter and more cost-conscious control measures on fund management. Finance costs for this six-month period were HK\$43.5 million, an increase of HK\$34.8 million over the same period last year. This was mainly due to the consolidation of the bank loans of the trading business acquired in October 2005. There were no such bank loans in the corresponding period last year.

Financial Review (Continued)

Comparison with unaudited pro forma figures for the six months ended 30 June 2005 (For reference only)

As trading business is our main revenue and profit contributor, for reference, a comparison of the current period's unaudited income statement figures with the unaudited pro forma figures for the six months ended 30 June 2005 (extracted from the "Unaudited Pro Forma Combined Profit and Loss Account" disclosed in the Company's information circular dated 16 September 2005) is shown as follows:

	Six months ended 30 June		% Increase
	2006 (Unaudited consolidated figures) HK\$ million	2005 (Unaudited pro forma combined figures) HK\$ million	
Turnover	6,858.4	5,017.1	↑37%
Gross profit	1,037.5	536.1	↑94%
Operating profit	899.6	551.1	↑63%
Profit before income tax	867.6	546.1	↑59%
Profit for the period attributable to equity holders of the Company	579.6	431.9	↑34%
Gross profit ratio	15.1%	10.7%	↑4.4%

Segmental Analysis

The Group's business comprises three main business segments: (1) Trading; (2) Aluminium fabrication; and (3) Other industrial operations and port logistics services.

Trading

The Group's trading business principally included the sourcing of alumina in the international market and on-sale of these alumina to aluminium smelters in the People's Republic of China ("PRC"). During the period, trading business accounted for 79% of the Group's turnover (2005: 5%) and contributed HK\$879.7 million to the Group's operating profit. As a result of the contribution from Minmetals Aluminium, turnover increased substantially to HK\$5,449.2 million for the six months ended 30 June 2006 as compared to HK\$29.4 million for the same period in 2005. The following table sets forth data in relation to the alumina trading of the Group:

Alumina Trading		(Unaudited)		
		Six months ended 30 June		
		2006	2005 ⁽²⁾	% Increase
Sales volume	(<i>'000 tonnes</i>)	1,042	1,010	↑3.2%
Turnover ⁽¹⁾	(<i>HK\$ million</i>)	4,553	3,430	↑32.7%
Average selling price	(<i>HK\$ per tonne</i>)	4,369	3,396	↑28.7%

(1) The differences between the figures in the above table and the total of the trading segment represent the trading of aluminium ingots and other non-ferrous metals.

(2) These figures are extracted from the Company's information circular dated 16 September 2005. The amounts have not been consolidated into the Group's condensed consolidated income statement for the six months ended 30 June 2005 since the acquisition of Minmetals Aluminium was completed on 6 October 2005.

Owing to the growth in both trade volume and average selling price, the turnover as well as profit margin of the Group showed remarkable increase during the period.

Although alumina prices in the PRC market eased back somewhat in the first half of 2006, it is still remained high in a historical context. The price of imported alumina stayed high in the first quarter of 2006, with cost, insurance and freight price (CIF price) around US\$680-690 per tonne. However, the increase in the supply of domestically produced alumina has driven down the imported alumina price to around US\$530-540 per tonne (CIF price) in June 2006.

Grasping the high-price opportunity in the first half of 2006, Minmetals Aluminium has concentrated its efforts on promoting sales and maintaining its lead as the largest supplier of imported alumina in the PRC market. To strike a proper balance between return and risk, the Group has kept more alert on credit and inventory control in our trading business, securing high inventory turnover and low receivables balance, with inventory turnover maintained below 30 days, trade receivables at extremely low level of HK\$4.6 million at 30 June 2006, and trade receivables turnover days stayed below 2 days.

Segmental Analysis (Continued)

Aluminium Fabrication

Aluminium fabrication business accounted for 11% (2005: 93%) of the Group's turnover and 2% (2005: 13%) of the Group's operating profit for the six months ended 30 June 2006. Although the turnover and profit contribution from this segment are not comparable to the trading segment, aluminium fabrication has still contributed impressive result to the Group. The Group believes that a more solid and diversified business foundation can enhance its overall competitiveness and long-term development. Therefore, in addition to the core trading business, the Group aims to develop itself as an integrated supply-chain conglomerate for non-ferrous metals. Aluminium fabrication as well as other downstream and upstream operations will be the next development focus.

Turnover of the Group's aluminium fabrication business for the first half of 2006 increased by 18% when compared to the same period in 2005. Intensified marketing efforts, enhanced production capacity, change of product mix to high-value added items, compounded by the upsurge of aluminium price, helped to boost the turnover. Although fierce competition together with the upsurge of raw materials, production and finance costs squeezed the business hard, its gross profit contribution to the Group still increased by 5% during the period.

The Group is now considering the upgrade and expansion of production line in its aluminium fabrication business. Besides, the Group will closely monitor the streamlining and rationalisation measures to be undertaken in the second half of this year with a view to enhance the long-term growth momentum as well as returns from this business segment.

Other Industrial Operations and Port Logistics Services

This segment accounted for 10% (2005: 2%) of the Group's turnover for the six months ended 30 June 2006. Near the end of March 2006, the Group increased its equity stake in a joint venture engaging in copper rods production. Due to the change, proportionate consolidation has been used to account for the Group's interest in this joint venture since April 2006. This joint venture is now the major contributor of revenue and profit in this segment. Owing to different industrial characteristics, the margin of copper rods business is not as high as other segments of the Group. For the six months ended 30 June 2006, this segment accounted for 3% of the Group's operating profit.

Other Financial Information

Financial Resources and Liquidity

The Group has maintained a strong financial and liquidity position for the first half of 2006. Total assets and total equity has increased 8% and 21% respectively to HK\$8.12 billion and HK\$3.97 billion respectively since the end of 2005. The current ratio was 1.09, based on current assets of HK\$3.60 billion and current liabilities of HK\$3.30 billion.

As at 30 June 2006, the Group had cash and cash equivalents and pledged bank deposits amounting to HK\$1,432.3 million. If after deducting the total bank borrowings of HK\$1,031.5 million, the Group was in a net cash surplus position of HK\$400.8 million. Hence, gearing ratio (defined as bank 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. About 29% and 50% of the cash and cash equivalents and pledged bank deposits held by the Group on 30 June 2006 were denominated in US dollars and Renminbi respectively, while the remaining balance was mainly denominated in Hong Kong dollars. With more than sufficient liquid funds on its daily operations, the Group will continue to pursue investment opportunities to deploy its cash resources. We are now actively pursuing and exploring business expansion and acquisition to enhance the profitability and value to our shareholders as mentioned in the "Outlook" section. The Group intends to deploy a portion of internal resources to finance these investment opportunities while any additional funding required will be via debt or equity financing activities deemed appropriate.

The Group's total bank borrowings, of which 57% bears interest at floating interest rate and 43% bears interest at fixed interest rate, reduced to HK\$1,031.5 million at 30 June 2006 from HK\$1,151.3 million at 31 December 2005. About 61% and 39% of the Group's bank loans were denominated in US dollars and Renminbi respectively. All bank borrowings at 30 June 2006 are repayable within one year. It is the Group's intention to refinance certain bank borrowings amounting to HK\$592.8 million, which have been used for financing the initial payment for certain alumina purchasing rights and will be due in June 2007, on a long-term basis. Borrowings of the Group vary in accordance with shipment schedule and production plan and show no major seasonal fluctuation under normal circumstances.

Significant Investments Held and Material Acquisitions and Disposals

(a) *Investment securities*

By acquiring Minmetals Aluminium in October last year, the Group has also acquired those Australia-listed equity securities (relating to the metals and resources mining sector) with market value of HK\$203.8 million held by Minmetals Aluminium. To partially lock up the gains on these investments resulting from the hiking metals prices, the Group disposed certain securities during the period and realised a gain of HK\$33.9 million. As at 30 June 2006, the market value of the securities held by the Group amounted to HK\$361.1 million.

(b) *Increase in interest in Changzhou Jinyuan Copper Company Limited ("Changzhou Jinyuan")*

As disclosed in the 2005 Annual Report, the Group increased its equity in Changzhou Jinyuan from 25% to 36% towards the end of March 2006. 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 the board of directors, the classification of Changzhou Jinyuan has been changed from associate to jointly controlled entity since April 2006.

Other Financial Information (Continued)

Significant Investments Held and Material Acquisitions and Disposals (Continued)

(c) *Bauxite and alumina joint venture*

In April 2006, a wholly owned subsidiary of the Group, Minmetals Aluminium, entered into a joint development agreement with Century Aluminium Company to explore the potential of developing a bauxite mine and an associated alumina refining facility in Jamaica.

An initial assessment on quality and quantity of the bauxite reserves will be performed. This initial pre-feasibility stage is currently expected to take approximately 18 months to complete and subject to the results of the pre-feasibility assessment, a full feasibility study for a bauxite mine and a new alumina refinery with a capacity of approximately 1.5 million tonnes of alumina per annum will be undertaken. Subject to, among others, the results of the assessment of the bauxite reserves and the full feasibility study, the parties may undertake the project and it is currently expected that the mine and the alumina refinery could be operational within three years following the completion of the full feasibility study.

Save as disclosed above, there were no material acquisitions or disposals of investments and subsidiaries during the six-month period.

Capital Expenditure

Capital expenditure for this six months period amounted to HK\$19.2 million and capital commitments at 30 June 2006 amounting to HK\$98.2 million. They are mainly related to the replacement and upgrade of production facilities used in the aluminium fabrication and other industrial operations of the Group.

Charge on Assets

As at 30 June 2006, the following Group's assets were used to secure the Group's bank borrowings:

- (a) All the equity interests of a wholly owned subsidiary, Sino Mining Alumina Limited ("Sino Mining") and all the assets of Sino Mining;
- (b) Certain property, plant and equipment and land use rights of the Group with a carrying amount of approximately HK\$408.7 million;
- (c) Certain inventories of the Group with a carrying amount of approximately HK\$20.4 million; and
- (d) Pledged bank deposits of the Group of approximately HK\$39.0 million.

Contingent Liabilities

There is no material change in the contingent liabilities of the Group since 31 December 2005.

Other Financial Information (Continued)

Risk Management

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

(a) Commodity price risk

As explained in 2005 Annual Report, the failure to fulfill the accounting's hedge effectiveness test requirements caused the Group to adjust the fair value changes on its open derivative contracts through the income statement at last year end. Such treatment caused a mismatch between the recognition of profit/loss on the derivative contracts and the items being hedged for. Out of the net losses for derivative financial instruments amounting to HK\$72.0 million for the six months ended 30 June 2006, HK\$70.2 million was attributed to the ineffective hedge contracts brought forward from 2005.

All ineffective hedge aluminium forward contracts brought forward from 2005 have been closed out in the first half of 2006 and hence will no longer pose any further impact on the Group. However, as a preventive measure, the Group has implemented a testing system in order to fulfill the accounting's hedge effectiveness test requirements.

The Group has performed hedge effectiveness tests in accordance with the relevant accounting standards on the aluminium forward contracts entered into by the trading operations in 2006 and the testing results have been reviewed. On an intra-group basis, the accounting hedge effectiveness test requirements have already been met. The following table sets out the Group's open position (without adjusting on a proportionate basis for the Group's share in the jointly controlled entity) in aluminium forward contracts at 30 June 2006.

Maturity profile	Open position at 30 June 2006	
	Sell contracts (Under the trading business) (Tonnes)	Buy contracts (Under the aluminium fabrication business) (Tonnes)
Second-half 2006	9,325	3,090
2007	19,575	-
2008	5,000	-
Total	33,900	3,090

Other Financial Information (Continued)

Risk Management (Continued)

(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. For the six months ended 30 June 2006, 79% of the Group turnover was denominated in RMB. At 30 June 2006, the total net assets shared by the Group in its PRC subsidiaries, associates and jointly controlled entity amounted to HK\$441 million was denominated in RMB. Fluctuation of the exchange rate between RMB and HKD could affect the Group's performance. Exchange rate fluctuation between AUD and USD 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 30 June 2006, 57% of the Group's bank borrowings amounting to HK\$592.8 million bore interest at floating interest rate. The Group has used interest rate swaps to hedge against this risk if necessary.

Dividend

As the Company was still in accumulated losses, the Board of directors has decided not to declare any interim dividend for the six months ended 30 June 2006. However, it is the Company's intention to declare and pay dividends as early as possible if circumstances permit. The Company has been undertaking a capital reduction proposal to use its share premium to set off against its accumulated losses and will endeavor to complete the proposal as soon as possible. Nevertheless, the actual outcome and completion date are subject to the approval of shareholders' meeting and the consent of the Court in Hong Kong.

Human Resources

At the end of June 2006, the Group employed a total of approximately 2,560 employees, of which 16 were based in Hong Kong head office, 2,532 in mainland China and 12 in Australia. The total staff costs (including the directors' emoluments and share options granted to directors and employees) for the period was HK\$67.6 million. In the first half of 2006, 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 a salary policy in line with market practice and has provided training to its staff as and when required.

Outlook

The Group has a very strong growth and performance in the first six months of 2006. It is clear that the acquisition of alumina and aluminium related business from our parent company last year is delivering results and our business is on an upward trend. In 2006, alumina prices in the PRC market have showed adjustments and intensified market competition. However, save for the possible modest price adjustment for certain metal products from time to time and given the continuous economic growth in the PRC, industrialisation and urbanisation will inevitably drive up the growth in demand for base metals. The Group will endeavour to maintain the profit margin and the competitive edge of our core business as well as the leading position in the PRC imported alumina market.

In addition to expanding our existing business, the Group will strive to push ahead the negotiation for the acquisition of Guangxi Huayin Aluminium Company Limited and Sherwin Alumina L.P. from our parent company. It is also the Company's intention to seek for viable acquisition target of aluminium smelters and aggressively prepare for and proceed the acquisition. For horizontal integration, when appropriate, the Company will consider to acquire other non-ferrous metals businesses and assets besides alumina and aluminium with an aim to develop ourselves as an integrated supply-chain conglomerate for non-ferrous metals.

Armed with the above plans and strategies, and with concerted effort of our staff, we are confident to enhance our profitability, return on assets and create value to our shareholders.

INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF MINMETALS RESOURCES LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial information of the Company set out on pages 15 to 29.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited requires the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on this interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 August 2006

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Six months ended 30 June	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Turnover	2	6,858,440	664,215
Cost of sales		(5,820,956)	(596,314)
Gross profit		1,037,484	67,901
Other gains, net	2	27,007	5,492
		1,064,491	73,393
Selling expenses		(53,822)	(23,055)
Administrative expenses		(64,778)	(22,852)
Other operating (expenses)/income	3	(46,257)	80,533
Operating profit	2, 4	899,634	108,019
Finance costs	5	(43,461)	(8,701)
Share of profits less losses of associates		11,388	7,787
Profit before income tax		867,561	107,105
Income tax (expense)/credit	6	(283,593)	1,078
Profit for the period		583,968	108,183
Attributable to:			
Equity holders of the Company		579,649	100,345
Minority interest		4,319	7,838
		583,968	108,183
Basic earnings per share	7	HK\$0.34	HK\$0.17
Interim dividend per share	8	-	-

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

	Note	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	533,007	504,190
Investment properties	9	14,730	14,730
Land use rights	9	15,986	11,992
Construction in progress	9	9,480	5,415
Interests in associates		29,060	85,116
Alumina purchasing rights	9	3,532,534	3,601,301
Long-term receivables		–	4,808
Available-for-sale financial assets		361,057	313,663
Deferred income tax assets		23,222	23,849
		4,519,076	4,565,064
Current assets			
Inventories		910,453	943,797
Trade and bills receivable	10	964,887	502,170
Prepayments, deposits and other receivables		73,700	43,639
Amount due from an intermediate holding company	15	52,239	182,925
Alumina purchasing rights	9	145,490	293,160
Amounts due from fellow subsidiaries	15	346	–
Derivative financial instruments		16,970	6,009
Pledged bank deposits		38,996	49,659
Cash and cash equivalents		1,393,325	938,086
		3,596,406	2,959,445
Total assets		8,115,482	7,524,509
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital		85,722	85,722
Reserves		3,676,100	2,995,301
		3,761,822	3,081,023
Minority interest		204,436	203,019
Total equity		3,966,258	3,284,042

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Continued)

		30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
	<i>Note</i>		
LIABILITIES			
Non-current liabilities			
Deferred income		25,985	27,138
Provision for sales contract obligations		24,859	24,859
Derivative financial instruments		–	14,970
Deferred income tax liabilities		797,645	688,438
Bank loans		–	617,477
		848,489	1,372,882
Current liabilities			
Trade and bills payable	11	680,812	475,628
Accruals, receipts in advance and other payables		530,988	531,979
Advances from banks for bills discounted		395,958	55,779
Amounts due to fellow subsidiaries	15	673	6,890
Amount due to an associate	15	335	–
Provision for sales contract obligations		516,899	1,033,799
Derivative financial instruments		27,596	165,931
Current income tax liabilities		115,996	63,738
Bank loans		1,031,478	533,841
		3,300,735	2,867,585
Total liabilities		4,149,224	4,240,467
Total equity and liabilities		8,115,482	7,524,509
Net current assets		295,671	91,860
Total assets less current liabilities		4,814,747	4,656,924

CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash generated from operating activities	553,107	137,173
Net cash generated from/(used in) investing activities	126,534	(31,466)
Net cash used in financing activities	(224,402)	(22,086)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	455,239	83,621
Cash and cash equivalents at 1 January	938,086	176,236
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	1,393,325	259,857
	<hr/>	<hr/>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company (Unaudited)

	Share Capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Special capital reserve (Note 14) HK\$'000	Revaluation reserve HK\$'000	General reserve HK\$'000	PRC statutory reserve HK\$'000	Exchange translation reserve HK\$'000	Available- for-sale financial assets reserve HK\$'000	Hedging reserve HK\$'000	Share options reserve HK\$'000	Accum- lated losses HK\$'000	Minority interest HK\$'000	Total 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
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	579,649	4,319	583,968
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(2,902)	(2,902)
Currency translation differences	-	-	-	-	-	-	-	(187)	-	-	-	-	-	(187)
Cash flow hedge	-	-	-	-	-	-	-	-	-	(8,528)	-	-	-	(8,528)
Recognition of equity-settled share based payment	-	-	-	-	-	-	-	-	-	-	21,347	-	-	21,347
Disposal of available-for-sale financial assets	-	-	-	-	-	-	-	-	(22,158)	-	-	-	-	(22,158)
Fair value gain	-	-	-	-	-	-	-	-	110,676	-	-	-	-	110,676
Transfer to PRC statutory reserves	-	-	-	-	-	-	228	-	-	-	-	(228)	-	-
Balance at 30 June 2006	85,722	3,503,362	48,380	125,374	-	15,600	72,828	5,162	198,346	(8,528)	21,347	(305,771)	204,436	3,966,258
Balance at 1 January 2005, as previously reported	30,367	1,194,593	48,380	125,374	779	15,600	70,448	2,029	-	-	-	(1,065,565)	178,963	600,968
Transfer as a result of the change in accounting policy for investment properties	-	-	-	-	(779)	-	-	-	-	-	-	779	-	-
Balance at 1 January 2005, as restated	30,367	1,194,593	48,380	125,374	-	15,600	70,448	2,029	-	-	-	(1,064,786)	178,963	600,968
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	100,345	7,838	108,183
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	-	-	-	(659)	(659)
Transfer to PRC statutory reserves	-	-	-	-	-	-	1,369	-	-	-	-	(1,369)	-	-
Balance at 30 June 2005	30,367	1,194,593	48,380	125,374	-	15,600	71,817	2,029	-	-	-	(965,810)	186,142	708,492

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Basis of preparation

This unaudited interim financial report is prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Financial Reporting” and other relevant Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as the disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

This unaudited interim financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005. The accounting policies used in the preparation of this unaudited interim financial report are consistent with those used in the annual financial statements for the year ended 31 December 2005 except for changes in accounting policies made thereafter in adopting certain new standards, amendments to standards and interpretations which are relevant to the Group’s operations as follows:

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
HKFRS 6	Exploration for and evaluation of mineral resources
HKFRS-Int 4	Determining whether an arrangement contains a lease
HKFRS-Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds

The adoption of the above new/revised HKFRSs, HKASs and interpretations has no material impact on the Group’s results.

The Group has not early adopted any new/revised HKFRSs, HKASs and interpretations which have been issued on or before 30 June 2006 but are not yet effective for the financial year ending on 31 December 2006. The Group is in the process of assessing their impact on the Group’s results and operations.

During the six months ended 30 June 2006, the Group acquired certain interests in a jointly controlled entity. Below is the Group’s accounting policy for the consolidation of interests in jointly controlled entities:

Jointly controlled entities

The Group’s interests in jointly controlled entities are accounted for using the proportionate consolidation method. 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 third 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.

2. Segment information

By business segments

At 30 June 2006, the Group's operations comprised the following major business segments:

Trading	:	Trading of alumina and other non-ferrous metals
Aluminium fabrication	:	Production and sale of aluminium foils and extrusions
Other industrial operations and port logistics services	:	(i) Other industrial operations including production and sale of plica tubes, aluminium cans, copper rods, copper cathodes and copper blisters. (ii) Port logistics services including customs clearance, unloading and packing alumina as well as receiving and delivering of alumina at the port of Lianyungang in the PRC.

Six months ended 30 June 2006 (Unaudited)

	Trading HK\$'000	Aluminium fabrication HK\$'000	Other industrial operations and port logistics services HK\$'000	Corporate and others HK\$'000	Inter- segment elimination HK\$'000	Total HK\$'000
Revenues						
External sales	5,449,245	731,724	677,471	-	-	6,858,440
Inter-segment sales	104,015	2,061	3,042	-	(109,118)	-
Turnover	<u>5,553,260</u>	<u>733,785</u>	<u>680,513</u>	<u>-</u>	<u>(109,118)</u>	<u>6,858,440</u>
Other gains, net	<u>17,070</u>	<u>2,833</u>	<u>888</u>	<u>7,253</u>	<u>(1,037)</u>	<u>27,007</u>
Results						
Segment results	879,688	19,615	27,156	(25,788)	(1,037)	899,634
Finance costs						(43,461)
Share of profits less losses of associates	-	-	11,388	-	-	11,388
Income tax expense						(283,593)
Profit for the period						<u>583,968</u>

2. Segment information (Continued)

By business segments (Continued)

Six months ended 30 June 2005 (Unaudited)						
	Trading HK\$'000	Aluminium fabrication HK\$'000	Other industrial operations and port logistics services HK\$'000	Corporate and others HK\$'000	Inter- segment elimination HK\$'000	Total HK\$'000
Revenues						
External sales	29,386	618,777	16,052	–	–	664,215
Inter-segment sales	–	1,250	–	–	(1,250)	–
Turnover	<u>29,386</u>	<u>620,027</u>	<u>16,052</u>	<u>–</u>	<u>(1,250)</u>	<u>664,215</u>
Other gains, net	<u>816</u>	<u>2,762</u>	<u>417</u>	<u>1,786</u>	<u>(289)</u>	<u>5,492</u>
Results						
Segment results	28,250	14,416	9,497	56,145	(289)	108,019
Finance costs						(8,701)
Share of profits less losses of associates	–	–	7,787	–	–	7,787
Income tax credit						<u>1,078</u>
Profit for the period						<u>108,183</u>

By geographical segments

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

	Six months ended 30 June (Unaudited)			
	2006		2005	
	Turnover HK\$'000	Contribution to gross profit HK\$'000	Turnover HK\$'000	Contribution to gross profit HK\$'000
PRC	6,056,345	910,829	580,933	51,359
Australia	7,231	614	–	–
Others	903,982	129,083	84,532	16,542
Inter-segment elimination	(109,118)	(3,042)	(1,250)	–
Total	<u>6,858,440</u>	<u>1,037,484</u>	<u>664,215</u>	<u>67,901</u>

3. Other operating (expenses)/income

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net (losses)/gains for derivative financial instruments	(72,030)	–
– Aluminium forward contracts	(99,621)	–
– Foreign exchange forward contracts	1,080	–
– Interest rate swaps	15,898	–
– Aluminium options	10,613	–
Negative goodwill recognised	8,087	–
– Acquisition of interest in a jointly controlled entity (<i>Note 12</i>)	8,066	–
– Acquisition of additional interest in an associate	21	–
Reversal of provision for impairment of receivables	5,104	67,910
– Trade and other receivables	1,235	54,599
– Amounts due from associates	3,869	13,311
Gain on disposal of available-for-sale financial assets	33,929	–
Share options granted to directors and employees	(21,347)	–
Reversal of provision for a guarantee given to a third party	–	6,792
Write back of trade payables and accruals	–	5,831
	(46,257)	80,533

4. Operating profit

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

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Amortisation	217,254	508
– Alumina purchasing rights	216,437	–
– Land use rights	817	508
Staff costs (including directors' emoluments)	67,639	33,584
– Salaries and other benefits	46,292	33,584
– Share options granted to directors and employees	21,347	–
Depreciation	28,332	17,383
Operating lease rental on properties	2,151	1,117
Direct operating expenses arising from investment properties that generate rental income	151	161
Direct operating expenses arising from investment properties that did not generate rental income	101	301
Loss on disposal of property, plant and equipment	14	2
Exchange (gains)/losses, net	(3,428)	123
Interest income	(18,085)	(2,381)

5. Finance costs

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Bank loans wholly repayable within five years	43,460	8,700
Other loans wholly repayable within five years	1	1
	43,461	8,701

6. Income tax expense/(credit)

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profits for the period. Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the period at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current income tax		
PRC enterprise income tax	155,644	4,373
Overseas income tax	22,515	-
	178,159	4,373
Deferred income tax expense/(credit)	105,434	(5,451)
Income tax expense/(credit)	283,593	(1,078)

7. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity holders of the Company of HK\$579,649,000 (2005: HK\$100,345,000) and 1,714,440,521 ordinary shares (2005: 607,349,612 ordinary shares) in issue during the period.

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

8. Interim dividend

The directors do not recommend the payment of interim dividend for the six months ended 30 June 2006 (2005: Nil).

9. Capital expenditure

	Property, plant and equipment (Unaudited) HK\$'000	Investment properties (Unaudited) HK\$'000	Land use rights (Unaudited) HK\$'000	Construction in progress (Unaudited) HK\$'000	Alumina purchasing rights (Unaudited) HK\$'000
Net book amount as at 1 January 2006	504,190	14,730	11,992	5,415	3,894,461
Additions	1,244	-	-	17,991	-
Proportionate consolidation of a jointly controlled entity	42,264	-	4,811	1	-
Transferred from construction in progress to property, plant and equipment	13,927	-	-	(13,927)	-
Depreciation and amortisation	(28,332)	-	(817)	-	(216,437)
Exchange differences	(24)	-	-	-	-
Disposals	(262)	-	-	-	-
Net book amount as at 30 June 2006	533,007	14,730	15,986	9,480	3,678,024

10. Trade and bills receivable

The majority of sales for the trading operation are under the arrangement of delivery upon payment from customers, with the remaining amounts are on letters of credit. For the aluminium fabrication and other industrial operations, sales are normally made with credit periods ranging from 30 to 90 days.

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

	At 30 June 2006 (Unaudited) HK\$'000		At 31 December 2005 (Audited) HK\$'000	
		%		%
Trade receivables				
Less than 6 months	179,245	72	232,554	77
6 months – 1 year	4,752	2	4,770	2
Over 1 year	63,329	26	63,994	21
	247,326	100	301,318	100
Less: Provision for impairment of receivables	(70,402)		(70,938)	
	176,924		230,380	
Bills receivable (Note)	787,963		271,790	
	964,887		502,170	

Note: Bills receivable are bills of exchange with maturity dates of less than 6 months, of which approximately HK\$680,175,000 (2005: HK\$271,790,000) has been discounted to banks or endorsed to suppliers.

11. Trade and bills payable

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

	At 30 June 2006 (Unaudited)		At 31 December 2005 (Audited)	
	HK\$'000	%	HK\$'000	%
Trade payables				
Less than 6 months	257,494	100	196,264	100
6 months – 1 year	79	–	25	–
1 – 2 years	89	–	26	–
Over 2 years	112	–	111	–
	257,774	100	196,426	100
Trade payables under endorsed bills	284,218		216,011	
Bills payable	138,820		63,191	
	680,812		475,628	

12. Interest in a jointly controlled entity

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 period as follows:

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

Because of the changes in the shareholding structure 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 1 April 2006.

12. Interest in a jointly controlled entity (Continued)

The amounts set out below represent the Group's share of the assets and liabilities and results of Changzhou Jinyuan and are included in the Group's condensed consolidated interim balance sheet and income statement:

	(Unaudited) HK\$'000
Share of assets and liabilities at 30 June 2006	
Non-current assets	46,920
Current assets	615,117
	<hr/>
Total assets	662,037
	<hr/>
Non-current liabilities	(5,330)
Current liabilities	(559,622)
	<hr/>
Total liabilities	(564,952)
	<hr/>
Net assets	97,085
	<hr/>
Share of results for the six months ended 30 June 2006	
Turnover	662,709
Net profit after tax	9,417
	<hr/>

There are no commitments of the Group in relation to its interest in the jointly controlled entity.

13. Share option scheme

(a) (i) 1994 share option scheme

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

(ii) 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 Listing Rules. A total number of 23,500,000 share options was granted to certain directors and employees of the Group on 18 April 2006. The exercise price of the options granted is equal to the closing price of the Company's shares on the date of grant.

13. Share option scheme (Continued)

(a) (Continued)

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

	2004 share option scheme		1994 share option scheme	
	Exercise price per share HK\$	Number of options	Exercise price per share HK\$	Number of options
At 1 January 2006	–	–	3.115	6,610,000
Granted	2.725	23,500,000	–	–
Lapsed	–	–	3.115	(80,000)
At 30 June 2006	2.725	<u>23,500,000</u>	3.115	<u>6,530,000</u>

(b) The fair value of the share options granted during the six months ended 30 June 2006, amounting to approximately HK\$22,064,000, 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%

The value of the share options 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 the above assumptions or inputs may materially affect the fair value estimation.

(c) The fair value of the share options in connection with the 23,500,000 options granted of approximately HK\$22,064,000 is recognised as an expense of the Group according to the vesting conditions. The amount charged to the condensed consolidated interim income statement for the six months ended 30 June 2006 amounted to approximately HK\$21,347,000.

14. Special capital reserve

As a result of the capital reduction undertaken by the Company 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 elimination or reducing in future the accumulated losses of the Company.

15. Related party transactions

The following is a summary of the Group's material related party transactions carried out in the normal course of business, at terms mutually agreed between the Group and the respective related parties, during the period:

	Six months ended 30 June	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
(a) Transactions with associates of the Group		
– Sales of non-ferrous metals	–	27,710
– Purchases of non-ferrous metals	83,426	–
– Transportation fees paid	5,333	5,276
– Rental income	38	60
	<hr/>	<hr/>
(b) Transactions with subsidiaries of the Group's ultimate holding company, excluding subsidiaries within the Group		
– Purchases of non-ferrous metals	287,851	–
– Transportation fees paid	30,949	–
– Rental expenses paid	627	348
– Commission paid	78	–
	<hr/>	<hr/>
(c) Transactions with other state-owned enterprises		
– Sales of non-ferrous metals	2,804,930	70,733
– Purchases of non-ferrous metals	1,049,679	381,884
– Transportation fees paid	18,455	–
– Payments for the additions to construction in progress	2,413	–
	<hr/>	<hr/>
(d) Key management compensation		
– Salaries and other short-term employee benefits	6,363	1,950
– Share options granted to directors and employees	17,216	–
	<hr/>	<hr/>
	23,579	1,950
	<hr/>	<hr/>

The period-end balances with related parties are as follows:

	30 June	31 December
	2006 (Unaudited) HK\$'000	2005 (Audited) HK\$'000
(a) Receivables, net from		
– An intermediate holding company	52,239	182,925
– Fellow subsidiaries	346	–
– Associates	8,720	7,940
– Other state-owned enterprises	46,006	80,119
	<hr/>	<hr/>
(b) Payables to		
– Fellow subsidiaries	673	6,890
– An associate	335	–
– Other state-owned enterprises	150,825	189,340
	<hr/>	<hr/>

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

As at 30 June 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 the underlying shares of the Company

Name of director	Nature of interest	Number of underlying shares held <i>(Note 1)</i>	Approximate percentage of total number of issued shares <i>(Note 2)</i>
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%

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 30 June 2006.

Save as disclosed above, as at 30 June 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).

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

As at 30 June 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:

- 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 30 June 2006.
- 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 30 June 2006.
- 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 30 June 2006.

Save as disclosed above, as at 30 June 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.

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”), the number of outstanding options as at 30 June 2006 is 6,530,000. The 1994 Share Option Scheme had expired on 24 November 2004. Accordingly, no further options would be granted in accordance with the provisions thereunder but in all other respects the provisions of the 1994 Share Option Scheme shall remain in force to govern the exercise of all the options granted prior to such expiry which shall continue to be valid and outstanding until the expiry of the exercise period.

During the six months ended 30 June 2006, the movements of the options which have been granted under the 1994 Share Option Scheme are as follows:

Category and name of participant	Date of grant	Exercise price per share HK\$	Exercise period	Number of options				Balance as at 30 June 2006
				Balance as at 1 January 2006	Exercised during the period	Cancelled during the period	Lapsed during the period	
Director								
Xu Huizhong	15 March 2004 <i>(Note 1)</i>	3.115	16 March 2004 to 15 March 2007	2,000,000	-	-	-	2,000,000
Employees of the Group	15 March 2004 <i>(Note 1)</i>	3.115	16 March 2004 to 15 March 2007	4,610,000	-	-	80,000 <i>(Note 2)</i>	4,530,000
				<u>6,610,000</u>	<u>-</u>	<u>-</u>	<u>80,000</u>	<u>6,530,000</u>

Notes:

- 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.
- Options were lapsed due to cessation of employment.

SHARE OPTION SCHEMES (Continued)

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 six months ended 30 June 2006. Details of the outstanding options which have been granted under the 2004 Share Option Scheme during the period are as follows:

Category and name of participant	Date of grant	Exercise price per share HK\$	Exercise period	Number of options					Balance as at 30 June 2006
				Balance as at 1 January 2006	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	
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 (Note 1)	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:

- 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.
- 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.

CORPORATE GOVERNANCE

Audit Committee

The audit committee of the Company 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 principal duties of the audit committee include the review and supervision of the financial reporting process and internal controls system of the Group. The audit committee has reviewed the unaudited interim financial report of the Group for the six months ended 30 June 2006.

Corporate Governance Practices

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Listing Rules throughout the period of the six months ended 30 June 2006 except for the following deviations:

- (a) 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 association of the Company at the Company's annual general meeting held on 15 May 2006 to the effect that (i) all directors appointed to fill a casual vacancy shall retire and be eligible for re-election at the next general meeting, and (ii) every director shall be subject to retirement by rotation at least once every three years.

- (b) Under code provision E.1.2 of the CG Code, the chairman of the board of directors of the Company (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 chairman of the Board will endeavor to attend all future annual general meetings of the Company.

Securities Transactions by Directors

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 as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry of all the directors of the Company, 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 six months ended 30 June 2006.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By order of the Board

Xu Huizhong

Executive Director and President

Hong Kong, 29 August 2006



五礦資源有限公司
MINMETALS RESOURCES LIMITED