

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Oriental Metals (Holdings) Company Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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ORIENTAL METALS (HOLDINGS) COMPANY LIMITED

東方鑫源（集團）有限公司

(Incorporated in Hong Kong with limited liability)

STOCK CODE: 1208

VERY SUBSTANTIAL ACQUISITION, CONNECTED TRANSACTION AND REVERSE TAKEOVER INVOLVING A NEW LISTING APPLICATION, CONTINUING CONNECTED TRANSACTIONS AND CHANGE OF COMPANY NAME

Financial adviser and sponsor to Oriental Metals (Holdings) Company Limited



**Independent financial adviser to
the independent board committee and the independent shareholders**



A letter from the Independent Board Committee is set out on page 40 of this circular. A letter from Somerley Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders is set out on pages 41 to 82 of this circular.

A notice convening an extraordinary general meeting of Oriental Metals (Holdings) Company Limited to be held at 10:30 a.m. on Monday, 25 July 2005 is set out on pages 406 and 407 at the end of this circular. Whether or not you are able to attend the meeting, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending, and voting in person at, the meeting or any adjourned meetings should you so wish.

30 June 2005

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DEFINITIONS

In this circular, the following expressions have the following meanings unless the context requires otherwise:

“Acquisition”	the proposed acquisition of the entire interest of the Vendor in Target BVI pursuant to the Acquisition Agreement
“Acquisition Agreement”	the conditional sale and purchase agreement dated 30 December 2004 entered into between the Company (as purchaser), the Vendor (as seller) and CMN (as the Vendor’s guarantor and warrantor) relating to the Acquisition as supplemented from time to time by the signing parties thereto
“Alcoa”	Alcoa Alumina & Chemicals L.L.C., Alcoa of Australia, Ltd., Suriname Aluminium Company L.L.C., Alcoa Minerals of Jamaica, L.L.C., St. Croix Alumina, L.L.C. and Abalco S.A. collectively, each being an Independent Third Party
“Alcoa Contract”	the long-term alumina supply agreement dated 10 October 1996 entered into between Sino Mining Alumina and Alcoa relating to Alcoa’s obligation to supply to Sino Mining Alumina, and Sino Mining Alumina’s obligation to take and pay for an agreed quantity of alumina per annum for a contract term of 30 years ending 30 June 2027
“Aluminium Trading Business”	the alumina and aluminium ingots trading business of CMN transferred to Minmetals Aluminium pursuant to the Reorganisation
“Antaike Report 2003”	國內外氧化鋁、電解鋁工業發展趨勢及市場諮詢報告 (Development tendency of and market consultation report on aluminium oxide and electrolytic aluminium industry inside and outside China) prepared by Beijing Antaike Information Development Co. Ltd., June 2003
“Antaike Report 2005”	國內外氧化鋁、電解鋁工業發展趨勢及市場諮詢報告 (Development tendency of and market consultation report on aluminium oxide and electrolytic aluminium industry inside and outside China) prepared by Beijing Antaike Information Development Co. Ltd., March 2005
“Associates”	has the same meaning as ascribed to it under the Listing Rules

DEFINITIONS

“Board”	the board of Directors (including both executive Directors and independent non-executive Directors)
“CCASS”	Central Clearing and Settlement System
“Chalco”	中國鋁業股份有限公司 (Aluminium Corporation of China Limited), a joint stock limited company incorporated on 10 September 2001 under the laws of the PRC and the shares of which are listed on the Stock Exchange and the New York Stock Exchange, Inc, and an Independent Third Party
“China Minmetals”	中國五礦集團公司 (China Minmetals Corporation), formerly known as 中國五金礦產進出口總公司 (China National Metals and Minerals Import and Export Corporation), a State-owned enterprise incorporated on 7 April 1950 under the laws of the PRC and the ultimate controlling Shareholder
“CMN”	五礦有色金屬股份有限公司 (China Minmetals Non-ferrous Metals Company Limited), a joint stock limited company incorporated on 27 December 2001 under the laws of the PRC and owned as to approximately 82.23% by China Minmetals. The remaining 17.77% interest is owned as to 10.57% by 上海工業投資 (集團) 有限公司 (Shanghai Industrial Investment (Group) Co., Ltd.), as to 3.29% by 金城江成源冶煉廠 (Jinchengjiang Chenyuan Smelting Ltd.), as to 2.64% by 宜興新威集團公司 (Yixing Xinwei Group Co., Ltd.), as to 0.85% by 中國糧油食品 (集團) 有限公司 (China National Cereals, Oils & Foodstuffs Corporation) and as to 0.42% by 自貢硬質合金有限公司 (Zigong Cemented Carbide Co., Ltd.), each being an Independent Third Party
“CMN Contract”	the framework agreement dated 21 January 2003 entered into between CMN and the Company for the sale of an aggregate of 180,000 tonnes of alumina to CMN by the Company
“CNNC”	中國有色金屬工業總公司 (China National Non-ferrous Metals Industry Corporation) which was succeeded by 國家有色金屬工業局 (The State Non-ferrous Metals Industry Administration), please refer to section headed “Information on the Target Group and the Group – History and development” in this circular for further information

DEFINITIONS

“Company”	Oriental Metals (Holdings) Company Limited (東方鑫源 (集團) 有限公司), a company incorporated on 29 July 1988 in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the laws of Hong Kong)
“Completion”	completion of the Acquisition pursuant to the terms and conditions of the Acquisition Agreement
“Conditions”	conditions precedent to Completion as set out in the Acquisition Agreement and summarised in the section headed “The Acquisition Agreement dated 30 December 2004 – Conditions” in the “Letter from the Board” in this circular
“Confirmation”	a confirmation from the Executive that neither the Vendor nor parties acting in concert with it will be required to make a mandatory general offer for all the Shares not owned or agreed to be acquired by them under the Takeovers Code as a result of the Acquisition
“Consideration Shares”	the new Shares to be allotted and issued to the Vendor in connection with the Acquisition
“Continuing Connected Transactions”	the transactions entered into between the Enlarged Group and the connected persons of the Company as set out in the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular
“Coppermine”	Coppermine Resources Limited, a company incorporated on 12 January 2001 in the British Virgin Islands with limited liability and a wholly owned subsidiary of Minmetals HK
“CSRC”	China Securities Regulatory Commission
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at Shek O Room, Lower Level 1, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 25 July 2005 at 10:30 a.m. to consider and approve the Acquisition, the Non-exempt Continuing Connected Transactions and the proposed change of name of the Company and any adjournment thereof, a notice of which is set out on pages 406 and 407 of this circular

DEFINITIONS

“Enlarged Group”	the Group and the Target Group
“Executive”	the executive director of the Corporate Finance Division of the SFC from time to time and any delegate of such executive director
“Group”	the Company and its subsidiaries
“Guangxi Huayin”	廣西華銀鋁業有限公司(Guangxi Huayin Aluminium Company Limited), a company incorporated on 18 February 2003 under the laws of the PRC in respect of an alumina refinery project in southern China and owned as to 33% by CMN. The remaining 67% interest is owned as to 34% by 廣西投資(集團)有限公司(Guangxi Investment Group Co., Ltd.) (formerly 廣西開發投資有限責任公司(Guangxi Development and Investment Company)) and as to 33% by Chalco, both being an Independent Third Party
“HK GAAP”	the generally accepted accounting principles in Hong Kong
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFA” or “Somerley”	Somerley Limited, a licensed corporation under the SFC to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities, the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Independent Board Committee”	an independent committee of the Board comprising Messrs. Liu Hongru, Chan Wai Dune and Ting Leung Huel, Stephen, all of whom are independent non-executive Directors
“Independent Shareholders”	Shareholders other than China Minmetals and its Associates
“Independent Third Party(ies)”	independent third party(ies) not related to any of the Directors, chief executives or substantial Shareholders of the Company or its subsidiaries or associates of any of them

DEFINITIONS

“Latest Practicable Date”	27 June 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information set out in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“LME”	London Metal Exchange
“LYG”	五礦有色金屬連雲港有限公司(Minmetals Non-ferrous Lianyungang Company Limited), a company incorporated on 20 August 2002 under the laws of the PRC and owned as to 90% by Minmetals Aluminium and as to 10% by 廣州經濟技術開發區五礦倉儲有限公司(Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.), an indirect subsidiary of China Minmetals. 廣州經濟技術開發區五礦倉儲有限公司(Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.) intends to sell and transfer its 10% equity interest in LYG to Independent Third Parties, such that LYG will become an indirect subsidiary of China Minmetals held solely under Minmetals Aluminium and has openly offered to sell such interests on the 北京產權交易所 (Beijing Equity Exchange)
“Minmetals Aluminium”	五礦鋁業有限公司(Minmetals Aluminium Company Limited), a limited liability company incorporated on 22 October 2004 in the PRC and transformed from a PRC domestic enterprise into a wholly owned foreign enterprise owned by Target BVI pursuant to the Reorganisation
“Minmetals Group”	China Minmetals and its subsidiaries excluding the Enlarged Group
“Minmetals HK”	China Minmetals H.K. (Holdings) Limited (中國五礦香港控股有限公司), a company incorporated on 16 April 1996 in Hong Kong with limited liability and a wholly owned subsidiary of China Minmetals
“Minmetals Shipping”	五礦國際貨運有限責任公司(Minmetals Shipping & Forwarding Company Limited), which China Minmetals has an attributable interest of approximately 71.7%

DEFINITIONS

“NCA”	華北鋁業有限公司(North China Aluminium Company Limited), a Sino-foreign equity joint venture established under the laws of the PRC on 9 December 1993 and owned as to 51% indirectly by the Company. The remaining 49% interest is owned as to 18.89% by 中國鋁業公司(Aluminium Corporation of China), as to 16.31% by 中信興業投資有限責任公司(CITIC Development Co., Ltd.) and as to 13.80% by 河北省人民政府國有資產監督管理委員會第三後勤服務中心(The Third Rear-Service Center attached to State-owned Assets Supervision and Administration Commission of the People’s Government of Hebei Province), each being an Independent Third Party
“Non-competition Agreement”	the non-competition and first rights of refusal agreement dated 30 December 2004 entered into by China Minmetals in favour of the Company, further details of which are set out in the section headed “Relationship with the Minmetals Group – Non-competition Agreement” in this circular
“Non-exempt Continuing Connected Transactions”	continuing transactions between members of the Enlarged Group and the connected persons (as defined in Chapter 14A of the Listing Rules) of the Company immediately following Completion and which will not be exempt from the reporting, announcement and shareholder approval requirements under the Listing Rules, further details of which are set out in the section headed “Relationship with the Minmetals Group – Connected transactions – Non-exempt Continuing Connected Transactions” in this circular
“Pechiney Contract”	the alumina supply agreement dated 19 February 1999 and subsequently amended by a supplemental agreement dated 17 January 2004 entered into between Pechiney Trading Company and the Company whereby Pechiney Trading Company agreed to sell and the Company agreed to buy an aggregate of 453,401 tonnes of alumina for a contract term expiring on 31 December 2004
“Placing”	the possible placing(s) of new Shares by the Company and/or existing Shares held by Coppermine if it is necessary to ensure not less than 25% of the issued Shares will be held in public hands upon Completion

DEFINITIONS

“PRC” or “China”	the People’s Republic of China (for the purpose of this circular, excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC)
“PRC Legal Opinion(s)”	the legal opinion(s) regarding PRC legal issues relating to, among other things, the Acquisition, the Reorganisation and the Non-competition Agreement
“Proposed Director(s)”	new Director(s) proposed to be appointed to the Board with effect from the date of Completion
“PwC”	PricewaterhouseCoopers, the auditors of the Company and the reporting accountants of Target BVI
“Reorganisation”	the reorganisation of all alumina and aluminium related operations and investments of CMN (save for CMN’s interest in Sherwin and Guangxi Huayin but including the Aluminium Trading Business) in connection with the Acquisition, further details of which are set out in the section headed “Information on the Target Group and the Group – Reorganisation” in this circular
“Restructuring Proposal”	the debt and capital restructuring proposal in relation to the Group, further details of which are set out in the circular of the Company dated 6 November 2003
“RMB”	Renminbi, the lawful currency of the PRC
“Rothschild” or “Sponsor”	N M Rothschild & Sons (Hong Kong) Limited, a corporation licensed by the SFC to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, and the financial adviser and sponsor to the Company
“SAFE”	State Administration of Foreign Exchange
“SFC”	the Securities and Futures Commission
“SFE”	Shanghai Futures Exchange
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	ordinary share(s) of HK\$0.05 each in the capital of the Company

DEFINITIONS

“Share Option Scheme 1994”	the share option scheme adopted by the Company at the Company’s extraordinary general meeting held on 25 November 1994, the principal terms of which are summarised in paragraph B under “Share Option Schemes” in Appendix VII to this circular
“Share Option Scheme 2004”	the share option scheme adopted by the Company at the Company’s annual general meeting held on 28 May 2004, the principal terms of which are summarised in paragraph A under “Share Option Schemes” in Appendix VII to this circular
“Shareholder(s)”	holder(s) of Shares
“Sherwin”	Sherwin Alumina L.P., a company in respect of which CMN has a 51% interest and BPU Associates, LLC, an Independent Third Party, has the remaining 49% interest, and an alumina refiner with operations at City of Corpus Christi, on the Texas Gulf Coast of the United States of America
“Sino Mining Alumina”	Sino Mining Alumina Limited, a company incorporated on 21 June 1996 in the Cayman Islands with limited liability and a wholly owned subsidiary of Sino Mining International
“Sino Mining Group”	Sino Mining International and its subsidiaries
“Sino Mining International” or “SMI”	Sino Mining International Limited, a company incorporated on 14 February 1995 in the Cayman Islands with limited liability and wholly owned by Minmetals Aluminium
“Sino Mining Trading” or “SMT”	Sino Mining Trading Pty. Limited, a company incorporated on 18 December 2001 in Australia with limited liability and a wholly owned subsidiary of Sino Mining International
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers
“Target BVI”	Peak Strategic Industries Limited, a company incorporated on 12 December 2003 in the British Virgin Islands with limited liability and a wholly owned subsidiary of the Vendor

DEFINITIONS

“Target Group”	Target BVI and its subsidiaries or where the context refers to any time prior to the Reorganisation, or prior to their respective dates of incorporation, the business which their predecessors were engaged in and which was subsequently assumed by them
“Track Record Period”	the period comprising the three years ended 31 December 2004
“Unistar”	Unistar Holdings Inc., an Independent Third Party
“US\$” and “US dollars”	United States dollar(s), the lawful currency of the United States of America
“Vendor” or “Top Create Resources”	Top Create Resources Limited, a company incorporated on 22 January 2004 in the British Virgin Islands with limited liability and a wholly owned subsidiary of CMN
“WTO”	the World Trade Organisation
“YOPT”	營口鑫源金屬套管有限公司 (Yingkou Orienmet Plica Tube Company Limited), a Sino-foreign equity joint venture established under the laws of the PRC on 31 December 1993 and owned as to 51% indirectly by the Company and 49% by 中國電子進出口總公司 (China National Electronics Import and Export Corporation), an Independent Third Party
“%”	per cent.

EXCHANGE RATE CONVERSION

Solely for convenience and except as otherwise noted, this circular contains translation of RMB amounts into Hong Kong dollars at a rate of HK\$1.00 = RMB1.06.

GLOSSARY

“AIL”	《自動進口許可證》(Automatic Import Licence) issued by the Ministry of Commerce of the PRC
“alumina”	a white granular powder, finer than table salt, made from bauxite, also known, in scientific term, as aluminium oxide
“alumina refiners” or “refiners”	entities which use bauxite ore in a crushing, precipitation and calcining conversion process to produce alumina
“aluminium”	an abundant, light metal with a silvery appearance used in the manufacture of products requiring a light weight, resistance to corrosion and electrical conductivity
“aluminium fabricators” or “fabricators”	entities with production facilities which convert aluminium into plates, strips, foils, bars and tubes which can be converted further into consumer and other end products
“aluminium smelters” or “smelters”	entities with production facilities, using soderburg and, increasingly, pre-bake technology, which reduce alumina to aluminium in forms such as ingots
“CFR”	cost and freight, a term of sale whereby the seller quotes a price that includes the price of the goods and freight charges to the buyer’s destination
“CIF”	cost, insurance and freight, a term of sale whereby the seller quotes a price that includes the price of the goods, insurance and freight charges to the buyer’s destination
“dry bulk carrier”	an ocean going vessel which transports dry (i.e. not liquid or gaseous form) cargo in bulk such as alumina, coal or grain
“floury alumina”	a finer type of alumina than sandy alumina
“FOB”	free on board, a term of sale which means that the seller fulfils its obligation to deliver goods when the goods pass over the ship’s (or other mode of transport) rail at the named point of shipment after which the buyer has to bear all shipping and other costs and risks in respect of loss of, or damage to, the goods from that point

GLOSSARY

“frame contract”	a non-legally binding agreement between two parties setting out their intention to agree on the precise delivery schedule and pricing terms in the future with respect to the supply and delivery of specified goods such as a commodity
“ingot” or “aluminium ingot”	a cast form of aluminium from an aluminium smelter, meeting international specifications such as the London Metal Exchange aluminium futures contract specifications, to facilitate handling, storage, shipping, trading or smelting and fabricating
“L/C”	a letter of credit which is a document issued by a bank which guarantees the payment of a customer’s drafts for a specific period and up to a specified amount
“LIBOR”	the London interbank offered rate for deposits in US dollars
“LME (price)”	the bid and ask price per tonne being quoted or fixed on the London Metal Exchange in relation to the price of aluminium of 99.7% purity in the form of ingots, T-bars and sows for immediate or subsequent delivery
“long-term contract”	a contract for the supply and delivery of a specified type of goods such as a commodity with a term of one or more years and includes frame contracts
“physical market”	the market involving buyers and sellers in respect of immediate delivery of a particular commodity
“primary aluminium”	aluminium produced from alumina rather than from scrap aluminium
“sandy alumina”	coarse alumina with higher absorptive qualities and larger grains, which facilitates movement through the aluminium smelting process, than floury alumina, “sandy” type is preferred by newer, large scale smelters with pre-bake technology
“short-term contract”	a contract with a term of less than one year and includes frame contracts

GLOSSARY

“smelting”	the electrolytic reduction process undertaken by aluminium smelters to produce molten aluminium from alumina which is then cast into solidified forms such as ingots
“spot contract”	a contract for the delivery of a commodity against payment of the purchase price calculated by reference to the spot price of that commodity, or of a related commodity, at the time of delivery
“spot price”	the prevailing price in the physical market for a particular commodity for immediate delivery
“tolling”	a process undertaken by an owner of alumina which involves the delivery of such alumina to an aluminium smelter for processing into ingots which are then on-sold by such owner in consideration for which the aluminium smelter receives a processing fee
“tonne”	a unit of weight, one metric tonne is equal to 1,000 kilograms

EXPECTED TIMETABLE

Set out below is the expected timetable, Shareholders should note that the timetable is subject to change

2005

Announcement relating to the despatch of this circular,
the Non-exempt Continuing Connected Transactions,
the proposed changes to the Directors and the proposed change
of name of the Company to appear
in Hong Kong newspaper on Thursday, 30 June

Announcement relating to the notice of EGM to appear
in Hong Kong newspaper on Thursday, 30 June

Latest time for lodging forms of proxy for
the EGM (*Note 1*) 10:30 a.m. on Saturday, 23 July

EGM to be held at 10:30 a.m. on Monday, 25 July

Announcement of results of the EGM to appear
in Hong Kong newspaper on Tuesday, 26 July

Placing timing dependent on factors referred to
in the section headed "Effects of the Acquisition
on the Company's shareholdings structure"
in the "Letter from the Board" in this circular
but in any event no later than Completion

Expected date of Completion contemporaneously with the Placing
(or the final Placing if there are more than one)
but in any event no later than 31 December 2005

Announcement of Completion to appear
in Hong Kong newspaper on one business day after Completion

Notes:

1. In order to be valid, forms of proxy must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, by hand or by post, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not later than 48 hours before the EGM or any adjournment thereof. Completion and return of the form of proxy for the EGM will not preclude a Shareholder from attending, and voting in person at the EGM or any adjournment thereof if he so wishes. In such event, the returned form of proxy will be deemed to have been revoked.
2. All references in this circular to times and dates are references to Hong Kong times and dates.

SUMMARY

This summary aims to give you an overview of the information contained in this circular. As it is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide whether to vote for or against the resolutions to be proposed at the EGM.

THE ACQUISITION

It was announced on 30 December 2004 and 19 January 2005 that the Company (as purchaser) has entered into the Acquisition Agreement with the Vendor (as seller) and CMN (as the Vendor's guarantor and warrantor) for the acquisition of the entire interest of the Vendor in Target BVI for a consideration of HK\$2,886 million. The consideration will be satisfied in full by the allotment and issue of 1,009,090,909 Consideration Shares to the Vendor at HK\$2.86 per Consideration Share.

Completion of the Acquisition is conditional upon, among other things, (a) the approval of the Acquisition and the Non-exempt Continuing Connected Transactions arising after Completion by the Independent Shareholders at the EGM, (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares, (c) the approval of the new listing application filed by the Company on 21 January 2005, and (d) the Placing becoming unconditional (save for any conditions requiring Completion to take place).

Reasons for the Acquisition

With the Acquisition, it is the intention of China Minmetals to consolidate its alumina and aluminium operations and interests into one single platform under the Enlarged Group and that the Company will become the listed flagship company for its alumina and aluminium related business. The Directors and the Proposed Directors believe that the Acquisition provides an opportunity for the Group to widen its alumina related operation by increasing its business scale and to strengthen its alumina trading operation as its core operation.

CONNECTED TRANSACTIONS

Following Completion, CMN and other members of the Minmetals Group will continue to provide certain services to the Target Group in its operations. Some of these transactions will constitute Non-exempt Continuing Connected Transactions immediately following Completion, and are subject to the approval by the Independent Shareholders at the EGM. The Acquisition is conditional upon, among other things, the approval of the Non-exempt Continuing Connected Transactions by the Independent Shareholders. Details of the Non-exempt Continuing Connected Transactions are set out in the section headed "Relationship with the Minmetals Group – Connected transactions – Non-exempt Continuing Connected Transactions" in this circular.

SUMMARY

CHANGE OF COMPANY NAME

To better reflect the relationship of the Company with China Minmetals and to leverage on the “Minmetals” brand, it is proposed that subject to the approval of the Shareholders at the EGM and the approval of the Registrar of Companies in Hong Kong, the name of the Company be changed to “Minmetals Resources Limited (五礦資源有限公司)”.

PROPOSED RESIGNATIONS AND APPOINTMENTS OF DIRECTORS

It is proposed that one additional executive Director (namely Mr. Wang Lixin) and six additional non-executive Directors (namely Mr. Zhou Zhongshu, Dr. Zhu Guang, Ms. Shen Ling, Mr. Li Linhu, Mr. Zong Qingsheng and Mr. Zhang Shoulian) will be appointed to the Board with effect from the date of Completion. At present, none of them has any directorship or shareholding interest in any business which is considered to be in competition with those of the Enlarged Group. Further, it is proposed that Messrs. Lin Xizhong, Qian Wenchao and Tang Xiaojin will resign as Directors with effect from the date of Completion. As such, the Board will have a total of 11 Directors upon Completion, comprising (a) one existing executive Director (namely, Mr. Xu Huizhong), (b) one proposed new executive Director (namely, Mr. Wang Lixin), (c) six proposed new non-executive Directors (namely, Mr. Zhou Zhongshu, Dr. Zhu Guang, Ms. Shen Ling, Mr. Li Linhu, Mr. Zong Qingsheng and Mr. Zhang Shoulian) and (d) three existing independent non-executive Directors (namely, Mr. Liu Hongru, Mr. Chan Wai Dune and Mr. Ting Leung Huel, Stephen). All appointments of the Proposed Directors will be made in compliance with the Listing Rules. An announcement on the proposed changes to the Board has been published on 30 June 2005 in accordance with Rule 13.51 of the Listing Rules. Further details of the Proposed Directors are set out in the section headed “Directors and senior management” in this circular.

EGM

A notice convening the EGM to be held at Shek O Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 25 July 2005 at 10:30 a.m. is set out on pages 406 and 407 of this circular for the purpose of considering and, if thought fit, passing, the resolutions in respect of (a) the Acquisition and the Non-exempt Continuing Connected Transaction and (b) the change of the Company’s name to “Minmetals Resources Limited (五礦資源有限公司)”.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company’s share registrar, Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event, not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

SUMMARY

ADVICE AND RECOMMENDATION

The Independent Board Committee, having considered the terms of the Acquisition Agreement (including the issue of the Consideration Shares) and the transactions contemplated thereunder, including but not limited to the Non-exempt Continuing Connected Transactions, believe that the entry into of the Acquisition Agreement and the transactions contemplated thereunder to be in the interest of the Company as well as the Shareholders taken as a whole. The Independent Board Committee has also considered the factors and analysis set out in the letter from Somerley on pages 41 to 82 of this circular and considers the terms of the Acquisition (including the issue of the Consideration Shares) and the Non-exempt Continuing Connected Transactions to be fair and reasonable and are in the interest of the Company so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve and give effect to the Acquisition and the Non-exempt Continuing Connected Transactions at the EGM. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolution to be put forward at the EGM for approving the Acquisition and the Non-exempt Continuing Connected Transactions. The letter from the Independent Board Committee is set out on page 40 of this circular. The Directors also consider the change of the Company's name to be in the interest of the Company and recommend that the Shareholders should vote in favour of the special resolution to be put forward at the EGM for approving the change of the Company's name to "Minmetals Resources Limited (五礦資源有限公司)".

RISK FACTORS

The Directors and the Proposed Directors consider that the business of the Enlarged Group is subject to certain risks, which can be summarised as follows:

Risks relating to the business of the Target Group

- Government involvement in the PRC aluminium industry may remain substantial
- China's accession to the WTO has increased competition for the Target Group from its international competitors
- The Target Group's business and results of operations are susceptible to volatility in alumina and aluminium prices and economic cyclicality
- Dependence on Alcoa
- The Target Group is dependent on relatively few suppliers of alumina and the nature of the Target Group's business involves risks that may impact on its operations
- High reliance on spot contracts and short-term sales contracts
- Net current liabilities

SUMMARY

Risks relating to the business of the Group

- Expiry of the Pechiney Contract
- Absence of good title to a property occupied by the Group in the PRC

Risks relating to the business of the Enlarged Group

- Dependence on CMN and China Minmetals
- The Enlarged Group's limited operating history could affect operating efficiency in the short term
- The interests of China Minmetals, which is the ultimate controlling Shareholder, may differ from those of the public Shareholders
- The Company may not be able to declare and pay any dividends until its accumulated losses are eliminated
- Part of the Enlarged Group's strategy involves execution risks
- High gearing

Risks relating to the PRC in general

- PRC economic, political and social conditions as well as government policies could affect the Enlarged Group's business
- The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available
- Devaluation or appreciation in the value of RMB could adversely affect the Enlarged Group's operating results

Risk relating to the Acquisition

- The Acquisition may not be completed
- Substantial dilution of the existing public Shareholders' interest in the Company as a result of the Acquisition

SUMMARY

FINANCIAL INFORMATION

The following is a summary of the results of the Target Group for the Track Record Period and the unaudited pro forma results of the Enlarged Group for the year ended 31 December 2004. This summary should be read in conjunction with the accountants' report set out in Appendix I to this circular and the unaudited pro forma financial information of the Enlarged Group in Appendix III to this circular.

(a) Results of the Target Group

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover	1,745,228	5,162,040	7,335,872
Cost of sales	(1,462,819)	(4,572,903)	(6,538,660)
Gross profit	282,409	589,137	797,212
Other revenues	2,650	2,962	7,068
Selling expenses	(47,508)	(88,414)	(81,969)
Administrative expenses	(43,120)	(36,901)	(46,302)
Other operating income	952	6	–
Other operating expenses	(34)	(568)	(5,781)
Gain on disposal of an associated company	32,371	–	–
Gain on disposal of investment securities	–	4,196	–
Profit from operation	227,720	470,418	670,228
Finance costs	(96,708)	(77,325)	(69,923)
Share of result of associated company	12,771	–	1,597
Profit before taxation	143,783	393,093	601,902
Taxation	(20,291)	(117,810)	(185,784)
Profit after taxation	123,492	275,283	416,118
Minority interests	(61,492)	(12,441)	(20,116)
Profit for the year	62,000	262,842	396,002

SUMMARY

(b) Unaudited pro forma results of the Enlarged Group

	Year ended 31 December 2004 <i>HK\$'000</i>
Turnover	8,029,357
Cost of sales	<u>(7,132,480)</u>
Gross profit	896,877
Other revenues	12,192
Selling expenses	(118,941)
Administrative expenses	(109,461)
Reversal of consolidated losses upon deconsolidation of subsidiaries	97,350
Other operating income	59,168
Amortisation of goodwill from the Acquisition	<u>(69,236)</u>
Profit from operations	767,949
Finance costs	(82,225)
Share of profits less losses of associated companies	<u>11,775</u>
Profit before taxation	697,499
Taxation	<u>(186,576)</u>
Profit after taxation	510,923
Minority interests	<u>(35,630)</u>
Profit for the year	<u><u>475,293</u></u>
Basic earnings per Share	<u><u>HK\$0.29</u></u>

DIRECTORS

EXECUTIVE DIRECTORS

Name	Address	Nationality
LIN Xizhong (<i>Chairman</i>) (<i>Note</i>)	Flat B, 20th Floor Primrose Mansion Taikoo Shing Hong Kong	Chinese
XU Huizhong	Flat G, 27th Floor Pak Hoi Mansion Taikoo Shing Hong Kong	Chinese
QIAN Wenchao (<i>Note</i>)	Flat G, 23rd Floor Pak Hoi Mansion Taikoo Shing Hong Kong	Chinese
TANG Xiaojin (<i>Note</i>)	Flat F, 9th Floor Tung Hoi Mansion Taikoo Shing Hong Kong	Chinese

INDEPENDENT NON-EXECUTIVE DIRECTORS

Name	Address	Nationality
LIU Hongru	Room 501-502 Block 2, Building 16 Donghuashi Beili Xiqu Chongwen District Beijing 100062 The PRC	Chinese
CHAN Wai Dune	Flat A, 9th Floor Hamilton Court 8 Po Shan Road Hong Kong	Chinese
TING Leung Huel, Stephen	Flat H, 42nd Floor, Tower 3 Queen's Terrace 1 Queen Street Hong Kong	British

Note: It is proposed that Messrs. Lin Xizhong, Qian Wenchao and Tang Xiaojin will resign as Directors with effect from the date of Completion.

DIRECTORS

PROPOSED EXECUTIVE DIRECTOR

The following Director is proposed to be appointed to the Board as executive Director with effect from the date of Completion:

Name	Address	Nationality
WANG Lixin (<i>Note</i>)	Suite 302, Building 30 Zhanlanguan Road Xicheng District Beijing The PRC	Chinese

PROPOSED NON-EXECUTIVE DIRECTORS

The following Directors are proposed to be appointed to the Board as non-executive Directors with effect from the date of Completion:

Name	Address	Nationality
ZHOU Zhongshu	Suite 17E, Building 15 Guanchengyuan Haidian District Beijing The PRC	Chinese
ZHU Guang	Suite 9B, Building 10 Guanchengyuan Haidian District Beijing The PRC	Chinese
SHEN Ling	Suite 17B, Building 10 Guanchengyuan Haidian District Beijing The PRC	Chinese
LI Linhu	Suite 15-2-3 Donghuashi Beili Chongwen District Beijing The PRC	Chinese
ZONG Qingsheng	Suite 4 411, Building 4 23 Xisanhuan North Road Haidian District Beijing The PRC	Chinese
ZHANG Shoulian	403, 804 Building Zhongguancun Haidian District Beijing The PRC	Chinese

Note: Mr. Wang Lixin will be transferred to base in Hong Kong when his appointment becomes effective, and an application has been made for the issue of the requisite working permit for Mr. Wang Lixin to stay in Hong Kong.

PARTIES INVOLVED

Financial adviser and sponsor to the Company	N M Rothschild & Sons (Hong Kong) Limited 16th Floor Alexandra House 16-20 Chater Road Central Hong Kong
Independent financial adviser to the Independent Board Committee and the Independent Shareholders	Somerley Limited Suite 2201, 22nd Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Legal advisers to the Company	<i>As to Hong Kong law:</i> Deacons 5th Floor Alexandra House 16-20 Chater Road Central Hong Kong <i>As to PRC law:</i> King and Wood 31st Floor, Tower A, Jianwai SOHO 39 Dongsanhuan Zhonglu Chaoyang District Beijing 100022 The PRC
Legal advisers to the financial adviser and sponsor to the Company	Sidley Austin Brown & Wood 39th Floor Two International Finance Centre 8 Finance Street Central Hong Kong
Auditors of the Company and reporting accountants of Target BVI	PricewaterhouseCoopers 22nd Floor, Prince's Building Central Hong Kong
Property valuer of the Company	CB Richard Ellis Limited Suite 3401, Central Plaza 18 Harbour Road Wanchai Hong Kong

CORPORATE INFORMATION

Registered office and principal place of business	9th Floor China Minmetals Tower 79 Chatham Road South Tsimshatsui Kowloon Hong Kong
Company secretary	LEUNG Suet Kam, Lucia, <i>ACS and ACIS</i>
Qualified accountant	CHU Charn Fai, Daniel, <i>FCCA, CPA</i>
Authorised representatives	XU Huizhong Flat G, 27th Floor Pak Hoi Mansion Taikoo Shing Hong Kong LEUNG Suet Kam, Lucia Flat 5, 26th Floor, Block R Sunshine City Ma On Shan New Territories Hong Kong
Audit committee	CHAN Wai Dune (<i>Chairman</i>) LIU Hongru TING Leung Huel, Stephen
Share registrar and transfer office	Computershare Hong Kong Investor Services Limited 17th Floor, Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Principal bankers	CITIC Ka Wah Bank Limited Standard Bank Plc

LETTER FROM THE BOARD



ORIENTAL METALS (HOLDINGS) COMPANY LIMITED

東方鑫源（集團）有限公司

(Incorporated in Hong Kong with limited liability)

Executive Directors:

LIN Xizhong (*Chairman*)

XU Huizhong

QIAN Wenchao

TANG Xiaojin

*Principal place of business
and registered office:*

9th Floor

China Minmetals Tower

79 Chatham Road South

Tsimshatsui

Kowloon

Hong Kong

Independent Non-Executive Directors:

LIU Hongru

CHAN Wai Dune

TING Leung Huel, Stephen

30 June 2005

To the Shareholders

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION,
CONNECTED TRANSACTION AND REVERSE TAKEOVER
INVOLVING A NEW LISTING APPLICATION,
CONTINUING CONNECTED TRANSACTIONS
AND CHANGE OF COMPANY NAME**

INTRODUCTION

It was announced on 30 December 2004 and 19 January 2005 that the Company (as purchaser) has entered into the Acquisition Agreement with the Vendor (as seller) and CMN (as the Vendor's guarantor and warrantor) for the acquisition of the entire interest of the Vendor in Target BVI for a consideration of HK\$2,886 million. The consideration will be satisfied in full by the allotment and issue of 1,009,090,909 Consideration Shares to the Vendor at HK\$2.86 per Consideration Share. Reference was also made to the announcement of the Company published on 30 June 2005 on, among other things, the proposed change of the Company's name to "Minmetals Resources Limited (五礦資源有限公司)".

Completion of the Acquisition is conditional upon, among other things, (a) the approval of the Acquisition and the Non-exempt Continuing Connected Transactions arising after Completion by the Independent Shareholders at the EGM, (b) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration

LETTER FROM THE BOARD

Shares, (c) the approval of the new listing application filed by the Company on 21 January 2005, and (d) the Placing becoming unconditional (save for any conditions requiring the Completion to take place).

The purpose of this circular is to provide the Shareholders with further information about the Acquisition Agreement and the transactions contemplated thereunder, to give notice to the Shareholders of the EGM at which resolutions will be proposed to approve (a) the Acquisition and the Non-exempt Continuing Connected Transactions and (b) the proposed change of the Company's name, and to provide additional information on the Enlarged Group as required under the Listing Rules in support of the new listing application filed by the Company on 21 January 2005. The Listing Committee of the Stock Exchange has given in-principle approval of the new listing application of the Company.

THE ACQUISITION AGREEMENT DATED 30 DECEMBER 2004

Parties:

1. The Company (as purchaser);
2. The Vendor (as seller), a subsidiary of CMN; and
3. CMN (as the Vendor's guarantor and warrantor), a subsidiary of China Minmetals.

Assets involved:

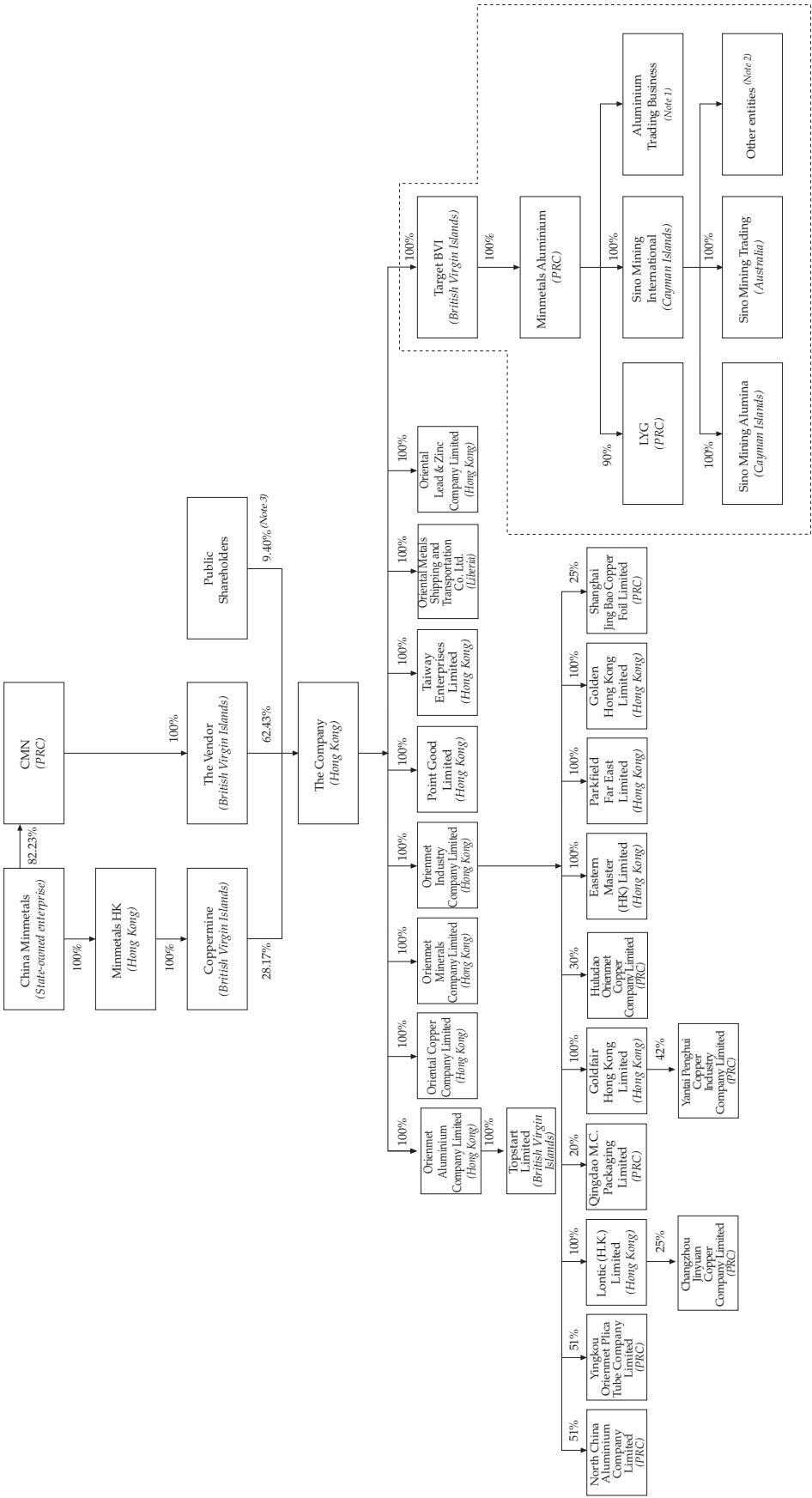
The entire issued share capital of Target BVI. Target BVI was established to become the holding company of the Target Group which is principally engaged in sourcing alumina in the international markets and supplying such alumina to aluminium smelters in China. Upon Completion, Target BVI will become a wholly owned subsidiary of the Company. Further details of the Target Group are set out in the section headed "Information on the Target Group and the Group" in this circular.

The charts below set out the simplified shareholding and corporate structure of the Group, the Target Group and their respective associated companies immediately before and after Completion.

After completion of the Reorganisation and immediately before Completion



Immediately after Completion on the basis that the Placing does not take place



LETTER FROM THE BOARD

Notes:

1. This represents the alumina and aluminium ingot trading business of CMN transferred to Minmetals Aluminum pursuant to the Reorganisation and no separate legal entity has been established.
2. Such other entities relate to a 100% interest in Sino Mining Australia Pty Ltd and a 40% interest in Sino Nickel Pty Ltd. The remaining 60% interest in Sino Nickel Pty Ltd is held by Jinchuan Group Ltd, an Independent Third Party. The principal business of Sino Mining Australia Pty Ltd is to provide administrative support services to the Sino Mining Group. Sino Nickel Pty Ltd is primarily involved in sourcing mineral resources, especially nickel and copper, from Australia for exportation to the China market.
3. For the purpose of illustration in this chart, it is assumed that the Placing does not take place.



Denotes the Target Group

Consideration:

The consideration for the Acquisition of HK\$2,886 million will be satisfied in full by the allotment and issue of 1,009,090,909 Consideration Shares to the Vendor at HK\$2.86 per Consideration Share, representing about 166.1% of the existing issued share capital of the Company as at the Latest Practicable Date and about 62.4% of the enlarged issued share capital of the Company immediately after Completion (assuming that there will be no change in the Company's issued share capital from the Latest Practicable Date to the date of Completion save for the issue of the Consideration Shares). The Consideration Shares shall be issued as fully paid and shall rank the same in all respect with the Shares in issue as at the date of Completion.

The consideration for the Acquisition has been arrived at after arms' length negotiations among the parties and with reference to various factors including, but not limited to, the financial results of the Target Group, the earnings potential of the Target Group, the Target Group's potential synergies with the Group, the future capital investment needs and the general market conditions.

The consideration for the Acquisition represents approximately 7.7 times the audited net profit of the Target Group of about RMB396.0 million (equivalent to approximately HK\$373.6 million) for the year ended 31 December 2004 and the issue price of HK\$2.86 per Consideration Share represents:

- (a) a discount of about 5.5% to the closing price per Share of HK\$3.025 as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of about 3.9% to the closing price per Share of HK\$2.975 as quoted on the Stock Exchange on 30 December 2004, being the date of the Acquisition Agreement;
- (c) a discount of about 4.0% to the 10-day average closing price per Share of about HK\$2.98 as quoted on the Stock Exchange for the period from 16 December 2004 to 30 December 2004;

LETTER FROM THE BOARD

- (d) a discount of about 4.0% to the one-month average closing price per Share of about HK\$2.98 as quoted on the Stock Exchange for the period from 1 December 2004 to 30 December 2004; and
- (e) a discount of about 1.4% to the three-month average closing price per Share of about HK\$2.90 as quoted on the Stock Exchange for the period from 1 October 2004 to 30 December 2004.

Conditions:

Completion is conditional upon the fulfillment of the following Conditions on or before 31 December 2005, or such later date as may be agreed among the parties to the Acquisition Agreement:

- (a) all governmental and regulatory approvals and permissions required in the PRC or elsewhere to give effect to the transactions contemplated under the Acquisition Agreement having been obtained;
- (b) the Reorganisation having been duly completed, including but not limited to all governmental and regulatory approvals and permissions required in the PRC or elsewhere to give effect to the completion of the Reorganisation (including without limitation the issue of a certificate of approval for foreign investment enterprise to Minmetals Aluminium and the change of the registration of Minmetals Aluminium from a PRC domestic enterprise to a wholly owned foreign enterprise owned by Target BVI) having been obtained;
- (c) the issue or granting by the Executive to the Vendor (and all persons with which it is or is deemed to be acting in concert) of the Confirmation (either unconditionally or subject to such conditions as the Vendor may reasonably agree);
- (d) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Consideration Shares and approving the new listing application to be filed by the Company as a result of the Acquisition;
- (e) the Independent Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder including without limitation the allotment and issue of the Consideration Shares and the Non-exempt Continuing Connected Transactions;
- (f) the current listing of the Shares not having been withdrawn or cancelled and the Shares being continuously traded on the Stock Exchange (save for any suspension of dealings for not more than 10 full consecutive trading days of the Stock Exchange (or such longer period as the Vendor may otherwise agree) and any suspension of dealing pending the issue

LETTER FROM THE BOARD

of the formal announcement of the transactions contemplated under the Acquisition Agreement) and the Stock Exchange and/or the SFC not having indicated that such listing is likely to be withdrawn or cancelled (or any conditions being attached thereto other than such conditions as are acceptable to the Vendor acting reasonably) as a result of Completion;

- (g) the result of the due diligence exercise carried out by the Company on the assets, liabilities, business and prospects of the Target Group being satisfactory to the Company and the Company being satisfied that the warranties given by CMN in the Acquisition Agreement are complete, accurate and true;
- (h) the PRC Legal Opinions and such other legal opinions as all parties may agree having been duly issued to the Company; and
- (i) appropriate arrangements in relation to the Placing having been made to the satisfaction of the Vendor and the Company to ensure that not less than 25% of the issued Shares will be held in public hands upon Completion and such Placing becoming unconditional in all respects (save for any conditions requiring the Completion to take place).

In the event that Condition(s) (g) and (h) are waived in whole or in part by the Company, an announcement will be made by the Company which will set out the reason for granting such waiver. **Shareholders should note that since Completion is subject to the fulfillment of a number of Conditions, the Acquisition may or may not be completed.**

The Acquisition was approved by the CSRC on 2 December 2004, and conditions (a) to (c) have been satisfied as at the Latest Practicable Date.

Completion:

It is expected that the Acquisition will be completed upon all the Conditions shall be fulfilled, or (in the case of Condition(s) (g) and (h) above) waived in whole or in part by the Company, or (in the case of Condition (f) above) waived in whole or in part by the Vendor. If the Conditions are not fulfilled, or (in the case of Conditions (g) and (h) above) waived in whole or in part by the Company, or (in the case of condition (f) above) waived in whole or in part by the Vendor, on or before 31 December 2005 (or such later date as may be agreed among the parties to the Acquisition Agreement), the Acquisition will lapse and the parties to the Acquisition Agreement shall be released from all their obligations thereunder without liability (without prejudice to the rights of any such parties in respect of antecedent breaches).

It is a term of the Acquisition Agreement that CMN will execute a deed of indemnity to provide tax indemnities in favour of the Company (including its subsidiaries) up to a limit as provided in the deed upon Completion.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group suffered from difficulties in repayment of certain bank loans since 1998 until the successful completion of its debt and capital restructuring with support from China Minmetals in January 2004, further details of which were set out in the joint announcement dated 16 October 2003 made by the Company, Minmetals HK and Coppermine and the circular of the Company dated 6 November 2003. China Minmetals is a large conglomerate with a history of more than 50 years and is one of the major importers and exporters of steel, non-ferrous metals and mineral products, including alumina, in the PRC. On completion of the debt and capital restructuring of the Company in January 2004, China Minmetals became the ultimate controlling Shareholder and has been reviewing the operations of the Group with a view to rationalising the competing businesses between the Minmetals Group and the Group.

With the Acquisition, it is the intention of China Minmetals to consolidate its alumina and aluminium operations and interests into one single platform under the Enlarged Group and that the Company will become the listed flagship company for its alumina and aluminium related business. Such consolidation will also prevent possible conflict arising from any business competition between the two groups in the future. In this connection, China Minmetals has also executed the Non-competition Agreement in favour of the Company which shall become effective upon Completion (please refer to the section headed “Relationship with the Minmetals Group – Non-competition Agreement” in this circular for further details).

The Directors and the Proposed Directors believe that the Acquisition provides an opportunity for the Group to widen its alumina related operation by increasing its business scale and to strengthen its alumina trading operation as its core operation. According to the Antaike Report 2005, the Target Group was the largest supplier of overseas sourced alumina into the China market for the year 2004. The Directors and the Proposed Directors believe that the Enlarged Group would be able to leverage on the “Minmetals” brand and the solid operating platform and expertise of the Target Group to become the flagship company of the Minmetals Group’s alumina and aluminium related business. The Group’s experience in other non-ferrous metals operations and the Group’s investments in industrial projects will continue to provide a solid base for the Enlarged Group to expand and further diversify its operations, both vertically into upstream international alumina production and downstream aluminium smelting and fabrication businesses, and horizontally into other non-ferrous metals business.

It is expected that the Company will be able to build on the strengths of the Enlarged Group to pursue opportunities to enhance the results of its operations.

LETTER FROM THE BOARD

EFFECTS OF THE ACQUISITION ON THE COMPANY'S SHAREHOLDINGS STRUCTURE

On the basis that the Consideration Shares will be issued to the Vendor and that the Placing does not take place, China Minmetals will, by virtue of its interest in Coppermine and the Vendor, be interested in a total of about 90.60% of the issued Shares (assuming further that there will be no change in (a) the issued share capital of the Company (save for the issue of the Consideration Shares) and (b) the shareholding of Coppermine in the Company from the Latest Practicable Date to Completion).

It is the intention of China Minmetals that the listing of the Company be maintained on the Stock Exchange and appropriate arrangements for the Placing will be made to ensure that not less than 25% of the issued Shares will be held in public hands upon Completion. As mentioned above, the Acquisition is conditional on, among other things, the Placing becoming unconditional in all respects (save for any conditions requiring the Completion to take place). It is currently expected that the Placing will be completed latest upon Completion.

A placing agent (the "Placing Agent") for the Placing has been appointed. The Company, Coppermine and the Vendor are currently discussing with the Placing Agent the possible structure of the Placing which may comprise placing(s) of (a) existing Shares only, or (b) new Shares only, or (c) a combination of existing and new Shares as further discussed below:

- (a) if only existing Shares are placed, it is envisaged that Coppermine will sell at least 252,137,436 existing Shares to maintain at least 25% of the issued Shares in public hands upon Completion. Such existing Shares to be placed will constitute approximately 15.6% of the total issued share capital of the Company immediately after completion of the Acquisition and the Placing; or
- (b) if only new Shares are placed, it is envisaged that the Company will issue at least 336,183,247 new Shares to maintain at least 25% of the issued Shares in public hands upon Completion. Such new Shares will constitute approximately 17.2% of the issued share capital of the Company immediately after completion of the Acquisition and the Placing; or
- (c) if a combination of new and existing Shares are placed and depending on the proportion of the existing and new Shares to be placed, up to 252,137,436 existing Shares and up to 336,183,247 new Shares will be sold to maintain at least 25% of the issued Shares in public hands upon Completion.

The Placing will be subject to a number of considerations, including the prevailing market conditions, the prevailing market price of the Shares and investor demand for the Shares at the relevant time and will be conducted in full compliance with all applicable provisions of the Listing Rules. Further announcement(s) about the Placing will be made as and when appropriate.

LETTER FROM THE BOARD

Set out below is a table showing, for illustrative purpose, the shareholding structure of the Company before and after the Acquisition and the Placing, assuming that the Placing is by way of (a) existing Shares only and (b) new Shares only and that 25% of the issued Shares will be held in public hands.

Shareholders	Existing shareholding as at the Latest Practicable Date		Shareholding structure after the Acquisition on the basis that the Placing does not take place		Shareholding structure after the Acquisition and the Placing (assuming by way of existing Shares only)		Shareholding structure after the Acquisition and the Placing (assuming by way of new Shares only)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%	Number of Shares	%
Coppermine and the Vendor	455,376,917	74.98	1,464,467,826	90.60	1,212,330,390	75.00	1,464,467,826	75.00
Public Shareholders	151,972,695	25.02	151,972,695	9.40	404,110,131	25.00	488,155,942	25.00
	<u>607,349,612</u>	<u>100.00</u>	<u>1,616,440,521</u>	<u>100.00</u>	<u>1,616,440,521</u>	<u>100.00</u>	<u>1,952,623,768</u>	<u>100.00</u>

No part of the share or loan capital of the Company is listed on or dealt in on any stock exchange except for the Stock Exchange.

Subject to the granting of listing of, and permission to deal in, the Consideration Shares on the Stock Exchange, the Consideration Shares will be accepted as eligible securities by Hong Kong Securities Clearing Company Limited for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the Shares or such other date as determined by Hong Kong Securities Clearing Company Limited. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Waiver from strict compliance with the requirements of Rule 10.07(1) of the Listing Rules

Pursuant to Rule 10.07(1) of the Listing Rules, in the period commencing on the date of the listing document and ending on the date which is six months from the date on which dealings in the securities of a new applicant commence on the Stock Exchange, a controlling shareholder is prohibited from disposing (whether directly or indirectly) of or entering into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the securities of the relevant company in respect of which he is or they are shown by that listing document to be the beneficial owner.

As Coppermine, being a controlling Shareholder, is subject to the restriction under Rule 10.07(1) of the Listing Rules and will be prohibited from disposing of its Shares pursuant to the Placing, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rule 10.07(1) of the Listing Rules in respect of the existing Shares that may be placed by Coppermine prior to Completion pursuant to the Placing so that the Company will have a public float of not less than 25% upon Completion.

LETTER FROM THE BOARD

PRO FORMA FINANCIAL EFFECTS OF THE ACQUISITION ON THE GROUP

Following Completion, Target BVI will become a wholly owned subsidiary of the Company and its results will be consolidated into the financial statements of the Company.

The following table sets out, for illustrative purposes only, the key financials of the Group and the unaudited pro forma financials of the Enlarged Group for the year ended 31 December 2004 and as 31 December 2004 assuming the Acquisition had taken place on 1 January 2004 and 31 December 2004, for the unaudited pro forma consolidated profit and loss accounts and the unaudited pro forma consolidated balance sheet of the Enlarged Group, respectively, as extracted from Appendix III to this circular:

For the financial year ended 31 December 2004:

	Group	Enlarged Group	% change
Turnover (HK\$'000)	1,288,485	8,029,357	+523.2%
Net profit (HK\$'000)	217,726	475,293	+118.3%
Basic earnings per share (HK\$)	0.37	0.29	-21.6%

As at 31 December 2004:

	Group	Enlarged Group	% change
Net asset value (HK\$'000)	422,005	3,308,005	+683.9%
Net tangible asset value (HK\$'000)	422,005	1,927,545	+356.8%
Net debt ² to equity ratio (%)	29.0%	24.6%	-15.2%

Notes:

1. The above should be read in conjunction with the assumptions set out in Appendix III to this circular.
2. Net debt is defined as total interest bearing borrowings less cash and cash equivalent (including pledged bank deposits).

FUTURE PLANS AND STRATEGIES

The Directors and the Proposed Directors believe that the Acquisition provides an opportunity to the Enlarged Group to widen its alumina related operation by increasing its business scale and leveraging on the "Minmetals" brand and become the flagship of the Minmetals Group's alumina and aluminium related business. To achieve this goal, the Enlarged Group plans to build on the competitive strengths of the Target Group and to

LETTER FROM THE BOARD

pursue opportunities to enhance the results of its operations by adopting and implementing the following strategies and action plans:

- ***Leverage on existing market position to achieve further vertical integration and enter into more long-term contracts.*** The Enlarged Group intends to acquire or invest in alumina refineries both domestically and overseas, as well as enter into long-term alumina sourcing contracts by making advance payment i.e. similar to the investment model for the Alcoa Contract, to secure a more stable and long-term source of alumina supply. CMN currently has a 51% investment in Sherwin and a 33% investment in Guangxi Huayin. Sherwin is engaged in alumina refinery. Guangxi Huayin is still in a development stage and is formed to establish an alumina project with a planned annual production capacity of 1.6 million tonnes and to explore for bauxite in the Guixi region of the PRC. Conditional upon Completion, China Minmetals has pursuant to the Non-competition Agreement, also undertaken to procure CMN to sell both of these alumina refinery investment interest to the Enlarged Group within three years from 31 December 2004 on normal commercial terms (for details, please refer to the section headed “Relationship with the Minmetals Group – Non-competition Agreement” of this circular). The Enlarged Group also intends to make investments in aluminium smelters and to expand into the aluminium fabrication business, both within and outside of the PRC, with the intention of developing a more integrated value chain and business model. However, no such investments (other than the interests in Sherwin and Guangxi Huayin) have been identified as at the Latest Practicable Date.
- ***Expand its existing businesses.*** The Enlarged Group intends to build on the extensive customers network of the Target Group in the PRC by improving its marketing capabilities with a client centred approach that will further align its interests with that of its customers. The Enlarged Group also intends to develop new markets, both internationally and domestically, and seek to increase its long-term sourcing and sales contracts for alumina by forming strategic alliances with international and domestic resources companies and is still locating suitable targets for this purpose. At the same time, the Directors and the Proposed Directors believe that the management experience and industry expertise of the Target Group will enable the Enlarged Group to strike the delicate balance between the stability provided by long-term contracts and the flexibility provided by spot contracts. The Directors and the Proposed Directors believe that the aforementioned action plans, together with the current operating platform provided by the Target Group and the Group, will enable the Enlarged Group to maintain at least a 30% market share of the PRC imported alumina market following Completion.
- ***Diversify into other non-ferrous metals.*** In the long-term, the Enlarged Group intends to utilise its expertise and experience in the aluminium related business and existing experience in other non-ferrous metals operation to diversify into producing, sourcing and distribution of other non-ferrous metals. The Directors and the Proposed Directors believe that the Group’s past experience in the other non-ferrous metals would assist the Enlarged Group in better formulating its diversification into the other non-ferrous metals operations.

LETTER FROM THE BOARD

PROPOSED RESIGNATION AND APPOINTMENT OF DIRECTORS

It is proposed that seven additional Directors, namely Mr. Zhou Zhongshu, Dr. Zhu Guang, Ms. Shen Ling, Mr. Li Linhu, Mr. Zong Qingsheng, Mr. Zhang Shoulian, and Mr. Wang Lixin will be appointed to the Board with effect from the date of Completion. At present, none of them has any directorship or shareholding interest in any business which is considered to be in competition with those of the Enlarged Group. Further, it is proposed that Messrs. Lin Xizhong, Qian Wenchao and Tang Xiaojin will resign as Directors with effect from the date of Completion. As such, the Board will have a total of 11 Directors upon Completion, comprising two executive Directors, six non-executive Directors and three independent non-executive Directors. All appointments of the Proposed Directors will be made in compliance with the Listing Rules. Further details of the Proposed Directors are set out in the section headed “Directors and senior management” in this circular.

IMPLICATIONS OF THE TAKEOVERS CODE

The Vendor is a subsidiary of CMN which in turn is an approximately 82.23% owned subsidiary of China Minmetals, the ultimate controlling Shareholder which has an indirect holding of about 74.98% of the existing issued share capital of the Company as at the Latest Practicable Date. Since China Minmetals is the ultimate holding company of both the Vendor and the Company, there will not be any change in the ultimate control of the Company as a result of the Acquisition and the Vendor has applied for and has on 31 December 2004, received the Confirmation from the Executive that neither the Vendor nor parties acting in concert with it will be required to make a general offer for all the Shares in issue not owned by or agreed to be acquired by them as a result of the Acquisition under the Takeovers Code.

RELEVANT LISTING RULES REQUIREMENTS

As mentioned above, the Vendor is a subsidiary of China Minmetals. Accordingly, the Acquisition constitutes a very substantial acquisition and a connected transaction of the Company under Chapters 14 and 14A of the Listing Rules and is therefore subject to the approval of the Independent Shareholders at the EGM. Although there is no change in the ultimate control of the Company as a result of the Acquisition, less than 24 months have elapsed since China Minmetals became the ultimate controlling Shareholder. As such, the Acquisition also constitutes a reverse takeover of the Company under Chapter 14 of the Listing Rules and the Company will be treated as a new listing applicant if the Acquisition proceeds. The Company has on 21 January 2005 filed the new listing application and the Listing Committee of the Stock Exchange has given in-principle approval of the new listing application of the Company.

Following Completion, CMN and other members of the Minmetals Group will continue to serve the Enlarged Group in its operations. Some of these transactions will constitute Non-exempt Continuing Connected Transactions immediately following Completion, and are subject to the approval of the Independent Shareholders at the EGM. Details of the Non-exempt continuing Connected Transactions are set out in the section headed “Relationship with the Minmetals Group – Connected transactions – Non-exempt Continuing Connected Transactions” in this circular.

LETTER FROM THE BOARD

If the Placing does not take place, China Minmetals will by virtue of its interest in Coppermine and the Vendor, be interested in a total of about 90.60% of the issued share capital of the Company. It is the intention of China Minmetals that the listing of the Company be maintained on the Stock Exchange and appropriate arrangements for the Placing will be made to ensure that not less than 25% of the issued Shares will be held in public hands upon Completion. In such event, the Company will make appropriate announcement(s) as and when appropriate. The Acquisition is conditional upon, among other things, (a) the approval of the Acquisition and the Non-exempt Continuing Connected Transactions by the Independent Shareholders at the EGM, and (b) the Placing becoming unconditional (save for any conditions requiring the Completion to take place). Voting at the EGM will be conducted by poll. Coppermine, the controlling Shareholder holding about 74.98% of the existing issued share capital of the Company as at the Latest Practicable Date, and its Associates will abstain from voting on the ordinary resolution relating to the Acquisition and the Non-exempt Continuing Connected Transactions at the EGM. It is currently expected that the Placing will be completed latest upon Completion.

If the public float falls below 25% of the issued Shares as required under Rule 8.08 of the Listing Rules, the Stock Exchange will consider exercising its discretion to suspend trading in the Shares until the minimum public float is attained. The Stock Exchange has also stated that it will closely monitor the trading in the Shares on the Stock Exchange. If the Stock Exchange believes that:

- (a) a false market exists or may exist in the trading of the Shares; or**
- (b) there are too few Shares in public hands to maintain an orderly market,**

it will consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained.

Waiver from strict compliance with the requirements of Rule 10.07(1) of the Listing Rules

Pursuant to Rule 10.07(1) of the Listing Rules, in the period commencing on the date of the listing document and ending on the date which is six months from the date on which dealings in the securities of a new applicant commence on the Stock Exchange, a controlling shareholder is prohibited from disposing (whether directly or indirectly) of or entering into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the securities of the relevant company in respect of which he is or they are shown by that listing document to be the beneficial owner.

As Coppermine, being a controlling Shareholder, is subject to the restriction under Rule 10.07(1) of the Listing Rules and will be prohibited from disposing of its Shares pursuant to the Placing, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted to the Company, a waiver from strict compliance with Rule 10.07(1) of the Listing Rules in respect of the existing Shares that may be placed by Coppermine prior to Completion pursuant to the Placing so that the Company will have a public float of not less than 25% upon Completion.

LETTER FROM THE BOARD

CHANGE OF COMPANY NAME

To better reflect the relationship of the Company with China Minmetals and to leverage on the “Minmetals” brand, it is proposed that subject to the approval of the Shareholders at the EGM and the approval of the Registrar of Companies in Hong Kong, the name of the Company be changed to “Minmetals Resources Limited (五礦資源有限公司)”. Subject to the passing of the special resolution for the change of name of the Company, the Company will carry out the necessary filing procedures with the Registrar of Companies in Hong Kong and obtain a Certificate of Incorporation on Change of Name of the Company from the Registrar of Companies in Hong Kong as soon as practicable.

Save as mentioned above, the change of the Company’s name will not be subject to any condition. The change of name of the Company will not affect any of the rights of any Shareholders. All existing Share certificates in issue bearing the present name of the Company will after the change of name continue to be evidence of title to the Shares and will be valid for trading, settlement and delivery for the same number of Shares in the new name of the Company. There will not be any arrangements for free exchange of existing Share certificates for new Share certificate under the Company’s new name. Once the change of name has become effective, any issue of Share certificates of the Company will be in the new name of the Company. A further announcement will be made when the change of name of the Company has become effective and unconditional.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Shek O Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong at 10:30 a.m. on Monday, 25 July 2005 is set out on pages 406 and 407 of this circular for the purpose of considering and, if thought fit, passing the resolutions in respect (a) of the Acquisition and the Non-exempt Continuing Connected Transactions and (b) the proposed change of the Company’s name to “Minmetals Resources Limited (五礦資源有限公司)”.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company’s share registrar, Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong as soon as possible and in any event, not later than 48 hours before the time appointed for holding such meeting or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

LETTER FROM THE BOARD

ADVICE AND RECOMMENDATION

The Independent Board Committee, having considered the terms of the Acquisition Agreement (including the issue of the Consideration Shares) and the transactions contemplated thereunder, including but not limited to the Non-exempt Continuing Connected Transactions, believe that the entry into of the Acquisition Agreement and the transactions contemplated thereunder to be in the interest of the Company as well as the Shareholders taken as a whole. The Independent Board Committee has also considered the factors and analysis set out in the letter from Somerley on pages 41 to 82 of this circular and considers the terms of the Acquisition (including the issue of the Consideration Shares) and the Non-exempt Continuing Connected Transactions to be fair and reasonable and are in the interest of the Company so far as the Independent Shareholders are concerned and recommends the Independent Shareholders to vote in favour of the ordinary resolution to approve and give effect to the Acquisition and the Non-exempt Continuing Connected Transactions at the EGM. Accordingly, the Directors recommend that the Independent Shareholders should vote in favour of the ordinary resolution to be put forward at the EGM for approving the Acquisition and the Non-exempt Continuing Connected Transactions. The letter from the Independent Board Committee is set out on page 40 of this circular. The Directors also consider the change of the Company's name to be in the interest of the Company and recommend that the Shareholders should vote in favour of the special resolution to be put forward at the EGM for approving the change of the Company's name to "Minmetals Resources Limited (五礦資源有限公司)".

Yours faithfully,

By order of the board

Oriental Metals (Holdings) Company Limited

Xu Huizhong

Director and President



ORIENTAL METALS (HOLDINGS) COMPANY LIMITED

東方鑫源（集團）有限公司

(Incorporated in Hong Kong with limited liability)

30 June 2005

To the Independent Shareholders

Dear Sir/Madam,

**VERY SUBSTANTIAL ACQUISITION,
CONNECTED TRANSACTION AND REVERSE TAKEOVER
INVOLVING A NEW LISTING APPLICATION
AND
CONTINUING CONNECTED TRANSACTIONS**

We have been appointed as the Independent Board Committee to advise you in connection with the Acquisition and the Non-exempt Continuing Connected Transactions, details of which are set out in the "Letter from the Board" in the circular to the Shareholders of the Company dated 30 June 2005 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Somerley has been appointed as the independent financial adviser to consider and advise the Independent Board Committee and the Independent Shareholders on the Acquisition and the Non-exempt Continuing Connected Transactions.

Having considered the terms of the Acquisition (including the issue of the Consideration Shares) and the Non-exempt Continuing Connected Transactions and the principal factors, reasons and opinion of Somerley in relation thereto as set out on pages 41 to 82 of the Circular, we are of the opinion that the terms of the Acquisition (including the issue of the Consideration Shares) and the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of the Company as well as the Shareholders taken as a whole. We therefore recommend that you vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the Non-exempt Continuing Connected Transactions. Your attention is drawn to the "Letter from the Board" and the "Letter from Somerley" set out in the Circular.

Yours faithfully,

For and on behalf of the

Independent Board Committee of

Oriental Metals (Holdings) Company Limited

Liu Hongru

Independent non-executive Director

Chan Wai Dune

Independent non-executive Director

Ting Leung Huel, Stephen

Independent non-executive Director

LETTER FROM SOMERLEY

The following is the text of a letter prepared by Somerley in connection with the Acquisition and the Non-exempt Continuing Connected Transactions for the purpose of inclusion in this circular.



SOMERLEY LIMITED

Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

30 June 2005

To: The Independent Board Committee and the Independent Shareholders

Dear Sirs,

**VERY SUBSTANTIAL ACQUISITION,
CONNECTED TRANSACTION AND REVERSE TAKEOVER
INVOLVING A NEW LISTING APPLICATION
AND
CONTINUING CONNECTED TRANSACTIONS**

INTRODUCTION

We refer to our appointment to act as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of (i) the Acquisition by the Group of the entire issued share capital of Target BVI (Peak Strategic Industries Limited) from the Vendor (Top Create Resources Limited), a subsidiary of China Minmetals (the ultimate controlling shareholder of the Company); and (ii) the Non-exempt Continuing Connected Transactions involving the provision of services (details are set out in the section headed “Non-exempt Continuing Connected Transactions” below) by CMN, also a subsidiary of China Minmetals, to the Target Group after Completion; and by Minmetals Shippings and/or its subsidiaries to the Target Group. Details of the Acquisition and the Non-exempt Continuing Connected Transactions are contained in the circular of the Company to the Shareholders dated 30 June 2005 (the “Circular”), of which this letter forms part. Capitalised terms used in this letter have the same meanings as those defined in the Circular.

The Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. The Vendor is a wholly-owned subsidiary of CMN. CMN is an 82.2% owned subsidiary of China Minmetals, the ultimate controlling shareholder of the Company. The Acquisition therefore also constitutes a connected transaction for the Company under the Listing Rules and requires the approval of the Independent Shareholders at the EGM by vote to be taken by poll.

LETTER FROM SOMERLEY

Prior to Completion, China Minmetals will carry out the Reorganisation. Upon completion of the Reorganisation, the Target Group will hold the entire alumina and aluminium related operations and investments of CMN (other than its interests in Guangxi Huayin and Sherwin). Prior to completion of the Reorganisation, all of the alumina sourcing contracts with alumina refineries and sales contracts with aluminium smelters were entered into by CMN. In order to avoid disruption to the on-going operations of the Target Group, CMN will, following Completion, continue to handle certain alumina sourcing and sales contracts which it previously entered into. The continued handling of the alumina sourcing and sales contracts by CMN for the Enlarged Group after Completion will constitute non-exempt continuing connected transactions for the Company under the Listing Rules. Minmetals Shipping, a 71.7% owned subsidiary of China Minmetals, has been and will continue to provide logistics services to the Target Group after Completion. The logistics services which continue to be provided by Minmetals Shippings and/or its subsidiaries to the Target Group will also constitute non-exempt continuing connected transactions for the Company under the Listing Rules. The Non-exempt Continuing Connected Transactions require the approval of the Independent Shareholders at the EGM by vote to be taken by poll.

The Independent Board Committee comprising all the independent non-executive Directors, Messrs. Liu Hongru, Chan Wai Dune and Ting Leung Huel, Stephen has been constituted to consider the terms of the Acquisition and the Non-exempt Continuing Connected Transactions and to make a recommendation to the Independent Shareholders on how to vote on the relevant resolution to be proposed at the EGM. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the terms of the Acquisition and the Non-exempt Continuing Connected Transactions.

In formulating our opinion and advice, we have relied on the information and facts supplied, and opinions expressed, by the Directors and its advisers, which we have assumed to be true, accurate and complete. We consider that the information we have received is sufficient for us to formulate the opinion and advice as set out in this letter. We have also sought and received confirmation from the Directors that no material factors have been omitted from the information supplied and opinions expressed to us. We have not, however, conducted an independent investigation into the business, operations or financial condition of the Group or the Target Group. We have also assumed that all facts and representations contained or referred to in the Circular were true at the time they were made and will continue to be true up to and including the date of the EGM.

ACQUISITION

In arriving at our opinion on the terms of the Acquisition, we have taken into consideration the following principal factors and reasons:

1. Background to and reasons for the Acquisition

The Company was incorporated in Hong Kong in 1988 and listed on the Stock Exchange in 1994. The Company, through its subsidiaries, has been principally engaged in the trading of non-ferrous metals. In recent years, alumina has been the Group's main

trading product. The Group has also invested in other non-ferrous metals related industrial projects, including aluminium fabrication, copper refinery and plica tube production in China. However, owing to heavy accumulated losses mainly from the period 1997-2001, the Group had incurred a deficit on shareholders' funds of HK\$261.8 million as at 31 December 2003, with bank loans at that date of HK\$775.3 million. A sharp reduction in bank loans was considered necessary. China Minmetals became the ultimate controlling Shareholder after completion of the Restructuring Proposal, which comprised a debt and capital restructuring, in January 2004.

China Minmetals, through its subsidiaries, has been engaged in trading in metals and minerals for more than 50 years and is one of the major importers and exporters of steel, non-ferrous metals and mineral products in China. CMN, an 82.2% owned subsidiary of China Minmetals, is primarily responsible for all alumina and aluminium related operations and investments of the Minmetals Group except for those carried out by the Group.

China Minmetals carried out an extensive review on the operations of the Group after becoming the ultimate controlling Shareholder. After reviewing the operation of the Group, China Minmetals resolved to rationalise the competing businesses of Minmetals Group and the Group through the Acquisition. As a result of the Acquisition, the Group and the Target Group's existing alumina and aluminium related operations will be consolidated into one single platform under the Enlarged Group. This should enable the Enlarged Group to leverage on the "Minmetals" brand, the existing trading and operating platform of China Minmetals and the expertise of the Target Group in alumina and aluminium related business. We consider the commercial reasons for the Acquisition are sound.

2. Business and financial information of the Group

(a) Historical performance of the Group

As mentioned above, the Group incurred heavy losses in 1997-2001. There has subsequently been some recovery although the reported profits are partly due to profits on deconsolidation of subsidiaries ceasing business and the reversal of a provision as noted below.

LETTER FROM SOMERLEY

We set out below a summary of the results of the Group for the three years ended 31 December 2004. Detailed information on the profit and loss accounts and a discussion and analysis of the results of the Group during the same period are set out in Appendix II to the Circular and the section headed “Financial Information on the Group” contained in the Circular.

	For the year ended 31 December		
	2002	2003	2004
	HK\$ million	HK\$ million	HK\$ million
Revenue			
Turnover			
– Trading	–	296.5	164.8
– Aluminium fabrication (<i>Note 1</i>)	827.0	959.3	1,058.6
– Other segments (<i>Note 2</i>)	48.7	107.3	65.1
	<u>875.7</u>	<u>1,363.1</u>	<u>1,288.5</u>
Other revenue	<u>3.0</u>	<u>5.0</u>	<u>5.5</u>
Total revenue	<u><u>878.7</u></u>	<u><u>1,368.1</u></u>	<u><u>1,294.0</u></u>
Segment results on operating profits			
– Trading	37.5	100.4	87.2
– Aluminium fabrication	38.3	27.2	47.1
– Other segments (<i>Note 2</i>)	(2.1)	(9.2)	117.9
	<u>73.7</u>	<u>118.4</u>	<u>252.2</u>
<i>Segment contribution (%)</i>			
– Trading	50.9%	84.8%	34.6%
– Aluminium fabrication	52.0%	23.0%	18.7%
– Other segments	(2.9)%	(7.8)%	46.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Finance costs	(52.1)	(38.2)	(16.4)
Other net items	5.9	11.3	10.3
Taxation	(2.5)	6.5	(11.7)
Minority interest	<u>(5.3)</u>	<u>(8.8)</u>	<u>(16.7)</u>
Profit attributable to the Shareholders	19.7	89.2	217.7
Deconsolidation profit (<i>Note 3</i>)	(29.8)	–	(97.4)
Reversal of provision (<i>Note 4</i>)	<u>(43.8)</u>	<u>–</u>	<u>–</u>
Adjusted (loss)/profit	<u><u>(53.9)</u></u>	<u><u>89.2</u></u>	<u><u>120.3</u></u>

LETTER FROM SOMERLEY

Notes:

1. The amount includes revenue of approximately HK\$63.5 million generated from the Group's investment in aluminium can production. This operation has subsequently been discontinued due to continued recurring losses and accounted for as a discontinued operation in the financial statements for the year ended 31 December 2003.
2. Other segments include the copper refinery, plica tube production segment and the discontinued operations of aluminium can and copper wire production.
3. Deconsolidation profit for the year ended 31 December 2002 represents the release of the Group's share of net liabilities in Da Hua Non-ferrous Metals Company Limited, a then wholly-owned subsidiary of the Company, as a result of its liquidation in 2002.

Deconsolidation profit for the year ended 31 December 2004 comprises the releases of the Group's share of net liabilities and exchange reserve in (i) Zhangzhou International Aluminium Container Company Limited, a then 60% owned subsidiary of the Group; and (ii) Yixing Jingfeng Copper Materials Company Limited, a then 58% owned subsidiary of the Company, as a result of their respective liquidations in 2004.

4. The amount represents reversal of provision for foreseeable loss on the Pechiney Contract, which is non-recurring in nature.

For the year ended 31 December 2002

In 2002, the Company's alumina trading business was halted principally due to its liquidity problems. The trading segment however recorded a profit of HK\$37.5 million which was due to the reversal of provision for foreseeable loss on the Pechiney Contract of approximately HK\$43.8 million as a result of the recovery of the market price of alumina. The Pechiney Contract was entered into between the Company and an overseas supplier in 1999 for the purchase of an aggregate of 453,401 tonnes of alumina over the contract term. The Pechiney Contract expired at the end of 2004. The aluminium fabrication segment and other segments in aggregate recorded a segment profit of approximately HK\$36.2 million.

The net profit of the Group for 2002 was approximately HK\$19.7 million. However, after adjusting for the non-recurring deconsolidation profit and the reversal of provision made in respect of the Pechiney Contract, the Group would have recorded a loss of approximately HK\$53.9 million in 2002.

For the year ended 31 December 2003

The trading business of the Group resumed in 2003 focusing on trading of alumina due to the increase in alumina price at the end of 2002 caused principally by shortages of supply of alumina in China. The Group benefited from the high alumina price as it was able to obtain a steady supply of alumina at low cost under the Pechiney Contract as compared to the then prevailing market price. The Group traded approximately 140,000 tonnes of alumina in 2003 and recorded a segment profit of approximately HK\$100.4 million. The aluminium fabrication segment also benefited from the increase in the market price of the aluminium and recorded a segment profit of approximately HK\$27.2 million. Other segments however recorded a loss of approximately HK\$9.2 million.

LETTER FROM SOMERLEY

Overall, in 2003, the Group recorded a profit attributable to the Shareholders of approximately HK\$89.2 million. This was largely attributable to the increase in the market price of alumina by over 60% from about US\$190-210 per tonne at the beginning of 2003 to about US\$320-350 per tonne at the end of 2003 and the low cost alumina that the Group was able to source under the Pechiney Contract.

Despite the improvement of the results, the profit was not sufficient to restore the Group's financial position. As at 31 December 2003, the Group had a deficiency in shareholders' funds of approximately HK\$261.8 million and total outstanding bank loans due in less than 12 months of approximately HK\$638.5 million. Without the Restructuring Proposal, we believe liquidation would be a likely outcome.

For the year ended 31 December 2004

Trading of alumina remained the principal business of the Group. In 2004, the market price of alumina continued to increase and reached US\$390-420 per tonne at the end of 2004 from US\$320-350 per tonne at the end of 2003. The Group continued to source its low cost alumina through the Pechiney Contract and benefited from the increase in the market price of alumina. As a result, the trading segment recorded a profit of approximately HK\$87.2 million. However, the Pechiney Contract was the only alumina trading contract of the Group in 2003 and 2004. The decline in profit of the trading segment in 2004 as compared with 2003 was mainly due to the decrease in remaining volume of alumina to be executed under the Pechiney Contract. The aluminium fabrication and other segments of the Group recorded a segment profit of approximately HK\$165.0 million which included a deconsolidated profit of approximately HK\$97.4 million due to the liquidation of two subsidiaries.

Profit attributable to the Shareholders amounted to HK\$217.7 million. After adjusting for the deconsolidation profit, the Group would have recorded a profit of HK\$120.3 million.

LETTER FROM SOMERLEY

(b) Balance sheets

We set out below a summary of the audited consolidated balance sheets of the Group as at 31 December 2003 and 2004:

	Notes	2003 HK\$'000	2004 HK\$'000
Non-current assets			
Fixed assets	1	286,337	308,264
Construction in progress	2	202,381	203,008
Others non-current assets		68,646	55,619
Current assets			
Inventories		170,620	224,518
Trade receivables, prepayments and other receivables		230,962	266,775
Amounts due from fellow subsidiaries	3	–	24,959
Pledged bank deposits		9,892	14,648
Cash and bank balances		140,879	176,236
Total assets		1,109,717	1,274,027
Current liabilities			
Trade and bills payables and accrued charges		291,327	310,036
Amounts due to a shareholder and related companies	4	56,560	–
Amounts due to associated companies and minority investors		38,980	–
Provision and taxation payable		15,890	21,513
Bank loans	5	638,514	218,868
Non-current liabilities			
Bank loans	5	136,792	94,340
Deferred income		28,302	28,302
Total liabilities		1,206,365	673,059
Minority interest		165,157	178,963
Net (liabilities)/assets		(261,805)	422,005

LETTER FROM SOMERLEY

Notes:

1. Fixed assets principally comprise land and buildings, plant and machinery and others. The increase in fixed assets was mainly attributable to the additions of fixed assets and completion of certain construction in progress in 2004.
2. Construction in progress was attributable to the upgrade of the existing production facilities.
3. The amounts represent the reversal of provisions in respect of certain amounts due from fellow subsidiaries subsequently recovered in 2005. They are unsecured, interest-free and repayable on demand.
4. The amounts due to a Shareholder and a related company amounting to approximately HK\$46.3 million in aggregate were waived as a result of the Restructuring Proposal completed in January 2004.
5. Bank loans in an aggregate sum of HK\$420.4 million were eliminated as a result of the Restructuring Proposal having been completed in January 2004.

The Group's consolidated net assets value as at 31 December 2004 has improved substantially as compared to that of 31 December 2003. The improvement is chiefly due to the Restructuring Proposal completed in January 2004 which in aggregate eliminated HK\$466.7 million debts.

(c) Summary

After the Restructuring Proposal, the Group's performance has improved. We believe this is largely due to the significant improvement in its trading business. As set out in the above summary of profit and loss accounts of the Group for the three years ended 31 December 2004, the trading segment is the main contributor of the Group's profit during that period. In 2003, the trading segment accounted for approximately 85% of the Group's operating profit. In 2004, the trading segment accounted for more than 50% of the Group's operating profit after adjusting for the deconsolidation profit of HK\$97.4 million.

As stated above, the improvement of the trading business was due largely to increase in market price of alumina (starting from the end of 2002) and more importantly to the Pechiney Contract the Group entered into in 1999 which enabled the Group to source alumina at low cost. We set out below a table showing the average cost of alumina purchased by the Group under the Pechiney Contract and the market price range during 2002-2004:

	2002 <i>US\$</i>	2003 <i>US\$</i>	2004 <i>US\$</i>
Pechiney Contract (weighted average price per tonne)	N/A (Note 1)	178	204
Market price (price range per tonne) (Note 2)	138-160	190-350	310-490

Notes:

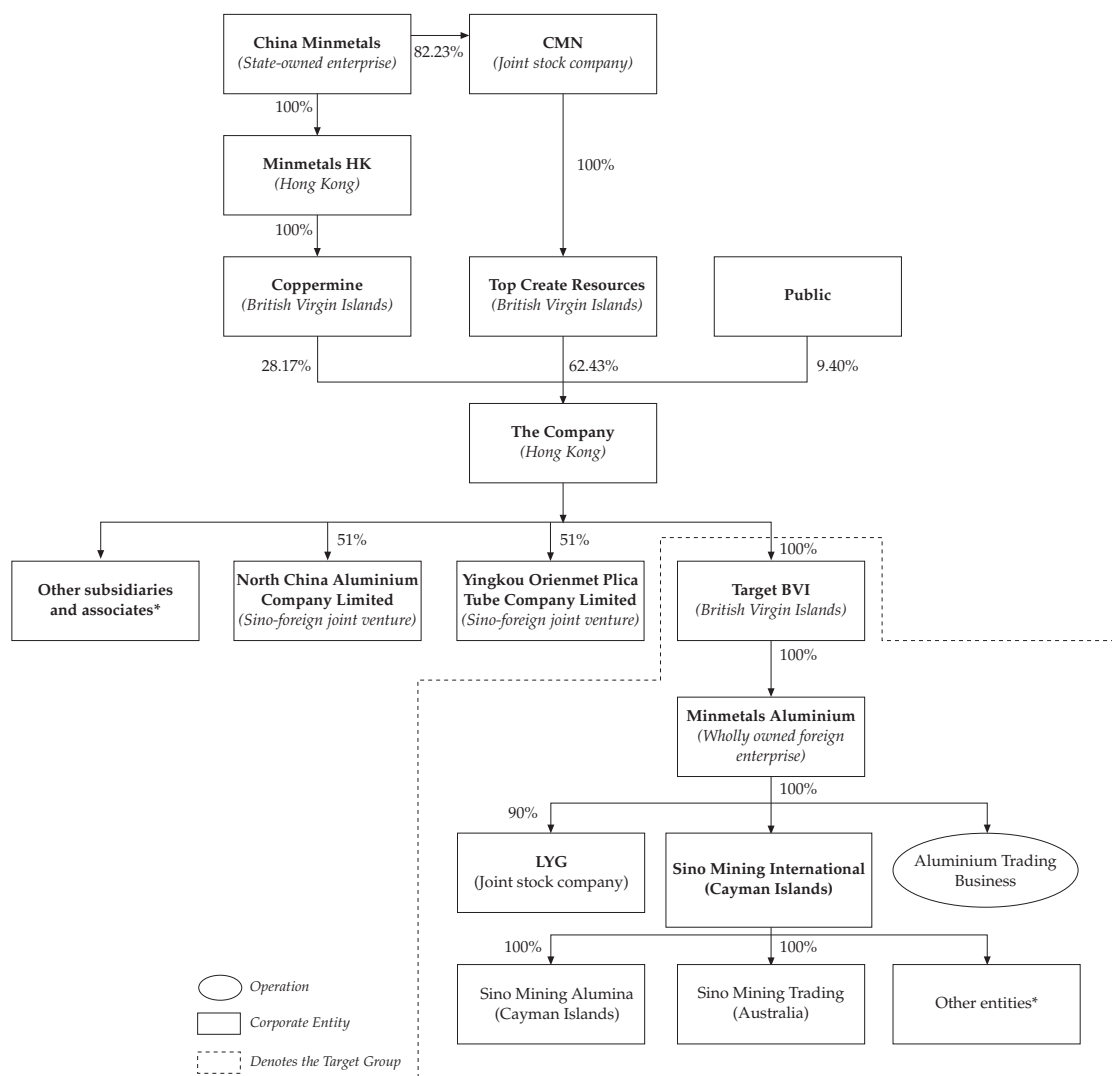
1. Alumina trading business was halted principally due to the Group's liquidity problem.
2. Sourced from Metal Bulletin.

The Pechiney Contract expired on 31 December 2004. Given the trading of alumina has been the principal contributor of the Group's profit in the past years, we believe that without the Pechiney Contract, the Group's future performance is uncertain. In addition, certain one-off benefits from liquidations of subsidiaries in 2002 and 2004 and reversal of provisions have flattered reported results.

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(a) *Structure of the Acquisition*

The Acquisition involves the sale by the Vendor and the purchase by the Company of the entire issued share capital of Target BVI, which upon completion of the Reorganisation will hold 100% interest in Minmetals Aluminium. Through its subsidiaries, Minmetals Aluminium will be principally engaged in alumina and aluminium trading and holding of related investments. Upon Completion, Target BVI will become a wholly owned subsidiary of the Company. The group structure of the Enlarged Group after Completion will be as set out below:



* Please see pages 27 to 28 of the Circular for further details.

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The Acquisition does not include CMN's interests in (i) 51% interest in Sherwin, an alumina refiner in the United States of America; and (ii) 33% interest in Guangxi Huayin, a company in respect of a greenfield alumina refinery in China. Sherwin has a production capacity of 1.6 million tonnes of alumina per annum. Guangxi Huayin, a company incorporated in February 2003 under the PRC laws, which is owned as to 34% by Guangxi Investment Group Co Ltd (formerly Guangxi Construction Investment & Development Company), 33% by Aluminum Corporation of China Limited and 33% by CMN. Guangxi Huayin, has been granted the right to develop an alumina project and explore for bauxite in southern China on 23 May 2005. Both these interests will be subject to a first right of refusal granted by the Minmetals Group to the Enlarged Group (see (b) (ii) below). Further details on Sherwin and Guangxi Huayin are set out in the paragraph headed "Information on Sherwin and Guangxi Huayin" under the section headed "Relationship with the Minmetals Group" in the Circular.

(b) Non-competition Agreement

- (i) On the date of the Acquisition Agreement, China Minmetals entered into the Non-competition Agreement in favour of the Company. Pursuant to the Non-competition Agreement, China Minmetals undertakes (with certain exceptions which are set out in the Letter from the Board) that, conditional upon Completion:
 - it shall procure its controlled companies (comprising subsidiaries and companies in which China Minmetals have or control a 30% or more interest or otherwise have control) (the "Affected Group") not to engage in any business or invest in any entities in China (including Hong Kong) which may compete with the alumina and aluminium related business carried on or to be carried on by the Enlarged Group save for:
 - CMN's existing interests in Guangxi Huayin and Sherwin;
 - alumina related sourcing and sales contracts entered into by the Affected Group prior to the date of the Non-competition Agreement that are subject matter of the Agreement on Non-transferred Contracts;
 - any holding by the Affected Group of less than 5% of the issued share capital of any other company which is listed on a stock exchange; or
 - those conducted with the prior written consent of the Company; and
 - it shall procure that any alumina or aluminium related investment opportunity being made available to the Affected Group, which may directly or indirectly compete with the business of the Enlarged Group, should be first offered to the Enlarged Group for

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consideration at no less favourable terms; and it shall use its best endeavours to avoid any direct competition with the Company in the event that the Enlarged Group does not have the resources to proceed with the investment and agrees to allow China Minmetals to proceed with the investment; and

- (ii) China Minmetals also granted an option to the Enlarged Group, conditional upon Completion, to acquire the Affected Group's interests in Guangxi Huayin and Sherwin on normal commercial terms and to procure the Affected Group to dispose of such interest within three years from 31 December 2004. It also granted to the Enlarged Group an option, conditional upon Completion, to acquire the investments undertaken by China Minmetals as mentioned in (i) above. The decision to accept the offer to acquire CMN's interests in Sherwin and Guangxi Huayin and any decision to give consent to China Minmetals to undertake any alumina and aluminium related businesses will be reviewed and approved by the independent non-executive Directors.

The Non-competition Agreement safeguards the Enlarged Group from competition with the Minmetals Group in the future and, in our opinion, is beneficial to the Group.

(c) *Conditions precedent*

The Acquisition Agreement is conditional upon certain conditions being fulfilled or waived by the Company on or before 31 December 2005. The more significant ones from the Independent Shareholders' perspective are:

- (i) the Independent Shareholders approving the Acquisition Agreement and the transactions contemplated thereunder including without limitation the allotment and issue of the Consideration Shares and the Non-exempt Continuing Connected Transactions;
- (ii) the result of the due diligence exercise carried out by the Company on the assets, liabilities, business and prospects of the Target Group being satisfactory to the Company and the Company being satisfied that the warranties given by CMN in the Acquisition Agreement are complete, accurate and true; and
- (iii) appropriate arrangements in relation to the Placing having been made to the satisfaction of the Vendor and the Company to ensure that not less than 25% of the issued Shares will be held in public hands upon Completion and such Placing becoming unconditional in all respects (save for any condition requiring the Completion to take place).

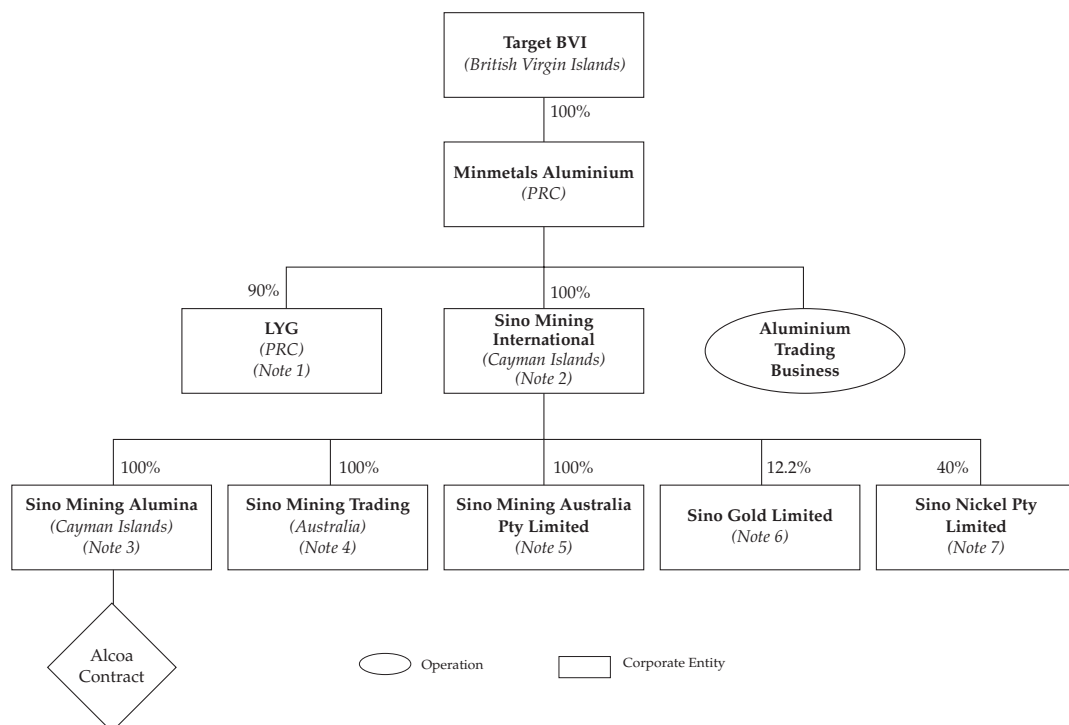
Other conditions precedent of the Acquisition Agreement are set out in the Letter from the Board under the paragraph headed "Conditions".

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4. Target Group

(a) History of the Target Group

The Target Group comprises the entire alumina and aluminium trading operation and related investments of China Minmetals, other than its interests in Sherwin, Guangxi Huayin, the Group and a 10% minority interest in LYG. Set out below is the simplified structure of the Target Group immediately after completion of the Reorganisation:



Notes:

1. 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited), is a 90% owned subsidiary of Minmetals Aluminium. LYG has been principally engaged in provision of logistics services to CMN's alumina trading business. After Completion, LYG will continue to provide the same services to the alumina trading business of the Enlarged Group.
2. Sino Mining International Limited, a company incorporated in the Cayman Islands with limited liability. Sino Mining International is an investment holding company. Sino Mining International holds three subsidiaries including Sino Mining Alumina, Sino Mining Trading and Sino Mining Australia Pty Limited.
3. Sino Mining Alumina Limited was incorporated in 1996 solely for the purpose of holding the Alcoa Contract (which will be further discussed below).
4. Sino Mining Trading Pty Limited, a trading company incorporated in Australia in 2001, has been principally engaged in the trading of alumina and other mineral resources.
5. Sino Mining Australia Pty Limited is principally engaged in the provision of administrative support services to the Sino Mining Group.

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6. Sino Gold Limited is a company listed on the Australian Stock Exchange.
7. Sino Nickel Pty Limited is incorporated in Australia. It is primarily involved in sourcing mineral resources, especially nickel and copper, from Australia for export to the China market.

(b) *Business, past performance and financial position of the Target Group*

(i) Business

The Target Group has principally been engaged in sourcing of alumina in the international market and on-sale the alumina to aluminium smelters in China. It also has been engaged in other business activities consisting of tolling, sourcing and trading of ingots and provision of port logistics services.

Sourcing of alumina

The Target Group sources alumina primarily from Australia, Jamaica, India and the United States of America. The principal alumina suppliers, which have long-standing relationships with the Target Group, include the world's largest resources companies such as Alcoa, Alcan Inc., Companhia Vale do Rio Doce, BHP Billiton Limited, Glencore International AG and National Aluminium Company Limited. In 2004, the Target Group sourced a total of 1,894,200 tonnes of alumina, representing approximately 32.4% of the total of 5,850,000 tonnes of alumina imported into China in that year. The Target Group sources alumina from these suppliers pursuant to spot contracts, short-term contracts and long-term contracts. Spot contracts contributed to approximately 44% of total volume alumina sold and short-term and long-term contracts contributed to the remaining approximately 56% in the year ended 31 December 2004.

In 1996, the Target Group entered into the Alcoa Contract, which is a long-term sourcing contract with Alcoa. The Alcoa Contract is one of the Target Group's most important alumina sourcing contracts for the following reasons:

- alumina sourced under the Alcoa Contract amounted to 415,545 tonnes, 397,607 tonnes and 402,396 tonnes for the years ended 31 December 2002, 2003 and 2004 respectively, accounting for approximately 36.6%, 20.9% and 24.4% of the total alumina sourced by the Target Group in the corresponding year;
- the Alcoa Contract is for a term of 30 years to 30 June 2027, providing the Target Group with a secure supply alumina which is longer than normal industry practice; and

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- the Alcoa Contract allows the Target Group to source up to approximately 400,000 tonnes of alumina per annum at prices calculated based on cost plus fees. The annual purchase of alumina by the Target Group is adjustable subject to market conditions agreed under the Alcoa Contract. In our view, the Alcoa Contract can be regarded as comparable to owning bauxite mine and alumina refinery capacity.

The Target Group's strategy is to enter into more long-term sourcing contracts with alumina refineries to secure alumina supply for one or more years. The entering into of long-term sourcing contracts will provide a basis for the Target Group to enter into long-term sales contracts with its customers for the corresponding years. Such "back-to-back" arrangements could effectively reduce the Target Group's exposure to price fluctuations in the spot market.

The Alcoa Contract and other long-term contracts however would have a negative impact on the Target Group if the market price of alumina falls below the price the Target Group pays under the Alcoa Contract and other long-term sourcing contracts. There are certain other risks relating to the businesses of the Target Group including, among others, government regulations or policy change, international competition and volatility in alumina and aluminium prices. Please refer to the section headed "Risk factors" in the Circular for details.

Sales and distribution of alumina

The Target Group was the largest supplier of overseas sourced alumina in China for 2004. It has business relationships with over half (totaling about 152 as at 31 December 2004) of the aluminium smelters in China and sold approximately 1,889,100 tonnes of alumina in the year ended 31 December 2004 which accounted for approximately 32.3% of the total amount of alumina imported into China in that year.

Other business activities

The Target Group also engages in tolling, sourcing and trading ingots and provision of trade finance and port logistics services.

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(ii) Past performance

The Target Group recorded net profits of approximately RMB62.0 million, RMB262.8 million and RMB 396.0 million for the years ended 31 December 2002, 2003 and 2004 respectively. We set out below a summary of the combined profit and loss accounts of the Target Group for the three years ended 31 December 2004. Further details on the turnover of the Target Group as well as a discussion and analysis of the combined profit and loss accounts of the Target Group are set out in Appendix I to the Circular and in the section headed “Financial Information on the Target Group” contained in the Circular.

	<i>Notes</i>	Year ended 31 December		
		2002	2003	2004
		<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Turnover				
– alumina		1,689.7	4,455.0	6,400.0
Tonnes (in thousands)		1,102.9	1,768.5	1,889.1
– aluminium ingots	1	45.4	696.0	922.8
– commission	2	8.8	10.0	12.5
– port logistics fees	3	1.3	1.0	0.6
Total turnover		1,745.2	5,162.0	7,335.9
Cost of sales		(1,462.8)	(4,572.9)	(6,538.7)
Gross profit		282.4	589.1	797.2
Gross profit margin (%)		16%	11%	11%
Other revenue		2.7	2.9	7.1
Selling and administrative expenses		(90.6)	(125.3)	(128.3)
Other net operating income/(expenses)		0.9	(0.6)	(5.8)
Gain on disposal of an associated company/investment		32.3	4.2	–
Share of result of an associated company		12.8	–	1.6
Finance costs		(96.7)	(77.3)	(69.9)
Profit before tax and minority interest		143.8	393.0	601.9
Taxation		(20.3)	(117.8)	(185.8)
Minority interest		(61.5)	(12.4)	(20.1)
Net profit		62.0	262.8	396.0
Net profit margin (%)		4%	5%	5%

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Notes:

1. The Target Group sells aluminium ingots that it sources from third party aluminium smelters in China and from its own tolling operation to overseas customers.

Tolling describes a situation where the Target Group engages aluminium smelters to process the Target Group's own alumina into ingots for export in return for a tolling fee from its overseas customers.
2. Commission income is generated from provision of trade finance services to third parties importing alumina for their own use.
3. Port logistics fees refer to income earned by LYG from provision of port logistics services to other members of the Target Group as well as third parties at the port of Lianyungang.

Trading of alumina

For the years ended 2002, 2003 and 2004, alumina trading accounted for 96.8%, 86.3% and 87.2% respectively of the Target Group's turnover. The growth in 2003 as compared to 2002 was largely attributable to the increase in the average sales price of alumina of approximately 64.6% and an increase in sales volume of approximately 60.3%. The growth in 2004 as compared to 2003 was primarily a result of the increase of approximately 34.5% in the average sales price of alumina. The average sales price increased mainly due to increased global alumina prices and, to a lesser extent, the continuous increase in the demand for alumina in China.

Trading of aluminium ingots

The turnover attributable to the trading of aluminium ingots accounted for 2.6%, 13.5% and 12.6% of the total turnover of the Target Group for the years ended 31 December 2002, 2003 and 2004 respectively. The significant increase in turnover of aluminium ingots from RMB45.4 million in 2002 to RMB922.8 million in 2004 was partly due to increased demand for aluminium ingots and partly to the increase in sourcing of aluminium ingots from third party aluminium smelters which purchased alumina from the Target Group. The Target Group regards this as a marketing strategy to secure long-term purchase contracts from these aluminium smelters.

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Commission, port logistics fees and others

The commission, port logistics fees and others accounted for approximately 0.6%, 0.2% and 0.2% of the total turnover of the Target Group for the years ended 31 December 2002, 2003 and 2004 respectively. Commission income, port logistics fee and others increased slightly from RMB10.1 million in 2002 to RMB13.1 million in 2004 largely because of the increase in commission income. Such increase was primarily due to a higher number of trade finance transactions undertaken during 2004.

Although the Target Group recorded growth in turnover for the three years ended 31 December 2004, the gross profit margin declined from 16% in 2002 to 11% in 2003. As the sales volume of alumina increased, the Target Group had to source alumina from the spot market at a higher price than under the Alcoa Contract, which led to the decline in proportion of alumina sourced under the Alcoa Contract as compared to the total sales volume of alumina. The gross profit margin stabilised at 11% in 2004. Should the sales volume continue to increase, the average profit margin is likely to decline further. In order to mitigate the effect of alumina spot price fluctuation on the Target Group and to maintain the profit margin as discussed above, it is the intention of the Target Group to enter into further long-term sourcing contracts with other alumina refiners.

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(iii) Financial position of the Target Group

Set out below is a summary of the audited combined balance sheets of the Target Group as at 31 December 2003 and 2004.

		2003	2004
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Fixed assets		1,261	1,559
Interest in an associated company		1,093	4,089
Investment securities	1	32,204	32,196
Goodwill		–	7,253
Long-term receivables		9,816	7,863
Upfront payment for alumina purchasing rights	2	1,555,920	1,489,637
		<u>1,600,294</u>	<u>1,542,597</u>
Current assets			
Inventories	3	505,283	697,113
Trade receivables, prepayments, and other receivables		79,816	358,414
Deferred loss		–	12,282
Pledged bank deposits		37,245	37,245
Due from related companies		59,179	166,513
Cash and bank balances		164,000	176,061
		<u>845,523</u>	<u>1,447,628</u>
Current liabilities			
Trade payables, other payables and accruals	4	135,743	415,601
Advances from customers	5	372,367	347,997
Due to related companies		3,372	219,661
Deferred income		927	2,351
Derivative financial instruments	6	4,238	4,193
Short-term unsecured bank loans	7	257,182	501,150
Current portion of long-term loans		49,660	77,799
		<u>823,489</u>	<u>1,568,752</u>
Net current assets/(liabilities)		<u>22,034</u>	<u>(121,124)</u>
Total assets less current liabilities		<u>1,622,328</u>	<u>1,421,473</u>
Non-current liabilities			
Deferred income		9,816	8,442
Derivative financial instruments	6	8,790	6,665
Long-term loans	8	731,660	653,844
		<u>750,266</u>	<u>668,951</u>
Minority interests		<u>447,595</u>	<u>814</u>
Represented by owner's equity		<u>424,467</u>	<u>751,708</u>

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Notes:

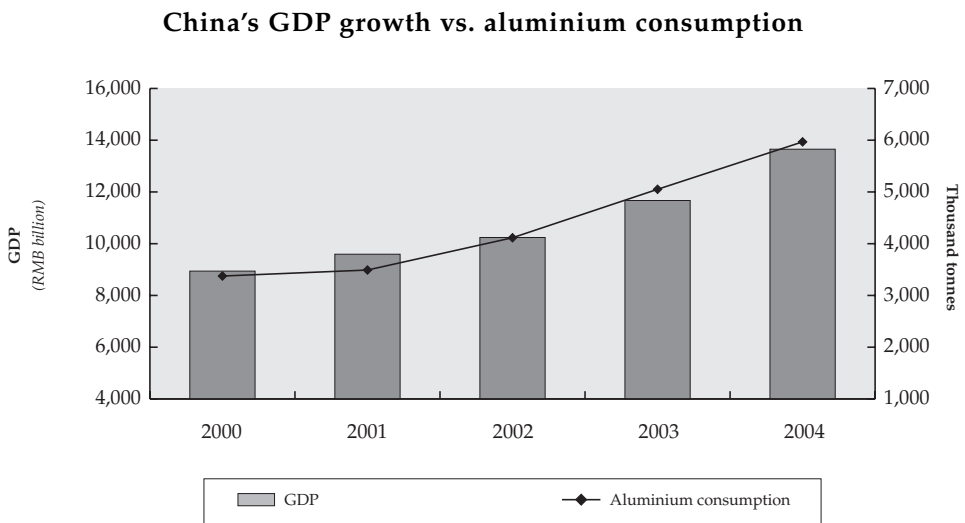
1. Listed securities comprise the Target Group's interest in Sino Gold Limited, a company listed on the Australian Stock Exchange.
2. The amount represents the written down value of an upfront payment of US\$240 million paid by the Target Group to Alcoa for the Alcoa Contract. Such amount is being amortised annually on a straight line basis for 30 years up to 2027.
3. The inventories includes commodities held for sale and goods-in-transit as at the balance sheet date.
4. The amount largely represents trade payables, bill payables, taxation payable and miscellaneous payables and accruals. Trade payables were approximately RMB122.6 million as at 31 December 2004, compared to approximately RMB38.9 million as at 31 December 2003. The increase was primarily due to an increase in business activities.
5. The amount represents advance payments from customers to secure the supply of alumina from the Target Group.
6. The amount represents fair values of derivative contracts which include alumina forward options and interest rate swap.
7. The amount increased during the Track Record Period due to the increase in funding for working capital as a result of increase in business activities.
8. The amount represents the non-current portion of a loan from BOC (the "BOC Loan") for on-lending to Sino Mining Alumina (the "CMN Loan"). An amount of approximately RMB49.7 million is classified under current liabilities. The BOC Loan bears an interest of LIBOR + 0.9% and was secured by: (i) all the equity interests of Sino Mining Alumina Ltd ("SMAL"); (ii) all the assets of SMAL; and (iii) the Target Group's upfront payment for alumina purchasing rights; and (iv) certain bank deposits of the Target Group.

BOC, CMN and Minmetals Aluminium entered into an agreement to transfer the BOC Loan whereby Minmetals Aluminium has agreed to assume CMN's responsibility to repay the outstanding amount of the BOC Loan to BOC on the same terms (including the interest rate) as those in relation to the BOC Loan with effect from 13 June 2005. Incidentally, Minmetals Aluminium has assumed the loan under the CMN Loan Agreement on 13 June 2005. As a result, the Target Group has no outstanding shareholder's loan as at the Latest Practicable Date.

(c) *Prospects of the Target Group*

(i) Demand for imported alumina in China

The growth in China’s gross domestic product (“GDP”) in recent years has been accompanied by rapid growth in the demand for aluminium. The chart below illustrates the strong correlation between the growth of China’s GDP and the growth in consumption of aluminium:



Source: *Antaike Report 2005 and National Bureau of Statistics of China*

In 2003, China consumed approximately 5.1 million tonnes of primary aluminium, representing approximately 19% of the world’s total consumption of aluminium in the same year. China’s primary aluminium consumption has been growing at a compound annual growth rate of approximately 15.3% from approximately 3.4 million tonnes in 2000 to approximately 6.0 million tonnes in 2004. Such increase is believed to be driven by the growth of China’s construction, transportation, power industries and home appliances industry. The increase in demand for aluminium drives the demand for alumina.

It is the market consensus that the GDP of China will continue to grow in the foreseeable future. Given the strong correlation between the growth of GDP and growth in the demand for aluminium and alumina, we believe that the demand for alumina will continue to grow in the foreseeable future.

As set out in the paragraph headed “China’s alumina production, consumption and import” under the Industry Overview section of the Circular, the domestic alumina demand has constantly exceeded the domestic supply during the period from 2000 to 2004. The gap between the domestic supply and demand has been filled by the imported alumina. In 2000, imported alumina represented approximately 30.3% of China’s total alumina supply. China’s reliance on imported alumina increased substantially from 30.3% in 2000 to approximately 45.0% in 2004. We believe China will continue to rely on imported alumina to satisfy domestic demand for alumina in the foreseeable future.

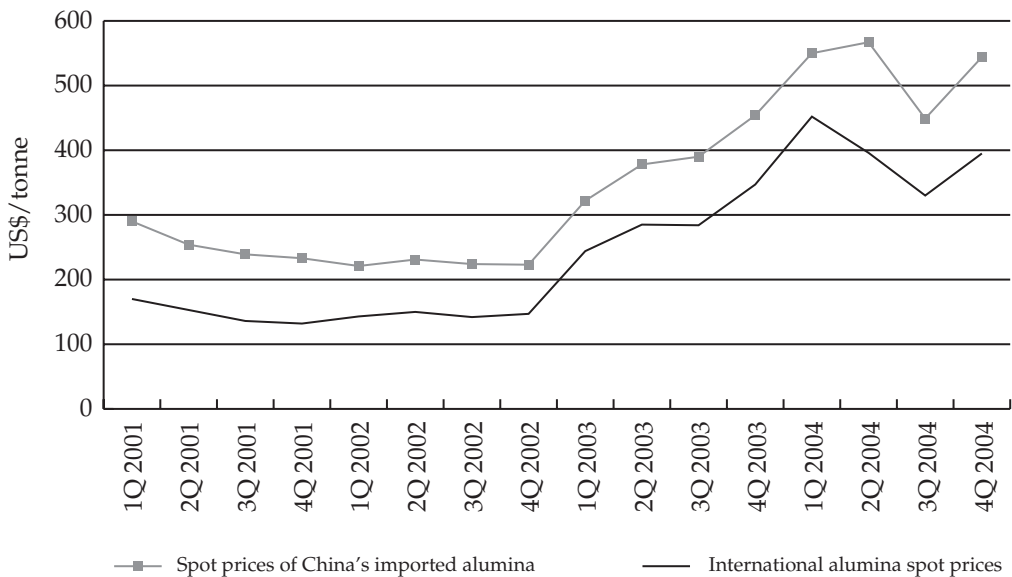
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The Ministry of Finance of China imposed a 5% export tax on various non-ferrous metals including aluminium with effect from 1 January 2005. The State Administration of Taxation of China also cancelled the 8% tax rebate for the exporters of aluminium with effect from 1 January 2005. These tax policies, which are expected to diminish the competitiveness of China's aluminium products in the international market (in terms of pricing) and to channel these aluminium products back to China's domestic market, are designed to tackle the shortage in supply of aluminium in the domestic market. Such policies are expected to increase the operating costs of the smelters and in turn their sales. Such impact on the smelters will then indirectly affect the entire alumina and aluminium industry in China. However, at this stage, the effect cannot be gauged. Nevertheless, such policies reinforce our belief that the demand for aluminium and alumina in the domestic market is high and will continue to be so in the short to medium term. On this basis and taking into consideration the demand for imported alumina as discussed above, we do not expect these new tax policies will have a significant adverse impact on the Target Group's alumina trading business.

(ii) Price of China's imported alumina

The price of China's imported alumina fluctuates in accordance with the international spot price of alumina, which is determined by the level of demand and supply for alumina in the international market. The price of China's imported alumina, adjusted for freight costs, tariff, exchange rate and relevant tax charges, closely tracks the international alumina spot price as illustrated in the chart below.

Spot prices of China's imported alumina vs. International alumina spot prices



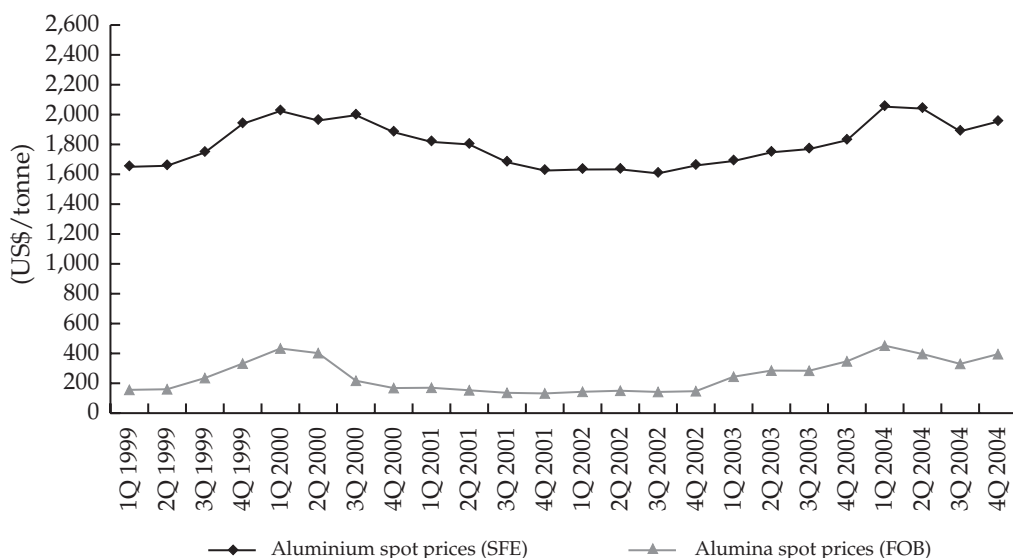
Source: Spot prices of China's imported alumina from Target Group's own records; international alumina spot prices from CRU.

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For further details in relation to the pricing of imported alumina, please refer to the paragraph headed “Pricing for imported alumina” under the Industry Overview section of the Circular.

The fluctuation in the international spot price of alumina, the raw material for aluminium, is closely correlated with the fluctuation of the international spot price of aluminium (as shown in the chart below).

Aluminium spot prices (SFE) vs. Alumina spot prices



Source: Aluminium spot price (SFE) from SFE website; Alumina spot price (FOB) from (CRU)

The above chart suggests that the increase or decrease in the alumina international spot price is, in effect, substantially transferred by alumina suppliers to aluminium smelters. On the basis that the risk of fluctuation in the alumina price can be substantially transferred to the aluminium smelters, we believe that the alumina price fluctuation in the international spot market should not have a significant adverse impact on the Target Group.

5. Evaluation of the consideration for the Acquisition

As described in the Letter from the Board, the consideration for the Acquisition has been arrived at after arm’s length negotiations among the parties with reference to, among others, the financial results of the Target Group, the earning potential of the Target Group, the potential synergies between the Target Group and the Group, the future capital investment requirements and the general market conditions.

(a) Comparison of the consideration for the Acquisition with profit

The consideration for the Acquisition represents approximately 7.7 times the profit after taxation and minority interest of the Target Group of approximately RMB396.0 million (equivalent to approximately HK\$372.8 million) for the year ended 31 December 2004.

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(b) *Comparable Company*

We have reviewed the resources companies listed on the stock exchanges of both Hong Kong and China. We are unable to identify any companies that are primarily engaged in the trading of alumina. Among all the companies engaged in aluminium related business, we consider Alumina Corporation of China Limited (“Chalco”), a joint stock limited company with its shares listed on the Stock Exchange, as the most comparable to Target BVI. Although Chalco is engaged in both production as well as trading of alumina and primary aluminium, whereas Target BVI is engaged only in trading of alumina and primary aluminium, we believe the exposure of Chalco to the alumina market is very similar to that of Target BVI. It is therefore the closest comparable company to Target BVI that we can identify.

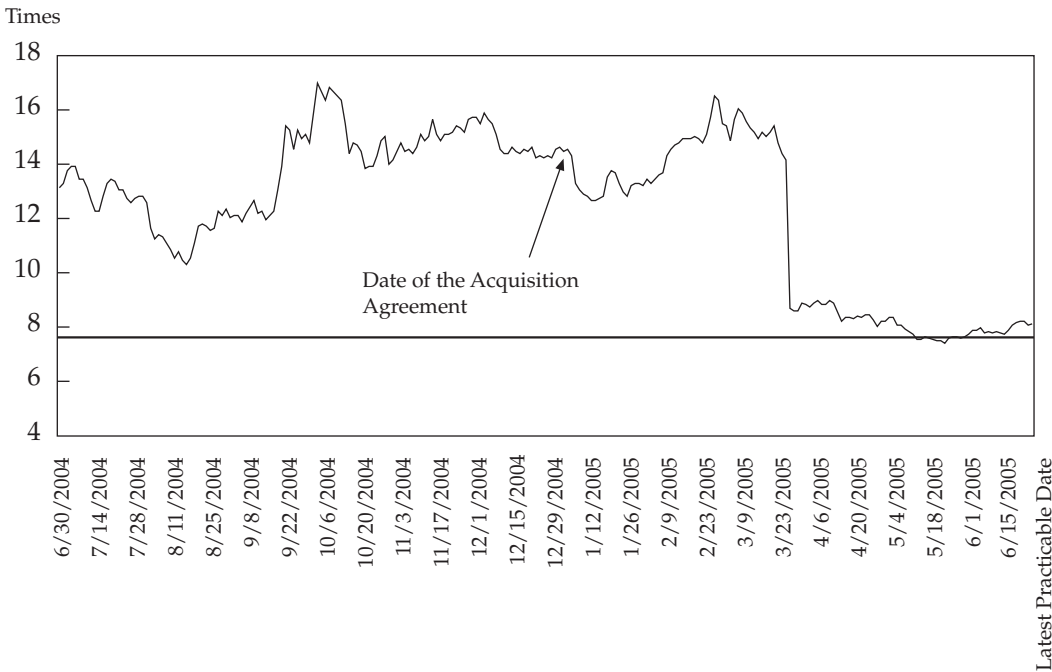
	Closing price as at the Latest Practicable Date <i>HK\$</i>	Earnings per share	Price-earnings multiple at the Latest Practicable Date <i>Times</i>	90-day average price-earnings multiple <i>Times</i>
Chalco	4.25	0.5236 <i>(Note 2)</i>	8.1	10.3 <i>(Note 3)</i>
Target BVI	2,886 million <i>(Consideration)</i>	372.8 million <i>(Total)</i>	7.7	7.7

Notes:

- (1) The data for Chalco is sourced from Bloomberg.
- (2) The earning per share figure is denominated in RMB and converted into Hong Kong dollars at HK\$1 = RMB1.06.
- (3) The price-earnings multiple of Chalco was calculated on the basis of 2003 earnings up to March 2005, when the 2004 earnings were announced, and on the basis of 2004 earnings thereafter.

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The chart below shows the fluctuation of the price-earnings multiple of Chalco during the period 6 months preceding the date of the Acquisition Agreement up to and including the Latest Practicable Date.



As set out in the above chart, the price-earnings multiple of Chalco has been above 10 at most of the time during the period under review. Before the announcement of the annual results of Chalco on 28 March 2005, the share price of Chalco represented 14 times its 2003 earnings. At the date of the Acquisition Agreement, the price of Chalco represents about 14.6 times its 2003 earnings. After the release of Chalco's annual results for the year ended 31 December 2004, its price-earnings multiple dropped to approximately 8.7 times its 2004 earnings. As at the Latest Practicable Date, Chalco's price-earnings multiple was 8.1 times. The drop in the price-earnings multiple was largely due, in our opinion, to the share price of Chalco failing to respond to the higher 2004 earnings after the announcement. This may have in turn been due to the drop in the aluminium spot price in the international market during the same period, which gave rise to an expectation of continuing weak share price of Chalco.

As at the Latest Practicable Date, the price-earnings multiple of Chalco is 8.1 times. On a 90-day average basis, the price-earnings multiple is 10.3 times which is also above the price-earnings multiple represented by the consideration for the Acquisition.

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(c) Comparison with net assets

Pursuant to the Acquisition Agreement, the Company will acquire the entire equity of Target BVI at HK\$2,886 million. Based on the Target Group's audited financial statement for the year ended 31 December 2004, the Target Group's audited net asset value as at 31 December 2004 was approximately HK\$706.7 million. Accordingly, the Acquisition reflects a premium of approximately HK\$2,179.3 million over the Target Group's audited net asset value as at 31 December 2004.

The Group's ability to generate considerable amounts of profit from the trading of alumina in the past two years was largely due to (i) the increase in the market price of alumina; and (ii) the Company's ability to source alumina at low prices through the Pechiney Contract that the Group entered into in 1999, which expired on 31 December 2004. We consider that without the Pechiney Contract, it is doubtful that the Group could maintain its 2004 level of profit. In the longer term, in the absence of the Acquisition or other similar development, the asset value of the Group is likely to erode. As the Target Group has been generating substantial and stable profits in the past years and we believe it will continue to do so in the foreseeable future, we consider the Acquisition could prevent an erosion of the assets of the Group. On this basis, we consider the premium over the net asset value is acceptable.

(d) Share price performance and comparison with issue price of the Consideration Shares

- (i) Comparison of the issue price for the Consideration Shares with market prices

The issue price of HK\$2.86 per Consideration Share represents the following discounts to historical market prices:

- (1) a discount of approximately 3.87% to the closing price of the Shares of HK\$2.975 on 30 December 2004, being the date of the Acquisition Agreement;
- (2) a discount of approximately 4.03% to the average closing price of the Shares of HK\$2.98 for the 30 consecutive trading days up to and including 30 December 2004;
- (3) a discount of approximately 1.38% to the average closing price of the Shares of HK\$2.90 for the 90 consecutive trading days up to and including 30 December 2004; and
- (4) a discount of approximately 5.45% to the closing price of the Shares of HK\$3.025 as at the Latest Practicable Date.

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(ii) Analysis of Share price

The chart below shows the closing prices of the Shares traded on the Stock Exchange from 12 January 2004 (the effective date of the Restructuring Proposal) up to and including the Latest Practicable Date:

Share price performance of the Company



Source: Bloomberg

The Restructuring Proposal became effective on 12 January 2004. For the rest of the first quarter of 2004, the Share price stayed above HK\$3.0. After that, the Share price fell gradually and reached a low of HK\$2.0 in June 2004. The Shares remained weak in June and July largely, in our view, because of the announcements made in relation to the winding up of two PRC joint ventures in such period. From August to December 2004, the price of the Shares slowly moved up to around HK\$3.0. On 31 December 2004, being the date of release of the announcement in respect of Acquisition (the "Announcement"), the Share price went up to HK\$3.275, representing an increase of 10% from the closing price of HK\$2.975 on the day before.

The prices of the Shares largely remained at above HK\$3.0 since the Announcement until late April 2005 when the Share price started to fall. The Share price traded within a range between HK\$2.5 and HK\$3.025 in May and June 2005 up to and including the Latest Practicable Date. As explained in the paragraph headed "Price of China's imported

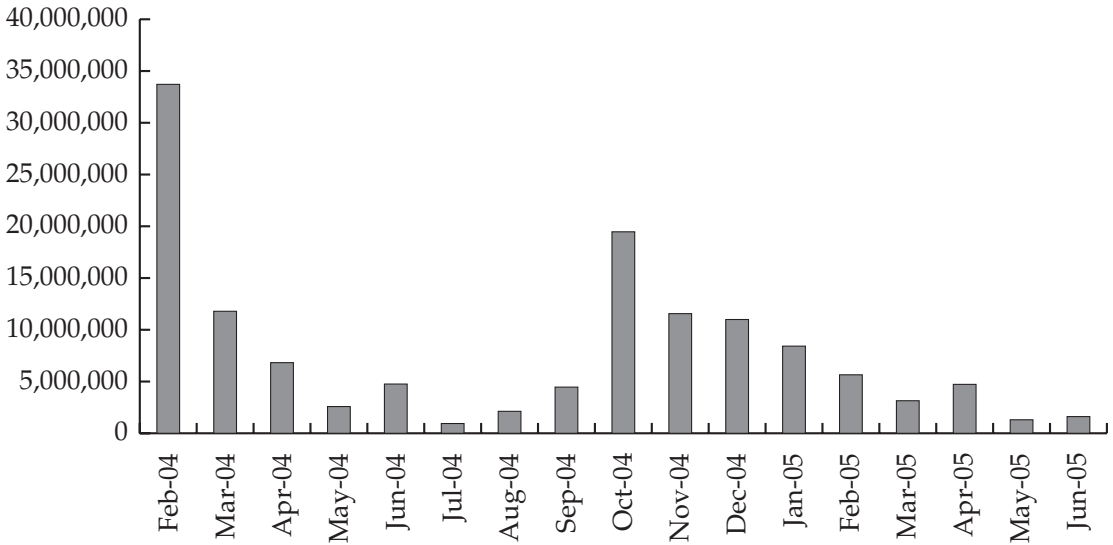
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alumina” above, fluctuation in the international spot price of alumina has a strong correlation with the fluctuation in the international spot price of aluminium. As the Group principally engaged in alumina trading, the Share price is susceptible to the fluctuation of aluminium prices. The international spot price of aluminium began to fall in mid April 2005 with occasional increase in June 2005. The fluctuation in the Share price was broadly in line with the market trend.

(iii) Analysis of trading volume

The chart below shows the monthly trading volume of the Shares on the Stock Exchange from February 2004 up to the Latest Practicable Date:

Number of Shares

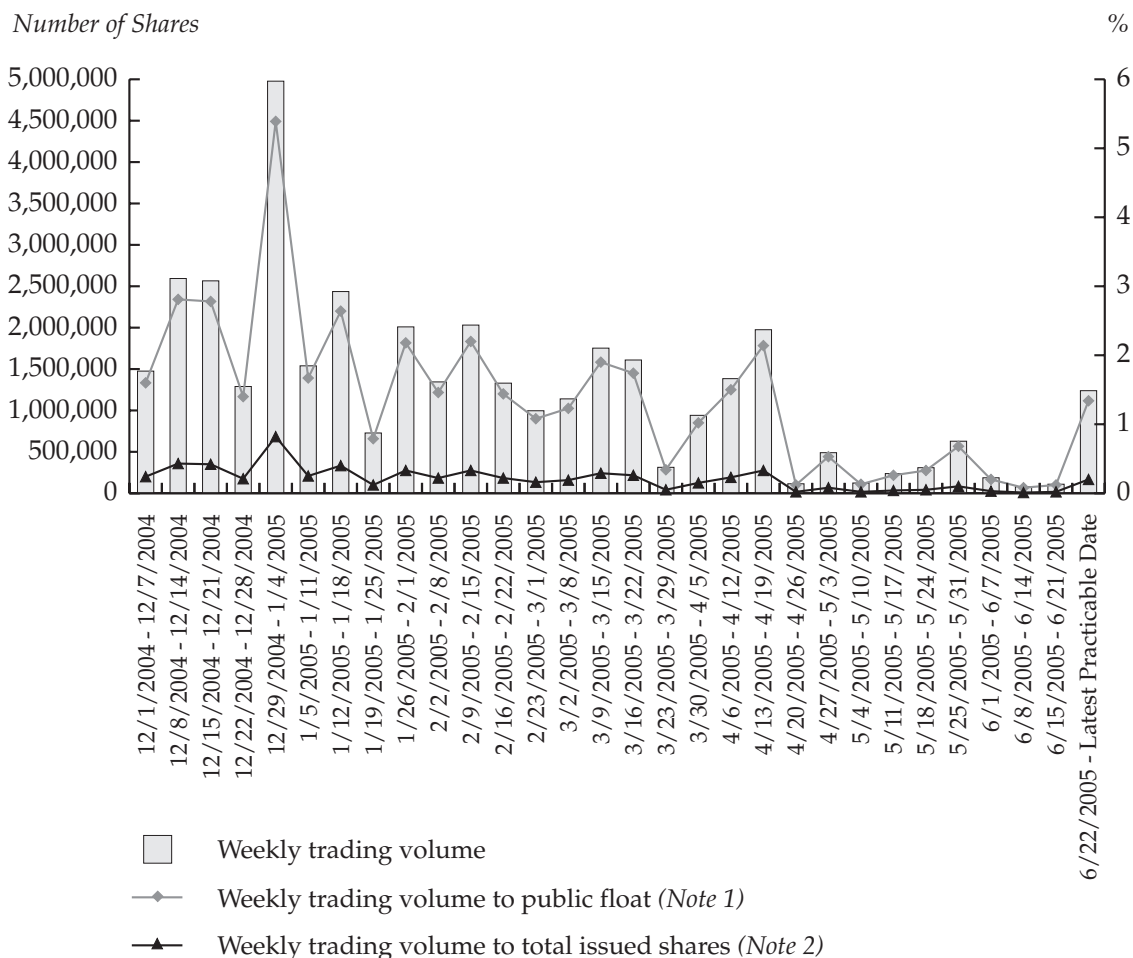


Source: Bloomberg

The above chart indicates that the Shares were actively traded in the first two months including February and March 2004 immediately following the Restructuring Proposal became effective. This, in our opinion, may be a result of expectations of improvement in the Group’s financial position after implementation of the Restructuring Proposal. Throughout the period from April 2004 to the Latest Practicable Date, except for October to December 2004, the Shares were in general thinly traded on the Stock Exchange.

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The following table sets out the total number of Shares traded on the Stock Exchange per week and the weekly trading volume as a percentage of the issued share capital of the Company and of the Company's public float for the period commencing from December 2004 up to the Latest Practicable Date.



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The Shares traded at a low level during the first four weeks of December 2004. The significant increase in trading volume during the period from 29 December 2004 to 4 January 2005, was primarily due, in our view, to the market's positive response to the Announcement.

We consider that trading in Shares has been relatively inactive during the period under review except for periods shortly after the announcements of the Restructuring Proposal and the Acquisition. We believe that Completion will improve the prospects for higher and more consistent liquidity of the Shares.

(e) *Method of payment and dilution of Independent Shareholders' holdings*

The consideration for the Acquisition will be satisfied entirely by the allotment and issue of the Consideration Shares. This is favourable to the Company in that it enables the Group to make an acquisition of a very significant business without a large outlay of cash, but involves the issue of a substantial number of new Shares with consequent dilution to the Independent Shareholders. We are advised that the Company has considered a rights issue or an open offer to raise the necessary capital to finance the Acquisition which could avoid dilution to the Independent Shareholders' percentage interest in the Company. However, having considered the past performance and financial position of the Group and the thin trading volume of the Shares, the management considers it unlikely that arm's length underwriters and Independent Shareholders would be attracted to participate in a rights issue or an open offer on the same terms as the Consideration Shares.

The following table illustrates the Company's shareholding changes as a result of the Acquisition:

Shareholders	Existing shareholding as at the Latest Practicable Date		Shareholding structure after the Acquisition but before the Placing	
	Number of Shares	%	Number of Shares	%
Coppermine and Vendor	455,376,917	74.98	1,464,467,826	90.60
Public Shareholders	151,972,695	25.02	151,972,695	9.40
	<u>607,349,612</u>	<u>100.00</u>	<u>1,616,440,521</u>	<u>100.00</u>

The interest of the existing Independent Shareholders will be diluted from approximately 25.02% to approximately 9.4% upon issue of the Consideration Shares. We consider the level of dilution to the existing Independent Shareholders significant. However, Independent Shareholders will participate in a much larger business which is expected to improve the revenue base and boost the profit of the Enlarged Group and is likely to lead to more consistent liquidity of the Shares.

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As stated above, Completion is conditional on, among other things, appropriate arrangements in relation to the Placing having been made to the satisfaction of the Vendor and the Company to ensure that not less than 25% of the issued Shares will be held in public hands upon Completion and such Placing becoming unconditional in all respects (save for any conditions requiring the Completion to take place). It is currently expected that the Placing will be completed on the same date as Completion. In the event that Shares then held by Coppermine are placed to restore the public float, the percentage shareholding in the Company of the existing public Shareholders will not be affected. If, however, new Shares are issued in order to restore the public float, then the percentage shareholding of the existing public Shareholders will be further diluted. Further details on the Placing are set out in the Letter from the Board under the paragraph headed "Effects of the Acquisition on the Company's shareholdings structure".

The Stock Exchange has stated that if the public float falls below 25% as required under Rule 8.08 of the Listing Rules, it will consider exercising its discretion to suspend trading in the Shares until a sufficient public float is attained.

6. Financial effects of the Acquisition on the Group

(a) Net profit

The Acquisition will significantly improve the net profit of the Group as enlarged by the Acquisition. The table below shows the difference between the net profit of the Group and the Enlarged Group for the year ended 31 December 2004:

	The Group <i>HK\$ million</i>	The Target Group <i>HK\$ million</i>	The Enlarged Group <i>HK\$ million</i>	Increase <i>%</i>
31 December 2004	217.7	372.8	475.3	118
31 December 2004 (adjusted)	120.3*	372.8	377.9	214

* Adjusted for the non-recurring deconsolidation profit of two subsidiaries of HK\$97.4 million.

For the year ended 31 December 2004, the earnings per Share of the Group was HK\$0.37 and the earnings per Share of the Enlarged Group would be HK\$0.29. However, as discussed above, the Group's results for the year ended 31 December 2004 were, in our view, inflated due to the deconsolidation profit of HK\$97.4 million. After adjusting for such non-recurring item, the earnings per Share of the Group would be approximately HK\$0.20, as compared to HK\$0.23 for the Enlarged Group.

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We set out below the calculation of the earnings per Share for the year ended 31 December 2004 of the Group and the Enlarged Group respectively:

	The Group <i>HK\$ million</i>	The Enlarged Group <i>HK\$ million</i>
Net profit	217.7	475.3
Adjustments:		
– deconsolidation profit	(97.4)	(97.4)
Adjusted profit	120.3	377.9
Earnings per Share	<u>HK\$0.37</u>	<u>HK\$0.29</u>
Adjusted earnings per Share	<u>HK\$0.20</u>	<u>HK\$0.23</u>
	(Based on the weighted average number of 593,062,328 Shares in issue)	(Based on 1,616,440,521 Shares in issue)

(b) Net assets

As set out in Appendix III to the Circular, after Completion, the net assets of the Group as at 31 December 2004 will increase from HK\$422.0 million to HK\$3,308.0 million. As the Target Group carries goodwill of approximately HK\$6.8 million, and goodwill of approximately HK\$1,373.6 million will arise from the Acquisition, the net tangible asset value of the Group will increase from HK\$422.0 million to HK\$1,927.6 million. On a per Share basis, the net asset value will increase from HK\$0.69 to HK\$2.05 and the net tangible assets will increase from HK\$0.69 to HK\$1.19. The following table sets out the net asset value per Share and net tangible

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asset value per Share as at 31 December 2004 of the Group and the Enlarged Group respectively:

	The Group <i>HK\$ million</i>	The Enlarged Group <i>HK\$ million</i>
Net assets as at 31 December 2004	HK\$422.0	HK\$3,308.0
Less: Goodwill arising from the Acquisition	–	HK\$1,373.6
Goodwill of the Target Group	–	HK\$6.8
	<u>HK\$422.0</u>	<u>HK\$1,927.6</u>
Net tangible assets as at 31 December 2004	<u>HK\$422.0</u>	<u>HK\$1,927.6</u>
	<i>Number of Shares</i>	<i>Number of Shares</i>
Number of existing Shares	607,349,612	607,349,612
Issue of Consideration Shares	–	1,009,090,909
	<u>607,349,612</u>	<u>1,616,440,521</u>
Net asset value per Share	<u>HK\$0.69</u>	<u>HK\$2.05</u>
Net tangible asset value per Share	<u>HK\$0.69</u>	<u>HK\$1.19</u>

The improvement in the overall pro forma net assets and net tangible assets position of the Group represents a significant benefit to the Company and the Shareholders as a whole.

(c) Gearing

The Group's total bank borrowings as at 31 December 2004 were approximately HK\$313.2 million. The Enlarged Group's total bank borrowings as at 31 December 2004, including the total bank borrowings of the Target Group, amounted to HK\$1,134.5 million, was approximately HK\$1,447.7 million.

The Group's gearing ratio (defined as total bank borrowings divided by net assets) as at 31 December 2004 was 74.2%. After Completion, the gearing ratio of the Enlarged Group would be 43.8%. The significant improvement is attributable to the Target Group's net assets position and issue of the Consideration Shares for the Acquisition, which would enhance the Enlarged Group's equity base. The improved gearing should improve the Enlarged Group's credit rating and reduce its cost of borrowing.

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The following table shows the gearing ratios of the Group and the Enlarged Group as at 31 December 2004:

	The Group <i>HK\$ million</i>	The Enlarged Group <i>HK\$ million</i>
Short-term bank loans	218.9	690.0
Long-term bank loans (current portion)	–	73.1
Long-term bank loans (non-current portion)	94.3	684.6
	<hr/>	<hr/>
Total bank borrowings	313.2	1,447.7
Net asset value	422.0	3,308.0
Gearing ratio	74.2%	43.8%
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NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Contracts that have not been novated pursuant to the Reorganisation

(a) *Background to and reasons for entering into the Agreement on Non-transferred Contracts*

Prior to the incorporation of Minmetals Aluminium, substantially all of the alumina sourcing and alumina sales contracts were entered into by CMN with relevant suppliers or customers.

Following the incorporation of Minmetals Aluminium, Minmetals Aluminium has entered into all new alumina sourcing and sales contracts directly with its suppliers or customers. The Minmetals Group has since then ceased to enter into any new alumina sourcing and sales contracts. Although CMN has been actively procuring the novation of the existing alumina sourcing and sales contracts to Minmetals Aluminium, as at the Latest Practicable Date, CMN remained a party to certain contracts (the “Non-transferred Contracts”) including three sourcing contracts (the “Non-transferred Sourcing Contracts”) and nine sales contracts (the “Non-transferred Sales Contracts”). The following table sets out the volume and amount of both alumina sourced under the Non-transferred Sourcing Contracts and alumina sold under the Non-transferred Sales Contract for the three years ended 31 December 2004:

	Sourcing		Sale	
	Volume	RMB	Volume	RMB
	<i>(‘000 tonnes)</i>	<i>million</i>	<i>(‘000 tonnes)</i>	<i>million</i>
2002	–	–	–	–
2003	228	329.2	–	–
2004	449	889.1	953	2,537.9

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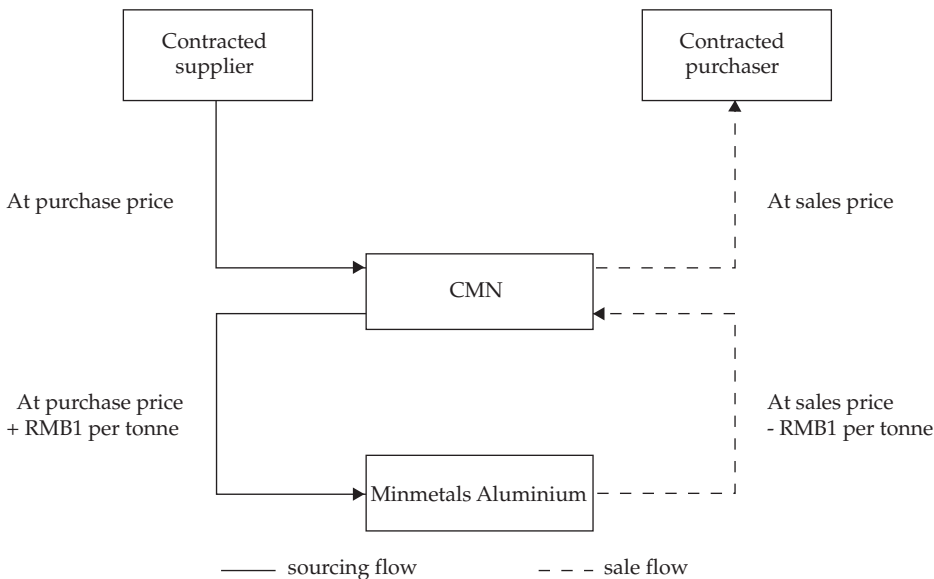
The Directors and the Proposed Directors expect the consents for the novation of the Non-transferred Contracts (all of which have been entered into with independent third party suppliers or customers of the Target Group) are unlikely to be forthcoming unless the terms of the contracts are revised in favour of the other contracting parties. To minimise any chance of disruption to the operation of the Target Group, CMN entered into the Agreement on Non-transferred Contracts with Minmetals Aluminium on 28 June 2005.

Upon Completion, CMN will become a connected person of the Company by virtue of it being an 82.2% owned subsidiary of China Minmetals, the ultimate controlling Shareholder. The transactions contemplated under the Agreement on Non-transferred Contracts therefore constitute continuing connected transactions of the Company under the Listing Rules.

(b) Terms of the Agreement on Non-transferred Contracts

Pursuant to the Agreement on Non-transferred Contracts, CMN will sell the alumina sourced under 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-sale to the contracting parties under the Non-transferred Sales Contracts at the contracted sales price minus RMB1 per tonne with effect from 1 January 2005.

The following diagram shows the flow of goods under the Agreement on Non-transferred Contracts:



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The Agreement on Non-transferred Contracts was entered into after arm's length negotiation between the relevant parties. It will expire on 31 December 2006. The nominal fee of RMB1 per tonne merely serves to cover the administrative costs incurred by CMN. The Directors and the Proposed Directors regard the continued service of CMN in handling the Non-transferred Contracts as an interim measure only and have no intention to carry on any further alumina sourcing and sales through CMN.

As the purpose of the nominal fee RMB1 per tonne is for covering the administrative costs incurred by CMN and the objective of the Agreement on Non-transferred Contracts is for the consummation of the Non-transferred Contracts, we are of the view that the terms of the Agreement on Non-transferred Contracts are fair and reasonable.

(c) Cap amounts

The cap amounts of the aggregate annual purchase price payable and sale proceeds receivable under the Agreement on Non-transferred Contracts are set out below:

	Proposed annual cap	
Purchase price payable	For 2005:	RMB630 million
	For 2006:	RMB340 million
Sales proceeds receivable	For 2005:	RMB1,330 million
	For 2006:	RMB2,570 million

The above cap amounts were determined based on (i) the purchase volume and sales volume as stipulated in the Non-transferred Contracts which amount to 767,000 tonnes of alumina for the period from the date of Completion to 31 December 2005 and 1,196,000 tonnes of alumina for 2006; and (ii) the Company's estimate of the prevailing purchase price and sales price of alumina.

Of the proposed cap of purchase price payable and sales proceeds receivable in 2005 of no more than RMB1,960 million in aggregate, only RMB767,000 is expected to be paid to CMN and the balance of approximately RMB1,959 million is expected to be paid to/received from the relevant contracting parties under the Non-transferred Contracts through CMN pursuant to the Agreement on Non-transferred Contracts. Similarly, of the proposed cap of purchase price payable and sales proceeds receivable in 2006 of no more than RMB2,910 million in aggregate, only RMB1,196,000 is expected to be paid to CMN and the balance of approximately RMB2,909 million is expected to be paid to/received from the relevant contracting parties under the Non-transferred Contracts through CMN pursuant to the Agreement on Non-transferred Contracts. Collectively, an aggregate RMB1,963,000 is expected to be paid to CMN pursuant to the Agreement on Non-transferred Contracts in the two years ending 31 December 2006.

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We have reviewed the Non-transferred Sourcing Contracts and the Non-transferred Sales Contracts which show the estimated purchase volume and sales volume of alumina for the remaining part of 2005 and 2006 and discussed with the management of Company their estimated purchase price and sale price of alumina. Such estimates were arrived at with reference to their experience and knowledge in the alumina market.

Based on the above information, we consider the basis and factors that the Directors and the Proposed Directors have taken into account in determining the above cap amounts are relevant and justifiable and the cap amounts for the purchase price payable and sales proceeds receivable for 2005 and 2006 are fair and reasonable.

2. Logistics Services Agreement

(a) Background to and reasons for entering into the Logistics Services Agreement

Minmetals Shipping, a 71.7% owned subsidiary of China Minmetals, entered into the Logistics Services Agreement dated 28 June 2005 with Minmetals Aluminium pursuant to which Minmetals Shipping agreed to provide and to procure its subsidiaries to provide shipping, customs clearance, unloading, packaging and custody services at Lianyungang, Qingdao and Tianjin and such other ports in China as the parties may agree from time to time to the Target Group (the “Services”).

Although the Target Group also provides port logistics services, such services are limited to the port of Lianyungang in Jiangsu Province. The Target Group has been engaging Minmetals Shipping and its subsidiaries to provide logistics services to its customers at other ports of entry. By engaging Minmetals Shipping and its subsidiaries, the Enlarged Group would be able to continue serving its customers’ needs for logistics services at other ports of entry including Qingdao and Tianjin.

Upon Completion, Minmetals Shipping will become a connected person of the Company by virtue of it being a 71.7% owned subsidiary of China Minmetals. The transactions contemplated under the Logistics Services Agreement therefore constitute continuing connected transactions of the Company under the Listing Rules.

(b) Terms of the Logistics Services Agreement

The service fee to be charged for the Services pursuant to the Logistics Services Agreement would be on terms no less favourable than those offered by Minmetals Shipping and its subsidiaries to independent third parties and determined in accordance with the following principles:

- (i) if the PRC Government has stipulated prices for those particular Services, the stipulated prices;
- (ii) if there are no such stipulated prices but the PRC Government has issued pricing guidelines, the guideline prices;

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- (iii) if there are no stipulated prices or guideline prices, prices that are in line with market price; or
- (iv) if there are no stipulated prices, guideline prices or market price, a price to be mutually agreed between the two parties and determined based on the cost incurred by Minmetals Shipping in providing that particular Services plus a reasonable profit of no more than 10% of the cost.

The Logistics Services Agreement will be for a term expiring on 31 December 2007. Unless both parties agree to terminate the Logistics Services Agreement in writing, the Logistics Services Agreement will be extended automatically for a further term of three years on the same terms including the provision on automatic extension but subject to the then applicable requirements governing continuing connected transactions under the Listing Rules, including but not limited to the approval by the Independent Shareholders (if required).

(c) Cap amounts

The cap amounts of the aggregate annual logistics service fees payable under the Logistics Services Agreement are set out below:

	Proposed annual cap	
Logistics service fees payable	For 2005:	RMB150 million
	For 2006:	RMB100 million
	For 2007:	RMB100 million

The proposed cap amounts for logistics service fees payable were determined based on internal projections of volume to be transported and assuming the average shipping costs associated with the Services to be US\$30 per tonne for each of the three years ending 31 December 2005, 2006 and 2007.

We have reviewed the records which show the volume transported and logistics service fees paid to Minmetals Shipping and its subsidiaries for the Services for the year ended 31 December 2004, which amounted to approximately RMB152.8 million and represented a substantial increase as compared with that for the year ended 31 December 2003. Such increase was primarily due to the 129% increase in the average shipping costs associated with the Services, and, to a lesser extent, increase in volume transported. We have also reviewed the internal projections of volume to be transported (being 600,000 tonnes for 2005 and 400,000 tonnes for each of 2006 and 2007) prepared by the Target Group with reference to the historical transported volume (being 545,525 tonnes for the year ended 31 December 2004). The cap amounts for the logistics service fees payable for 2005, 2006 and 2007 are calculated based on the projected volume for each year and the estimated average shipping costs of US\$30 per tonne.

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Based on the above information, we consider the basis and factors that the Directors and the Proposed Directors have taken into account in determining the above cap amounts are relevant and justifiable and the cap amounts for the logistics service fees payable for 2005, 2006 and 2007 are fair and reasonable.

3. Conditions of the transactions under the Agreement on Non-transferred Contracts and the Logistics Services Agreement

The Agreement on Non-transferred Contracts and the Logistics Services Agreement and the respective caps in relation to these Non-exempt Continuing Connected Transactions are subject to the Independent Shareholders' approval on the following conditions:

- (a) the total annual transaction value of each of the Agreement on Non-transferred Contracts and the Logistics Services Agreement will not exceed the following cap amounts (collectively the "Cap Amounts"):
 - (i) in relation to the transactions under the Agreement on Non-transferred Contracts, the aggregate value of transactions thereunder for the two years ending 31 December 2006 will not exceed RMB1,960 million (equivalent to approximately HK\$1,849 million) and RMB2,910 million (equivalent to approximately HK\$2,745 million) respectively; and
 - (ii) in relation to the transactions under the Logistics Services Agreement, the aggregate value of service fees payable by Minmetals Aluminium for the three years ending 31 December 2007 will not exceed RMB150 million (equivalent to approximately HK\$142 million), RMB100 million (equivalent to approximately HK\$94 million) and RMB100 million (equivalent to approximately HK\$94 million) respectively;
- (b) transactions under the Agreement on Non-transferred Contracts and the Logistics Services Agreement will be:
 - (i) entered into in the usual and ordinary course of business of the Enlarged Group;
 - (ii) conducted either on normal commercial terms; or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Enlarged Group than terms available to or from (as appropriate) independent third parties; and
 - (iii) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders taken as a whole;

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- (c) the independent non-executive Directors will review the Non-exempt Continuing Connected Transactions and confirm in the annual report and accounts that the Non-exempt Continuing Connected Transactions have been entered into:
 - (i) in the ordinary and usual course of business of the Group;
 - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
 - (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (d) the auditors of the Company will review the Non-exempt Continuing Connected Transactions annually and confirm to the Directors in writing (with a copy to be provided to the Stock Exchange) in respect of each relevant financial year during which the Non-exempt Continuing Connected Transactions were conducted, stating whether:
 - (i) the Non-exempt Continuing Connected Transactions have been approved by the Directors (including the independent non-executive Directors);
 - (ii) the Non-exempt Continuing Connected transactions have been entered into in accordance with the pricing policies of the Enlarged Group;
 - (iii) the Non-exempt Continuing Connected transactions have been entered into in accordance with the terms of the relevant agreements governing them; and
 - (iv) the values of the Non-exempt Continuing Transactions have not exceeded the respective Cap Amounts set out in paragraph (a) above;
- (e) the Company and each party to the transactions described in the Agreement on Non-transferred Contracts and the Logistics Services Agreement respectively shall procure that, for so long as the Shares are listed on the Stock Exchange and the relevant Non-exempt Continuing Connected Transactions continue, the auditors of the Company shall be given full access to inspect their respective accounts and records for the purpose of preparing the reports referred to in paragraph (d) above;
- (f) the Company has undertaken to promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in Rules 14A.37 and/or 14A.38 of the Listing Rules respectively; and

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- (g) the Company will, in relation to each of the Non-exempt Continuing Connected Transactions, comply with the relevant requirements under Chapter 14A of the Listing Rules governing continuing connected transactions.

In the event of any amendments to the terms of the Agreement on Non-transferred Contracts or the Logistics Services Agreement (unless as provided for under the terms of the relevant agreements) and any extension of the term thereof, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules, unless the Company reports to the Stock Exchange and is granted an exemption. On this basis, we are of the view that the interests of the Shareholders will be properly safeguarded.

DISCUSSION AND ANALYSIS

Acquisition

Commercially, the Acquisition will enable the Group to widen its alumina and aluminium business and increase the scale of alumina and aluminium related operations. The Group will also have the opportunity to leverage on the “Minmetals” brand and the network of the Target Group in alumina and aluminium related business. We consider that the commercial logic for the Acquisition is sound.

The Group recorded a profit of HK\$217.7 million for the year ended 31 December 2004. However, this profit is inclusive of a one-off deconsolidation profit of HK\$97.4 million. Taking out the non-recurring item, the Group’s profit for 2004 would be reduced to HK\$120.3 million. The remaining profitability is largely attributable, in our opinion, to the profit generated from alumina trading business. Such profit is dependent on the Pechiney Contract which enables the Group to obtain alumina at low cost. This contract expired at the end of 2004. In view of the above factors, we consider the Group will not be able to sustain the 2004 level of profits or may even record a loss in the coming year without a major acquisition or other similar development.

The consideration of HK\$2,886 million will be settled by issue of 1,009,090,909 new Shares at HK\$2.86 each. This will enable the Group to acquire a profitable business without sacrificing its liquidity. The issue price of the Consideration Shares represents a narrow discount to average market prices before the announcement of the Acquisition.

The P/E ratio implied by the consideration is 7.7 times (based on 2004 earnings) which is lower than the 90-day average P/E ratio of 10.3 times of Chalco and is also lower than the P/E ratio of 8.1 times of Chalco as at the Latest Practicable Date. Chalco is engaged in both the production and trading of aluminium and alumina and therefore may not be entirely comparable to the Target BVI.

Independent Shareholders’ percentage interest in the Company will be diluted from 25.02% to 9.4% after Completion. Independent Shareholders’ percentage interest in the Company will be further diluted in the event that a placing of new Shares by the Company is necessary to achieve sufficient public float. This is significant but we regard such dilution as inevitable in the case of a substantial acquisition of this type. We concur with the

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Directors that although a rights issue or an open offer to raise necessary capital to finance the Acquisition could avoid dilution to the Independent Shareholders' percentage interest in the Company, however, given the past performance and the financial position of the Group and the thin trading volume of the Shares, it is unlikely that arm's length underwriters and Independent Shareholders would be attracted to participate in a rights issue or an open offer on the same terms as the Consideration Shares.

The Acquisition is expected to have positive effect on the financial of the Group. As described in section 6 above, the earnings per Share for the year ended 31 December 2004, after adjusting for the non-recurring items would be improved by 15% from HK\$0.20 to HK\$0.23. Following the Acquisition, the net tangible asset value per Share will increase by 72% from HK\$0.69 to HK\$1.19 and the gearing ratio will improve from 74% to about 44%.

Non-exempt Continuing Connected Transactions

Upon Completion, certain members of the Enlarged Group and connected persons (as defined under the Listing Rules) of the Company will carry out or will continue to carry out transactions that will constitute non-exempt continuing connected transactions for the Company under the Listing Rules.

Agreement on Non-transferred Contracts

The Agreement on Non-transferred Contracts allows Minmetals Aluminium to be involved in the sourcing and sales of alumina under the contracts that have not been novated by CMN to it. Pursuant to the Agreement on Non-transferred Contracts, CMN will route through Minmetals Aluminium the alumina it sourced from the relevant suppliers before it makes the sales to the relevant customers. In the routing process, 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-sale to the contracting parties under the Non-transferred Sales Contracts at the contracted price minus RMB1 per tonne. We consider the Agreement on Non-transferred Contracts a normal commercial arrangement to preserve the terms of Non-transferred Contracts in the interim period and facilitate a smooth transition for the Target Group to become the flagship company of China Minmetals' alumina and aluminium related business.

Logistics Services Agreement

Minmetals Shipping and its subsidiaries have been providing logistics services to members of the Target Group. These logistics services cover other ports of entry to which the Target Group itself does not have access. In any event, assuming Minmetals Aluminium wishes to continue providing a comprehensive range of services, including logistics services at ports other than Lianyungang, to its customers, it would have to engage a port logistics services company. Having considered the business rationale of the Logistics Services Agreement and the continuity of Minmetals Shipping's service, we are of the view that the entering into of the Logistics Services Agreement is an ordinary business arrangement.

LETTER FROM SOMERLEY

OPINION AND ADVICE

Having taken into account the above factors and reasons, we consider that the terms of the Acquisition and the Non-exempt Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and the entering into of the Acquisition and the Non-exempt Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Acquisition and the Non-exempt Continuing Connected Transactions.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

RISK FACTORS

RISKS RELATING TO THE BUSINESS OF THE TARGET GROUP

Government involvement in the PRC aluminium industry may remain substantial

The PRC Government exercises a substantial degree of influence over the aluminium industry in China and shapes the structure and characteristics of the industry by measures such as:

- implementing policies to facilitate the consolidation of the industry to discourage the use of outdated and non-environmental friendly technologies;
- encouraging technological innovation in the smelting sector;
- influencing credit and investment policies;
- pricing electricity and other utilities and railway transportation;
- setting safety, environmental and quality standards;
- selectively approving major capital expenditure projects;
- setting tax rates, tax concessions and other incentives; and
- setting import tariffs.

The aluminium industry, together with the steel, cement and real estate industries, is one of the four key sectors of the PRC economy that the PRC Government has introduced policies in 2003 with a view to discouraging irrational over expansion in these sectors, primarily by influencing the availability of banking credit. The PRC Government is concerned that over investment in aluminium smelters may lead to excess capacity, falling prices for ingots and bad loans. The PRC Government is also currently concerned about the large amount of electricity that is consumed by the aluminium industry that exacerbates the shortage of electricity in China. As far as the Directors and the Proposed Directors are aware, the PRC Government also controls the importation of alumina into the PRC by confining the issuance of AIL required for importing alumina into the PRC to only a number of corporations, including CMN. The Company's PRC legal advisers, King and Wood, are unable to provide any legal opinion on any restrictions or measures imposed by the PRC Government that have limited the number of AILs granted by the Ministry of Commerce.

As disclosed in the paragraph headed "Information on the Target Group and the Group – The Target Group – Business of the Target Group – Importation arrangements" in this circular, the Target Group has not obtained any AIL solely on its own name. It imports alumina into the PRC by having its name included as a party to CMN's AIL. There is no assurance that the PRC Government will not impose measures to restrict or cease to issue AIL to the Target Group under such dual-name AIL arrangement. In the event the Target Group is unable to rely on this dual-name AIL arrangement or should the PRC Government impose any measures that may adversely affect the Target Group's import activities under this dual-name AIL arrangement, the Target Group's business, financial condition and results of operations could be adversely affected.

RISK FACTORS

Further, although the PRC Government does not set or regulate prices for alumina or aluminium nor regulates from whom or to whom the Target Group may source or sell the alumina, there is no assurance that the PRC Government may not impose policies that may have an adverse effect on aluminium smelters in the PRC which are the Target Group's customers. Should this occur, the Target Group's business, financial condition and results of operations could also be adversely affected.

China's accession to the WTO has increased competition for the Target Group from its international competitors

China's accession to the WTO on 11 December 2001 has resulted in the reduction or elimination of various restrictions including:

- the elimination of quotas for alumina sourced from the international markets into the PRC
- the reduction of import tariffs on alumina and primary aluminium
- the elimination of export rebates on primary aluminium
- the removal of certain obstacles to foreign direct investment in the PRC aluminium industry

The abolishment of export rebate of 8% on 1 January 2005 has a negative impact on the PRC's aluminium smelters, which may, in turn, impact on the demand for alumina. China's accession to the WTO also increased competition for the Target Group from its international competitors which are the Target Group's major suppliers and the world's dominant aluminium companies that ultimately wish to sell alumina directly to aluminium smelters in China.

The Target Group's business and results of operations are susceptible to volatility in alumina and aluminium prices and economic cyclicity

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

Historically, the international markets for alumina and primary aluminium have been cyclical and at times have experienced alternating periods of increased demand, causing prices and margins to increase, followed by periods of excess supply, causing prices and margins to decline.

RISK FACTORS

There is no assurance that the aluminium futures contracts entered into by the Target Group for hedging against the risks linked to adverse price movements and cyclical markets in alumina and aluminium, volatility in alumina and aluminium prices could protect the Target Group effectively against the adverse impact that the volatility in alumina and aluminum prices could have on the Target Group's business, financial condition and results of operations.

Dependence on Alcoa

The Alcoa Contract is the most important sourcing contract of the Target Group, accounting for about 36.6%, 20.9% and 24.4% of the total alumina sourced by the Target Group for the three years ended 31 December 2004, respectively. Although this contract still has a remaining term of over 20 years, it is terminable by notice by either contracting parties in the two years following October 2006 and in certain other circumstances as specified in the contract.

Pursuant to the Alcoa Contract, the Target Group has also paid an upfront payment of US\$240 million to Alcoa. Alcoa is liable to pay a sum to the Target Group if the Alcoa Contract is terminated before expiry of its full term in certain circumstances as set out in the contract, but there is no assurance that such sum is sufficient to cover the loss that the Target Group may suffer as a result. In addition, no security has been put in place to secure Alcoa's due payment of such sum on early termination under the terms of the Alcoa Contract. The upfront payment is currently funded by a loan granted by Bank of China the outstanding amount of which, as at 31 December 2004, was approximately RMB703.5 million. Any deterioration in the working relationship with Alcoa or early termination of the Alcoa Contract or failure by Alcoa to pay the Target Group upon early termination in accordance with the Alcoa Contract could have a material adverse impact on the financials and performance of the Target Group.

The Target Group is dependent on relatively few suppliers of alumina and the nature of the Target Group's business involves risks that may impact on its operations

The Target Group is primarily involved in sourcing alumina from the international markets for consumption in China. This involves dealing with a limited number of alumina refineries and many aluminium smelters and with the logistics of transporting alumina from alumina refineries to aluminium smelters.

Alumina refining and aluminium smelting involve a number of risks. Significant industry-related accidents, industrial action, power outages or shortages or financial difficulties affecting the alumina refineries or aluminium smelters with whom the Target Group trades, may result in the cessation of their production or damage to their production facilities which could have an adverse impact on the Target Group's business, financial condition and results of operations.

RISK FACTORS

Transporting alumina also involves a number of risks. The Target Group is dependent on port facilities for loading and unloading, dry bulk carriers for shipment and the PRC railway, and to a lesser extent, road system for the transportation of alumina. The Target Group may experience cargo losses, industrial action or transportation bottlenecks and the consequences resulting from them may not be covered adequately, or at all, by any insurance policies.

High reliance on spot contracts and short-term sales contracts

In the year ended 31 December 2004, sales of alumina under spot and short-term sourcing contracts accounted for about 44.0% of the total volume sold by the Target Group. High reliance on spot and short-term contracts may render the Target Group more susceptible to volatility in alumina and aluminium prices and economic cyclicity. Moreover, failure to secure new contracts to maintain the same level of sales achieved via these spot and short-term sourcing contracts could adversely affect the financials and performance of the Target Group.

Net current liabilities

The Target Group had net current liabilities of approximately RMB121.1 million (equivalent to approximately HK\$113.9 million) as at 31 December 2004. Of the net current liabilities, the unsecured short-term bank loans of the Target Group amounted to approximately RMB501.2 million (equivalent to approximately HK\$471.1 million). Should the Target Group have insufficient cash flow to repay its current liabilities, the operation and cash flow of the Target Group may be adversely affected.

RISKS RELATING TO THE BUSINESS OF THE GROUP

Expiry of the Pechiney Contract

Between 1999 and 2004, Pechiney Trading Company supplied an aggregate of 453,401 tonnes of alumina to the Company pursuant to the Pechiney Contract. The purchase price under the Pechiney Contract was determined as a percentage to the LME (price) which might be lower than the prevailing market prices of alumina at times, resulted in a gain by the Company. The Pechiney Contract was not renewed after its expiry on 31 December 2004 as the parties could not agree on a price which was mutually acceptable and this could have an adverse effect on the business, financial condition and results of operations of the Group.

Absence of good title to a property occupied by the Group in the PRC

The owner of the production workshop and storage occupied by YOPT does not possess good title to such property. Should the title to such property be challenged and the Group is required to vacate such property, the business, financial condition and results of operations of the Group may be adversely affected.

RISK FACTORS

RISKS RELATING TO THE BUSINESS OF THE ENLARGED GROUP

Dependence on CMN and China Minmetals

As disclosed in the paragraph headed “Information on the Target Group and the Group – The Target Group – Business of the Target Group” in this circular, the Target Group imports overseas sourced alumina into the PRC by including its name as a party to CMN’s AIL. In importing each shipment of alumina into the PRC, the Target Group will also enter into shipment contracts with CMN as a party to the contract. Also, as disclosed in the paragraph headed “Relationship with the Minmetals Group – Connected transactions” in this circular, China Minmetals, CMN and their related companies will continue to carry on a number of transactions with the Enlarged Group, including the handling of certain subsisting sourcing and sales contracts that have not been novated pursuant to the Reorganisation to pass on the benefit of these contracts to the Enlarged Group under the Agreement on Non-transferred Contracts (as defined in the paragraph headed “Relationship with the Minmetals Group – Connected Transactions – Non-exempt Continuing Connected Transactions”). Should CMN refuse to allow the inclusion of the Target Group’s name into its AIL, or fail to perform the Agreement on Non-transferred Contracts, the operation of the Enlarged Group could be adversely affected.

The Enlarged Group’s limited operating history could affect operating efficiency in the short term

It is the intention of the Directors and the Proposed Director to take steps to integrate the Group’s business with the Target Group’s business on Completion by introducing an integrated financial and accounting information management and reporting system, product sales information and decision support system and a comprehensive enterprise resource planning system. Completing the integration of these formerly separate operations and managing them in a centralised and coordinated fashion will present challenges.

This process of integration will require changes to operating procedures that may have an adverse impact on the Enlarged Group’s business during the transitional period after Completion.

The interests of China Minmetals, which is the ultimate controlling Shareholder, may differ from those of the public Shareholders

Immediately following the Acquisition and assuming the Placing is conducted such that at least 25% of the issued shares will be held by the public, China Minmetals will beneficially own at most 75% of the Company’s enlarged issued share capital and will continue to be the Company’s ultimate controlling Shareholder. In addition, six proposed non-executive Directors hold senior management positions with China Minmetals. As a result, China Minmetals is likely to have significant influence on the Company’s management and policies and the outcome of most corporate actions. The interests of China Minmetals may be different from those of the Company’s public Shareholders.

RISK FACTORS

The Company may not be able to declare and pay any dividends until its accumulated losses are eliminated

As at 31 December 2004, the Company had accumulated losses of approximately HK\$1,040.4 million.

Under the laws of Hong Kong pursuant to which the Company is incorporated, dividends may only be declared out of a company's profits. Accordingly, in order for the Company to consider whether or not a dividend may be declared, it will be necessary for the Company to earn profits in excess of such accumulated losses. The Company's ability to pay dividends in the future will depend on how quickly these accumulated losses can be made up. The Company is considering a proposal to eliminate such losses by reducing its share premium account but there is no assurance as to whether and when such proposal may materialise.

Even if the Enlarged Group is able to accumulate profits in excess of such accumulated losses, there can be no assurance as to when or whether any dividend will be declared and the amount of any such dividend.

Part of the Enlarged Group's strategy involves execution risks

Part of the Enlarged Group's strategy is to invest in the businesses of alumina refiners and aluminium smelters. These investments are intended to generate an adequate return on the Enlarged Group's investment and to facilitate the entry into long-term contracts for the supply and sale of alumina. This strategy could be delayed or adversely affected by any failure to receive PRC or other regulatory approvals or to obtain credit financing, or by an inability to reach an agreement with the Enlarged Group's business partners on the terms of its investment in their business or for other reasons. Moreover, the investment required to be made in these projects may exceed the amount originally budgeted.

Another element of the Enlarged Group's strategy is to source stable supplies and sales of alumina pursuant to long-term contracts. The Enlarged Group may not be able to reach agreement with refiners and smelters on the terms of such contracts. Entering into long-term contracts may also reduce the Enlarged Group's scope for taking advantage of favourable prices in the physical market for alumina.

As a consequence, the return on investment and other economic benefits intended from these strategies may not materialise which could adversely affect the Enlarged Group's business, financial condition and results of operations.

RISK FACTORS

High gearing

For the year ended 31 December 2004, the total loans of the Enlarged Group amounted to about HK\$1,472.2 million. The net debt to equity ratio and the debt to equity ratio of the Enlarged Group was about 24.6% and 44.5% respectively. The high level of loans may expose the Enlarged Group to high interest expenditures, and there is no assurance that the Enlarged Group can reduce its borrowing level in the near future.

RISKS RELATING TO THE PRC IN GENERAL

PRC economic, political and social conditions as well as government policies could affect the Enlarged Group's business

Substantially all of the Enlarged Group's business, assets and operations are located in China. The economy of China differs from the economies of most developed countries in many respects, including:

- government involvement
- level of development
- growth rate
- control of foreign exchange
- allocation of resources

The economy of China has been changing from a planned economy to a more market-oriented economy. Although in recent years the PRC Government has implemented measures emphasising the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of sound corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the PRC Government.

In addition, the PRC Government continues to play a significant role in regulating industry by imposing industrial policies. It also exercises significant control over China's economic growth through the allocation of resources, controlling payment of foreign currency-denominated obligations and setting monetary policy.

The economy of China has enjoyed rapid economic growth since 1979 but that growth has been uneven both geographically and among various sectors of the economy. The PRC Government has implemented various measures from time to time to control the rate of economic growth and inflation.

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Some of these measures may have a negative effect on the Enlarged Group's business. For example, the Enlarged Group's operating results and financial condition may be adversely affected by policies affecting industries such as the construction, packaging and transportation industries that are key consumers of aluminium products.

The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available

The PRC legal system is a system based on written statutes and their interpretation. Prior court decisions may be cited for reference but have limited precedential value. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. In addition, as the PRC legal system develops, the Enlarged Group's operating results and financial condition may be adversely affected by changes in such laws and regulations, their interpretation or their enforcement.

Devaluation or appreciation in the value of RMB could adversely affect the Enlarged Group's operating results

The value of RMB is subject to changes in the PRC's government policies and to international economics and political developments. Since 1994, the conversion of RMB into foreign currencies, including HK and US dollars, has been based on rates set by the People's Bank of China, which are set daily based on the previous day's interbank foreign exchange market rates and current exchange rates on the world financial markets. The RMB to US dollars exchange rate experienced significant volatility prior to 1994, including periods of sharp devaluation, and the PRC's government remains under international pressure to allow this rate to float. The exchange rate may become volatile and the RMB may be devalued again against the US dollars or other currencies, or the RMB may be permitted to enter into a full or limited free float, which may result in an appreciation in the value of the RMB against the US dollars or other currencies, any of which could have an adverse effect on the Enlarged Group's business and operating results.

RISK RELATING TO THE ACQUISITION

The Acquisition may not be completed

Completion is subject to the fulfilment of a number of Conditions, details of which are set out in the "Letter from the Board" in this circular. A number of such Conditions involve the decisions of third parties, including approvals by the Independent Shareholders at the EGM, the approval by the Listing Committee of the Stock Exchange of the Company's new listing application and the conditions to the Placing being fulfilled. In particular, the Stock Exchange may not grant approval for the Company's new listing application in respect of the Acquisition if the Company is unable to comply with the requirements

RISK FACTORS

under Rules 8.08(2) and 8.08(3) of the Listing Rules at the time of Completion. As the fulfilment of the Conditions is beyond the control of the parties to the Acquisition, the Acquisition may or may not be completed.

Substantial dilution of the existing public Shareholders' interest in the Company as a result of the Acquisition

New Shares to be issued incidental to the Acquisition range from a minimum of 1,009,090,909 new Shares (being the Consideration Shares) to up to 1,345,274,156 new Shares in the event the Placing is conducted by way of an issue of new Shares only. The existing public Shareholders' interest would be diluted substantially from approximately 25.02% of the issued share capital of the Company as at the Latest Practicable Date to between 9.4% to 7.8% of the enlarged issued share capital of the Company immediately upon Completion.

INDUSTRY OVERVIEW

Certain information in the section below has been derived from various government and private publications. While reasonable care has been taken in the extraction, compilation and reproduction of such information, the Company, the Sponsor and their respective affiliates and advisers have not independently verified the information directly or indirectly derived from official government sources, and such information may not be consistent with other information compiled within or outside of China.

The Target Group, which is primarily involved in the sourcing of alumina from the international markets for domestic consumption in China, is one of the major participants in the global aluminium market and was the largest supplier of overseas sourced alumina to the China market in 2004 according to the Antaike Report 2005*. Set out below is an overview of the alumina and aluminium industry in China and alumina imports.

INTRODUCTION

Background

According to the European Aluminium Association*, aluminium is a lightweight, corrosion resistant metal, an excellent heat and electricity conductor, and suitable for a wide range of applications. The predominant uses of aluminium are in the construction, power, transportation, packaging and home appliances industries. Because of these broad applications, aluminium demand has generally been linked to fluctuations in domestic and international economic conditions. The demand for aluminium is mainly driven by the demand for downstream processed aluminium products, which, in turn, generally increases with economic growth.

Bauxite is the main raw material used to produce alumina which in turn is the main raw material used to produce aluminium. The demand for alumina is primarily driven by the demand for aluminium, with approximately two tonnes of alumina required to produce one tonne of primary aluminium¹.

China's position in the world market

According to the Antaike Report 2005*, China was the world's second largest consumer of primary aluminium and accounted for approximately 20% of world consumption of primary aluminium in 2004. In terms of primary aluminium production, China was the largest producer in the world by volume and produced approximately 22.3% of the world's supply of primary aluminium in 2004.

Source:

1. "Aluminium for future generations" published by the Brazilian Aluminium Association in November 2000*. The Brazilian Aluminium Association is an industry organisation organised by leading alumina producers.

* For the purpose of this section, all sources marked with (*) are derived from official sources.

INDUSTRY OVERVIEW

China's per capita consumption of primary aluminium and share of world consumption are expected to increase in the future on the back of the expected continuing economic growth in China which, in turn, is expected to sustain the consumption of primary aluminium in China. The anticipated growing demand for primary aluminium is expected to be met by increase in production of primary aluminium in China which will, in turn, drives the demand for alumina.

As China's domestic production of alumina is insufficient for its consumption and there are constraints limiting the potential expansion of domestic production capacity, a substantial amount of alumina is being, and is expected to continue to have to be, sourced in the international markets to meet domestic demand.

ALUMINIUM PRODUCTION AND CONSUMPTION IN CHINA

China's reforms and growth

Boosted by the comprehensive economic reforms initiated by the PRC Government since 1979, the PRC economy has grown rapidly. The reforms shifted the focus of the PRC economy from a centrally planned, state-run economy to a more market-oriented economy. As a result of these reforms, China's GDP increased at a compound annual growth rate of approximately 13.0% from 1993 to 2003¹. China was one of the fastest growing economies in the world during the same period.

Growth in aluminium consumption, production and market share

According to the CRU Aluminium Monthly*, China's rapid economic growth in recent years has been accompanied by growth in primary aluminium consumption at a compound annual growth rate of approximately 15.3% from 2000 to 2004. Growth in China's primary aluminium production has been in line with the growth in consumption, with a compound annual growth rate of approximately 23.9% from 2000 to 2004. In 2004, China's production of primary aluminium ranked number one worldwide. China had about 152 aluminium smelters with a total annual primary aluminium production capacity of approximately 9.8 million tonnes as at 31 December 2004.

Source:

1. Resources: 2004 China Statistical Yearbook* compiled by National Bureau of Statistics of China, a government official publications.

* For the purpose of this section, all sources marked with (*) are derived from official sources.

INDUSTRY OVERVIEW

The following tables set forth the annual production and consumption of the top five primary aluminium producing and consuming countries/regions in the world, and the respective compound annual growth rates.

	Top five primary aluminium producing countries (in thousand tonnes)					Compound annual growth rate (%)
	2000	2001	2002	2003	2004	
China	2,794	3,431	4,398	5,497	6,587	23.9%
Commonwealth of Independent States	3,615	3,696	3,767	3,945	4,090	3.1%
United States	3,668	2,637	2,705	2,704	2,519	(9.0)%
Canada	2,373	2,585	2,708	2,781	2,594	2.3%
Australasia	2,094	2,122	2,170	2,195	2,244	1.7%

Source: Figures for 2000 to 2002, CRU Monitor Monthly, January 2003; Figures for 2003 and 2004, CRU Monitor Monthly*, January 2005. CRU Monitor Monthly are reports published by CRU International Limited (part of the CRU Group, which is an independent business analysis and consultancy group focused on the mining, metals, power, cables, fertiliser and chemical sectors).*

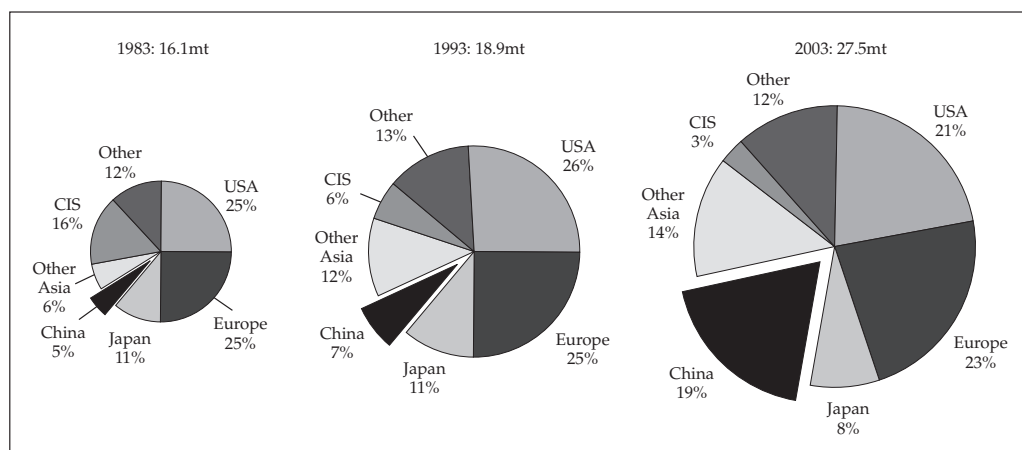
	Top five primary aluminium consuming countries/regions (in thousand tonnes)					Compound annual growth rate (%)
	2000	2001	2002	2003	2004	
United States	6,265	5,590	5,730	5,959	6,436	0.7%
China	3,375	3,640	4,167	5,134	5,968	15.3%
Japan	2,225	2,014	2,009	2,023	2,094	(1.5)%
Germany	1,632	1,580	1,690	1,915	2,011	5.4%
Russia	748	786	990	1,000	1,030	8.3%

Source: Antaika Report 2005, produced by Beijing Antaika Information Development Co. Ltd, a research institute in Beijing which provides information for the mining and metals industries.*

* For the purpose of this section, all sources marked with (*) are derived from official sources.

INDUSTRY OVERVIEW

China's share of world consumption of primary aluminium has increased from approximately 5% in 1983 and approximately 7% in 1993, to approximately 19% in 2003 as shown by the diagrams below:



Source: Macquarie Research Report on Metals and Mining*, March 2004, prepared by Macquarie Research Limited, the commercial, research, consultancy, training and commercialisation company of Macquarie University Sydney.

Increased consumption of primary aluminium was driven primarily by the growth of China's construction, transportation and power industries as well as the growth in the home appliances such as washing machines, refrigerators and air conditioners.

CHINA'S ALUMINA PRODUCTION, CONSUMPTION AND IMPORTS

Alumina production

Alumina is the main raw material used to produce aluminium. Generally, approximately two tonnes of alumina are required to produce one tonne of primary aluminium. According to Antaika Report 2005*, China's alumina refineries produced approximately 7.04 million tonnes of alumina in the year ended 31 December 2004, making China the world's second largest producer of alumina. The following table sets forth the annual production of the top five alumina producing countries in the world:

	Top five alumina producing countries (in thousand tonnes)					Compound annual growth rate (%)
	2000	2001	2002	2003	2004	
Australia	15,717	16,297	16,500	16,792	16,992	2.0%
China	4,339	4,743	5,476	6,150	7,040	12.9%
United States	4,251	4,240	4,420	4,849	5,642	7.3%
Brazil	3,753	3,501	3,800	4,740	5,096	7.9%
Jamaica	3,710	3,583	3,695	3,851	4,017	2.0%

Source: Antaika Report 2005*, produced by Beijing Antaika Information Development Co. Ltd, a research institute in Beijing which provides information for the mining and metals industries.

* For the purpose of this section, all sources marked with (*) are derived from official sources.

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Need for alumina imports

Despite rapid growth in domestic alumina supply, domestic demand in China for alumina has exceeded domestic production in recent years. As a result, imports of alumina have, over the five years from 2000 to 2004, grown substantially in absolute terms and as a percentage of total supply to fill the domestic supply shortfall. The following table sets forth the consumption, production and imports of alumina in China for the period from 2000 to 2004:

China's imports of alumina vs. total supply (production and imports)

(in thousand tonnes, except percentages)

	Consumption	Production	Imports	Total supply	Imports as % of total supply
2000	5,650	4,339	1,881	6,209	30.3%
2001	6,840	4,743	3,346	8,086	41.4%
2002	8,370	5,476	4,570	9,670	47.3%
2003	10,780	6,150	5,500	11,700	47.0%
2004	13,073	7,040	5,850	12,890	45.4%

Source: Consumption and production figures for 2000 to 2002 from Antaike Report 2003; figures for China's consumption of alumina for 2003 and 2004 from China Aluminium Monthly*, Issue 2 of 2005; figures for imports, total supply and imports as % of total supply from China Aluminium Monthly*, Issue 2 of 2005; figure for China's production of alumina for 2003 and 2004 from Antaike Report 2005*.*

A substantial amount of alumina is expected to continue to be sourced in the international markets to meet domestic demand in China.

PRICING FOR IMPORTED ALUMINA

Introduction

The PRC Government does not set or regulate prices for alumina. The prices of alumina imported into China are mainly based on international prices for alumina.

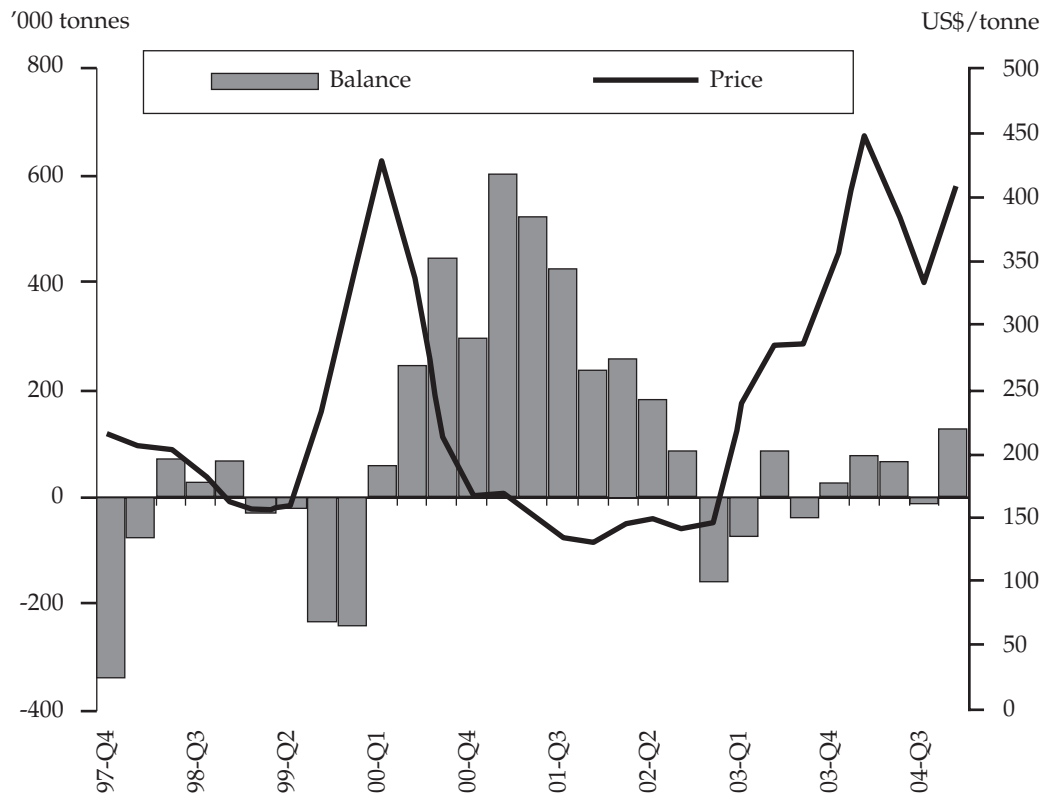
International alumina prices

In accordance with the Antaike Report 2005*, historically, the international market prices for alumina have been volatile, affected primarily by the level of demand and supply. As there is a limited supply of alumina in international spot markets, the international alumina prices are highly sensitive to unexpected incidents and speculative tradings.

* For the purpose of this section, all sources marked with (*) are derived from official sources.

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The following graph sets forth the movements in the international market prices for alumina with movements in the supply/demand balances of alumina:



Source: CRU Monitor Monthly*, November 2004. CRU Monitor Monthly are reports published by CRU International Limited (part of the CRU Group, which is an independent business analysis and consultancy group focused on the mining, metals, power, cables, fertiliser and chemical sectors).

Alumina import prices

The prices for imported alumina into China are mainly based on international prices for alumina, factoring in shipping costs, import tariffs, value-added tax, insurance costs and exchange rates¹. The following graph sets forth the movements in the spot prices of

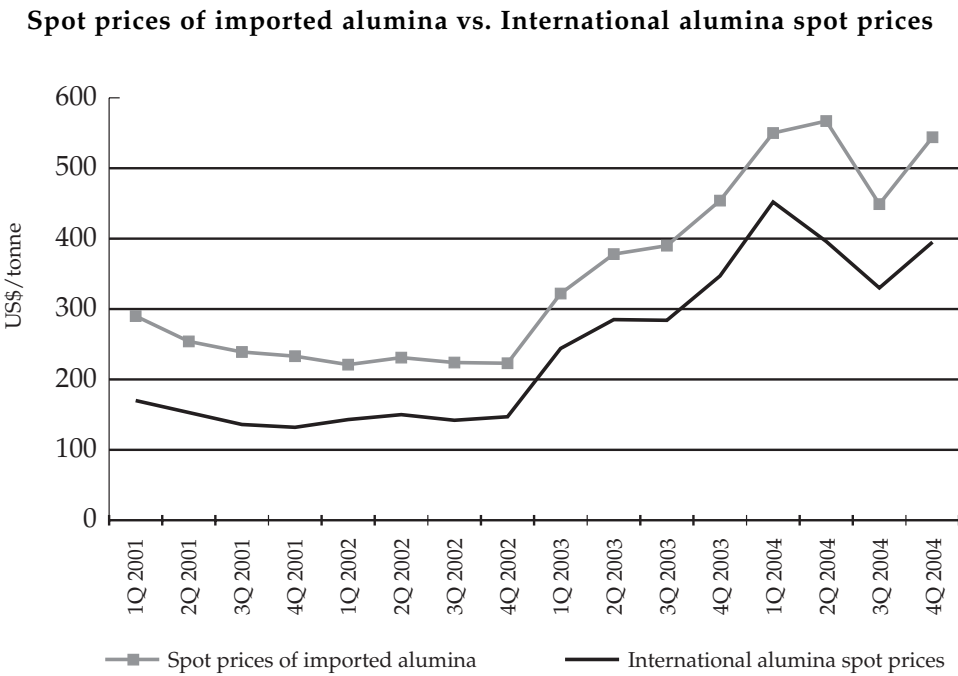
Source:

1. An article entitled “China’s Alumina Industry” published on the website of Aluminium Corporation of China Limited*, the largest primary alumina producer in China.

* For the purpose of this section, all sources marked with (*) are derived from official sources.

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imported alumina in China, as compared with the international alumina spot prices, from 2001 to 2004.



Source: Spot prices of imported alumina from Target Group’s own records*, 2001 to 2004; international alumina spot prices from CRU Monitor Monthly*, issues dated January 2003 and January 2005.

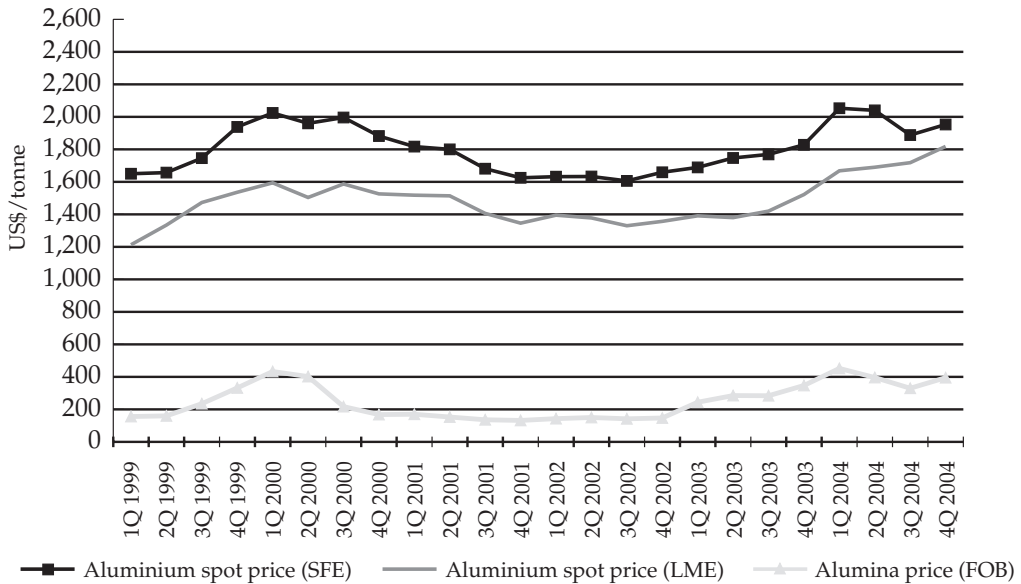
Linkage of alumina prices to aluminium prices

Alumina is not publicly traded on any recognised metal exchange and its price is usually referenced to the price of aluminium quoted on the LME or SFE. The chart below shows, for reference purpose, the cyclical nature of alumina and aluminium spot prices between 1 January 1999 and 31 December 2004 and the linkage between alumina prices and aluminium prices, according to the Antaike Report 2005*. The reason why SFE prices are typically higher than LME prices is because SFE prices reflect shipping costs, import tariffs, value-added tax and demand and supply dynamics in China whilst the LME prices do not.

* For the purpose of this section, all sources marked with (*) are derived from official sources.

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Aluminium spot prices (LME/SFE) vs. Alumina spot prices



Source: Aluminium spot prices (LME) from Bloomberg* an international private organisation which provides on-line market data, pricing, trading and news, 1999 to 2004; The Shanghai Futures Exchange is a self-regulated organisation providing the place, facilities and services for the centralised trading of futures contracts. Aluminium spot price (SFE) from SFE website*, 1999 to 2004; Alumina price (FOB) from CRU Monitor Monthly*, issues October 2001, January 2003 and January 2005. CRU Monitor Monthly are reports published by CRU International Limited (part of the CRU Group, which is an independent business analysis and consultancy group focused on the mining, metals, power, cables, fertiliser and chemical sectors).

REGULATORY ENVIRONMENT

Government supervision and regulation

The Target Group is principally subject to governmental supervision and regulation of the following four agencies of the PRC Government:

The Ministry of Commerce is responsible for supervising and monitoring foreign trade (import and export) and foreign investment, examining and approving the establishment of foreign invested enterprises, setting up qualification criteria for all kinds of Chinese enterprises to obtain foreign trade rights or to be engaged in international forwarding business and approving Chinese companies to set up overseas establishments.

The National Development and Reform Commission is responsible for setting and implementing the major policies concerning China's economic and social development policies and approves investments exceeding certain capital expenditure amounts.

The State-Owned Assets Supervision and Administration Commission of the State Council is responsible for monitoring the PRC Government's investment in state-owned enterprises and supervising the preservation and increment in value of state-owned assets.

The China Securities Regulatory Commission is responsible for supervising securities and futures markets, overseeing the issuance, trading, custody and settlement of various

* For the purpose of this section, all sources marked with (*) are derived from official sources.

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kinds of securities, approving and supervising the listing and trading of relevant securities and futures contracts and direct or indirect issuance and listing of shares overseas by domestic enterprises. For State-owned enterprises that engage or intend to engage in hedging business in offshore futures markets, licence issued by the CSRC is required, and for this purpose, hedging means trading in futures contracts to offset the spot price risk of a commodity. The enterprise is required to submit a hedging plan to the CSRC for filing each year and its selection of offshore futures brokers and offshore futures exchanges is subject to the approval of the CSRC. The foreign exchange exposure of the enterprise in relation to its hedging business is subject to annual review by the CSRC and annual registration by the SAFE.

Government influence

The PRC Government exercises a substantial degree of influence over the aluminium industry in China and shapes the structure and characteristics of the industry by measures such as:

- implementing policies to facilitate the consolidation of the industry to discourage the use of outdated and non-environmental friendly technologies;
- encouraging technological innovation in the smelting sector;
- influencing credit and investment policies;
- pricing electricity and other utilities and railway transportation;
- setting safety, environmental and quality standards;
- selectively approving major capital expenditure projects;
- setting tax rates, tax concessions and other incentives; and
- setting import tariffs.

For the purpose of importing alumina into the PRC, in accordance with 商務部令(2004年第14號)《對外貿易經營者備案登記辦法》(Decree No.14 of 2004 of the Ministry of Commerce Measures for the Record and Registration of Foreign Trade Operators), both foreign owned entities established in the PRC and domestic companies are allowed to apply to be a registered importer of alumina with the PRC Government. Upon successful registration, the registered importer is allowed to import alumina by handling the customs clearance under its name.

In addition to the registration required under 《對外貿易經營者備案登記辦法》(Measures for the Record and Registration of Foreign Trade Operators), for every shipment of alumina arriving at a PRC port, a registered importer under《對外貿易經營者備案登記辦法》(Measures for the Record and Registration of Foreign Trade Operators) has to go through the formality in obtaining an AIL for each shipment contract from the Ministry of Commerce in accordance with 《中華人民共和國對外貿易法》(Foreign Trade Law of the People's Republic of China) and《貨物自動進口許可管理辦法》(Ministry of Foreign Trade and Economic Cooperation, Administration of Automatic Import Licensing of Goods

* For the purpose of this section, all sources marked with (*) are derived from official sources.

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Procedures). As a result of the austerity measures imposed by the PRC Government on 23 December 2003 (《國務院辦公廳轉發國家發展改革委等部門關於制止鋼鐵電解鋁水泥行業盲目投資若干意見的通知》(國辦法[2003]103號)) (Circular of the General Office of the State Council of the People's Republic of China on Transmitting and Issuing Several Opinions of the National Development and Reform Commission and Other Departments on Curbing Irrational Investment in Steel, Electrolytic Aluminium and Cement Industries (Guo Ban Fa [2003] No.103)), the PRC Government has implemented a series of measures targeting certain sectors, including the aluminium industry by way of monitoring the importation of alumina into the PRC, to prevent irrational expansion of the economy. As far as the Directors and the Proposed Directors are aware, such measures also include confining the issuance of AILs to a certain number of corporations. With this in place, the Ministry of Commerce can closely monitor the total amount of alumina imported into the PRC by reference to the total number of AILs issued.

The PRC Government does not set, or regulate, prices for alumina or aluminium nor does it impose import quotas in respect of alumina or aluminium sourced in the international markets or regulates from whom or to whom the Target Group may source, or supply, as the case may be, alumina.

Taxes and fees

The business of the Target Group is subject to a variety of taxes and fees levied by the PRC central and local governments as illustrated below. SMT is also subject to taxation in Australia with an applicable corporate income tax rates of 30%.

The following table sets forth the principal PRC taxes and fees payable by the Target Group as at the Latest Practicable Date:

Item	Base	Rate
Corporate income tax	Taxable income	33%
Value-added tax		17%
– Input (purchases)	Sum of CIF (China port price) and import tariff	
– Output (sales)	Sales amount	
Import tariff	CIF (China port price)	8%
Business tax	Revenue from services e.g. for imports as an agent for a smelter	5%
City construction tax	Sum (difference between input and output) of value-added tax and business tax	7%
Education surcharge	Sum of (deference of input and output) value-added tax and business tax	3%

In respect of exports, the Target Group was entitled to a 8% export rebate based on the processing fee paid to the smelters prior to 1 January 2005. The 8% export rebate has been abolished and an export tax of 5% has been levied since 1 January 2005.

INFORMATION ON THE TARGET GROUP AND THE GROUP

HISTORY AND DEVELOPMENT

The Company was incorporated in Hong Kong on 29 July 1988 and its Shares have been listed on the main board of the Stock Exchange since 15 December 1994. The Group has been engaged in the trading of non-ferrous metals, ores and semi-finished products since its incorporation.

During the period from 1989 and 1990, the Group was principally engaged in the sourcing of copper concentrates and alumina from the international market for its customers in the PRC. In 1990, the Group underwent an internal reorganisation to enhance efficiency in four core areas, namely, trading of copper, aluminium, other non-ferrous metals and semi-finished products and began to make direct investments in various industrial operations in the PRC. The Group's business and operations expanded steadily until the year ended 31 December 1996 when profit attributable to Shareholders decreased by approximately 99% when compared with 1995 as a result of a sharp decline in the margins for its copper and aluminium trading businesses as well as the exceptional loss arising from the disposal of the Group's non-core investments.

The PRC non-ferrous metals industry underwent a restructuring in 1998 whereby CNNC, the former ultimate controlling Shareholder and a State-owned enterprise responsible for the overall planning and development of the non-ferrous metal industry and implementation of related policies of the PRC Government, was dissolved. At the same time, The State Non-ferrous Metals Industry Administration ("**SNMIA**") was established to assume CNNC's roles and responsibilities and became the new ultimate controlling Shareholder by assuming indirectly all the issued share capital of China Non-ferrous Metals Group (Hong Kong) Limited (formerly China Non-ferrous Metals Holdings (Hong Kong) Limited) ("**CNMG**") which was then wholly owned by CNNC. SNMIA's shareholding interest in the Company was held through CNMG. On 8 May 2002, the High Court of Hong Kong issued an order for the winding up of CNMG, which then was the controlling Shareholder.

The Group's business and operations continued to suffer from the unsatisfactory performance of its direct industrial investments and the cyclical fluctuation in demand for non-ferrous metals and operated at a loss for each of the five years ended 31 December 2001. Due to the difficulty in collecting the Group's receivables from entities located in the PRC and the low returns from its industrial investment projects, the Group was in default of its obligation to repay certain bank loans since 1998 and its creditors formed a steering committee (the "**Steering Committee**") in July 2002 to recover the amounts owed. The Company's auditors stated that they were unable to form an opinion as to whether or not the Company's accounts gave a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and 2002 and of the loss/profit and cash flows of the Group for the years then ended because of the fundamental uncertainty relating to the Company's and the Group's ability to continue as a going concern.

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During 2002 and 2003, the Group made considerable efforts to improve its operating performance by reducing expenditure and recovering receivables. The Group was also engaged in active negotiations with the Steering Committee with a view to formulating the Restructuring Proposal. The Restructuring Proposal was finalised with the assistance of China Minmetals.

On 16 October 2003, the Company announced the Restructuring Proposal which comprised the following elements:

- (a) the acquisition by Coppermine from the Company's creditors of inter-company debts and bank debts owed by the Company in the aggregate principal amount of approximately HK\$418.0 million at a purchase price of HK\$0.25 per HK\$1.00;
- (b) the subscription by Coppermine of new Shares at a subscription price of HK\$0.88 per Share upon completion of the capital restructuring as detailed in (c) below. The aggregate subscription price of approximately HK\$418.3 million was satisfied by setting off the Company's obligation to Coppermine to repay the debts acquired by Coppermine detailed in (a) above; and
- (c) the consolidation of every 10 issued and unissued shares of the Company of HK\$0.10 each into one new share of the Company of HK\$1.00 each followed by a reduction of the nominal value of each of the issued and unissued new ordinary shares of the Company from HK\$1.00 to HK\$0.05 and the increase of the authorised share capital of the Company to HK\$300 million.

The Restructuring Proposal was approved by the Shareholders on 3 December 2003. On completion of the Restructuring Proposal on 12 January 2004, China Minmetals became, through Coppermine, the ultimate controlling Shareholder of the Company. The introduction of China Minmetals as the Company's ultimate controlling Shareholder enabled the Company to continue to operate as an ongoing concern and the financial position of the Company was significantly improved as a result of the Restructuring Proposal. For further information about the Restructuring Proposal, please refer to the circular of the Company dated 6 November 2003.

Following completion of the Restructuring Proposal, China Minmetals has reviewed the business and operations of the Group with a view to rationalising and improving its performance. The Acquisition provides an opportunity for the Group to widen its alumina and aluminium businesses by increasing its scale and become the sole platform for the Minmetals Group's alumina and aluminium businesses in the future.

As disclosed in the circular of the Company dated 6 November 2003, it was intended that as soon as practicable after the Restructuring Proposal, the Board will put forward to the Shareholders a proposal to reduce the share premium account of the Company for the purpose of eliminating the accumulated losses of the Company to be effected as soon as practicable after the completion of the Restructuring Proposal. The Company is in the process of preparing for the relevant proposal for the Shareholders' consideration and further announcement(s) will be made by the Company as and when appropriate.

INFORMATION ON THE TARGET GROUP AND THE GROUP

REORGANISATION

For the purpose of the Acquisition, the Minmetals Group conducted a Reorganisation whereby all of its existing alumina and aluminium business (other than its interests in Sherwin, Guangxi Huayin, a 10% minority interest in LYG and the Group) were transferred to Minmetals Aluminium.

Prior to the Reorganisation, all the alumina and aluminium related operations and investments of China Minmetals were principally held under CMN and, to a lesser extent, the Group. CMN was then the operator/owner of (a) the entire Alumina Trading Business, (b) a 90% equity interest in LYG, and (c) 51% equity interest in Sino Mining International.

Sino Mining International has three subsidiaries, namely Sino Mining Alumina which holds the Alcoa Contract, Sino Mining Australia Pty Ltd which acts as a management company, and Sino Mining Trading which engages in alumina and other mineral resources trading.

On 30 December 2003, China Minmetals entered into a share transfer agreement with CMN to transfer its remaining 49% interest in Sino Mining International to CMN at the consideration of approximately RMB474.7 million, which was based on an independent appraised value prepared by 中發國際資產評估有限責任公司 (Zhongfa International Appraisal Co., Ltd.) in accordance with the applicable laws and recognised asset valuation basis in the PRC. The completion of the transfer took place in March 2004 and Sino Mining International became a wholly owned subsidiary of CMN.

On 22 October 2004, Minmetals Aluminium, which was then owned as to 95% by CMN and 5% by China Minmetals, was established to hold all of the Minmetals Group's alumina and aluminium business formerly held under CMN (other than the interests in Sherwin, Guangxi Huayin and certain contracts which will not be novated to the Target Group under the Reorganisation). Further details of the arrangement regarding these non-transferred contracts are set out in the section headed "Relationship with the Minmetals Group – Connected transactions – Non-exempt Continuing Connected Transactions" in this circular.

In furtherance of the Reorganisation, Target BVI and Top Create Resources were incorporated whereby Target BVI was owned as to 100% by Top Create Resources and Top Create Resources was initially owned as to 5% by China Minmetals and 95% by CMN.

On 6 December 2004, China Minmetals and CMN entered into a share transfer agreement with Target BVI and Top Create Resources, to transfer all of their respective interests, totalling 100% of the equity interest in Minmetals Aluminium, to Target BVI. Minmetals Aluminium thus became an indirect wholly owned subsidiary of Top Create Resources through Target BVI.

On 30 December 2004, China Minmetals and CMN entered into another share transfer agreement whereby China Minmetals transferred its 5% interests in Top Create Resources to CMN such that Top Create Resources was owned as to 100% by CMN.

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On 17 February 2005 and on 21 June 2005, Minmetals Aluminium has been granted the approval certificate and the business licence as a wholly owned foreign enterprise. Minmetals Aluminium became a wholly owned subsidiary of Target BVI and, in turn, a wholly owned subsidiary of Top Create Resources and the Reorganisation was also completed.

As at the Latest Practicable Date, LYG was owned as to 90% by Minmetals Aluminium and as to 10% by 廣州經濟技術開發區五礦倉儲有限公司 (Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.), an indirect subsidiary of China Minmetals. 廣州經濟技術開發區五礦倉儲有限公司 (Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.) intends to sell and transfer its 10% equity interest in LYG to Independent Third Parties, such that LYG will become an indirect subsidiary of China Minmetals held solely through Minmetals Aluminium and has openly offered to sell such 10% interest in LYG on the 北京產權交易所 (Beijing Equity Exchange).

As at the Latest Practicable Date, all of the PRC regulatory approval relating to the Reorganisation have been obtained. As advised by the Company's PRC legal advisers, King and Wood, no approval is required from the SAFE but Minmetals Aluminium will need to complete its foreign exchange registration with the SAFE after its registration as a wholly owned foreign enterprise.

For further details on the corporate structure of the Target Group after the Reorganisation and of the Enlarged Group immediately after Completion, please refer to the section headed "Letter from the Board" in this circular.

THE TARGET GROUP

The Target Group comprises the entire alumina and aluminium operation and related investments of China Minmetals (other than its interests in Sherwin, Guangxi Huayin, the 10% minority interest in LYG, and the Group). China Minmetals has undertaken to procure that CMN will offer to sell its interest in Sherwin and Guangxi Huayin on normal commercial terms to the Company within three years from 31 December 2004 pursuant to the Non-competition Agreement and the Minmetals Group has also openly offered its 10% minority interest in LYG for sale on the 北京產權交易所 (Beijing Equity Exchange). Please refer to the section headed "Relationship with the Minmetals Group – Non-competition Agreement" in this circular for further details.

China Minmetals' origin in the aluminium business can be traced to the 1950s when it first supplied imported ingots to aluminium fabricators in China.

As a result of the development and growth of the aluminium smelting industry, as at 31 December 2004, China had about 152 aluminium smelters which are able to process alumina into ingots and various other types of aluminium with a total annual production capacity of approximately 9.8 million tonnes per annum. The Target Group is primarily involved in sourcing alumina from the international markets and supplying of such alumina to aluminium smelters in China. The Target Group's other business activities consist of tolling and sourcing ingots and provision of port logistics and agency services.

INFORMATION ON THE TARGET GROUP AND THE GROUP

In the year ended 31 December 2004, the Target Group sourced a total of 1,894,200 tonnes of alumina (compared with 1,906,100 tonnes of alumina in 2003), which accounted for approximately 32.4% (2003: 34.7%) of alumina imported into China in 2004 and was the largest supplier of overseas sourced alumina to the China market for that year.

In the year ended 31 December 2004, alumina sales accounted for approximately 87.3% and ingot sales accounted for approximately 12.6% of the Target Group's total sales revenue of approximately RMB7,335.9 million and the balance of 0.1% was attributable to commission income and the provision of logistics agency services and others.

The Target Group's strategy is to build on its competitive strengths and to pursue opportunities to enhance the results of its operations through achieving further vertical integration, entering into more long-term contracts, constantly expanding its existing businesses and diversifying into other non-ferrous metals.

Strengths

The Target Group's historical success and potential for future growth can be attributed to a combination of governmental policies, unique competitive strengths and to various economic factors related to the PRC economy.

The Target Group's competitive strengths are:

The Target Group's dominant position as the largest supplier of overseas sourced alumina to the Chinese market, the Target Group's principal market

China is the world's second largest consumer of alumina and the demand for alumina in China exceeds the production capacity of alumina refineries in China. Consequently, many aluminium smelters in China are dependent on overseas sourced alumina to meet the shortfall in the domestic production of alumina. China has the potential for continuing economic growth which, in turn, is expected to sustain the consumption of alumina and primary aluminium in China and, notwithstanding the PRC Government's recent measures to restrict banks' exposure to specific sectors of the economy, the rate of this growth is expected to exceed the rate of increase in alumina production by refineries in China, hence maintaining the need for increasing imports of alumina into China. China's accession to the WTO may result in further reductions to the level of tariffs on overseas sourced alumina enabling it to be priced competitively against domestically produced alumina. The Target Group's dominant position as the largest supplier of overseas sourced alumina to the China market provides economies of scale and enables the Enlarged Group to capitalise on the opportunity in the PRC alumina market.

Management experience and industry expertise

The Target Group's management experience, industry expertise, in-depth knowledge of the factors impacting on alumina prices from many years of experience provide the Target Group with a significant competitive advantage. In addition,

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CMN, whose expertise in the overseas futures markets was recognised by the CSRC when it became authorised to trade future contracts in respect of metals, trades on behalf of the Target Group in the overseas futures markets. As the employees of CMN who trades futures contracts on behalf of the Target Group have been transferred to the Target Group as its employees to trade future contracts for the Enlarged Group, the Enlarged Group can continue to tap on their experience gained from many years of trading futures contracts in ensuring its continuing success in volatile markets and in an increasingly competitive environment. This experience and expertise enable the Target Group to use long-term contracts, the futures markets and the physical market to maximise profit margins.

Long-standing relationships with many PRC smelters

The Target Group has long-standing relationships with many of China's aluminium smelters and, since 2003, has entered into long-term contracts with some of its major customers. These long standing relationships provide the Target Group with a solid foundation on which to develop its strategy of increasing its sales of alumina pursuant to long-term contracts. The advantages of long-term sales contracts are that they provide a basis on which to arrange long term supply arrangements, avoid time devoted to re-negotiating sales contracts on a regular basis and reduce the Target Group's dependence on the physical market which may require the Target Group to sell at unfavourable prices. The Target Group offers tolling and hedging arrangements in respect of trade finance as value-added services to enhance its relationships with its customers. Competitors are faced with the challenge of breaking up the Target Group's long-standing relationships and of having to deal with a large number of aluminium smelters in China.

Long-standing relationships with the world's largest refiners of alumina

The Target Group also has well established long-standing relationships with the world's largest refiners of alumina including Alcoa, Alcan Inc., Companhia Vale do Rio Doce, BHP Billiton Limited, Glencore International AG and National Aluminium Company Limited which provide the Target Group with a stable supply of alumina through long-term supply contracts, short-term contracts and in the physical market. These long standing relationships also provide the Target Group with a solid foundation on which to develop its strategy of sourcing more alumina from long-term contracts, diversifying its sources of alumina and of investing in alumina refiners.

Vertical integration through investment in long-term alumina sourcing arrangements

The Target Group has secured a long term sourcing arrangement with Alcoa under the Alcoa Contract. The contract has been structured as an investment in Alcoa's production assets. Under the Alcoa Contract, the Target Group has, among other things, made an upfront payment to Alcoa in return for an agreement from Alcoa to supply alumina up to 2027. The Alcoa Contract provides the Target Group with a long-term secure supply of alumina at an ongoing annual price similar to

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that which would be enjoyed by the owner of a bauxite mine and alumina refinery. Through the Alcoa Contract, the Target Group has locked in low cost alumina supplies and a degree of vertical integration, enabling it to enjoy similar economics to the owner of a bauxite mine and alumina refinery.

Strategically located inventory storage point

The Target Group stores alumina at the coastal port facilities at Lianyungang and five other coastal ports stretching from north to south along the PRC coastline. Its experience in dealing with the logistics of shipping, unloading, packing and transportation of alumina in the PRC gives the Target Group a competitive advantage over existing and potential competitors and enables it to meet demand when it arises in the PRC market on a timely basis. The Target Group's presence at various port locations also provides the Target Group with the flexibility of unloading its alumina at alternative locations depending on traffic conditions at each port and the advantage of gathering latest information of the market.

The Target Group sourced alumina preferred by PRC smelters

The Target Group mainly sources sandy type alumina which is preferred by many PRC smelters, especially newer and large scale smelters which use pre-baked technology in their production process. The number of PRC smelters using pre-baked technology is expected to increase as the PRC Government implements policies to discourage the use of outdated soderborg technology.

Competition

The consumption of alumina in China has far exceeded domestic production in recent years. In 2004, the consumption of alumina in the PRC market was around 13,073,000 tonnes, approximately 53.9% of which was supplied by domestic alumina producers in the PRC and approximately 44.7% of which was supplied by importing alumina from overseas market.

In the domestic market, the major competitor of the Target Group is Chalco, the largest alumina producer in the PRC, which produced and imported approximately 7,260,000 tonnes of alumina in 2004, amounting to 55.5% of the total consumption of alumina in the PRC. The Target Group imported approximately 1,894,200 tonnes of alumina in 2004, amounting to approximately 14.5% of the total consumption of alumina in the PRC. Other competitors of the Target Group, although on a much smaller scale, are 北京鑫恒鋁業有限公司 (Beijing Xinheng Aluminium Corporation), 雲南鋁業股份有限公司 (Yunnan Aluminium Co. Ltd), 焦作萬方鋁業股份有限公司 (JiaoZuo WanFang Aluminium Manufacturing Co. Ltd) and 武漢鴻駿經貿有限公司 (Wuhan Hongjum Economic and Trade Limited), all of which are domestic operators.

There is a high entry barrier for domestic corporations which intend to engage in importing alumina from overseas market taking into account of the fact that (a) only a limited number of corporations are allowed to engage in such activity as a result of the

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austerity measures imposed by the PRC Government against the PRC aluminum industry as set out in the paragraph headed “Government involvement in the PRC aluminum industry may remain substantial” in the section headed “Risk factors” in this circular and (b) the requirements for high capital commitment and extensive distribution network.

In the international market, competition from overseas alumina suppliers may intensify as a result of China’s accession to the WTO in 2001 as set out in the paragraph headed “China’s accession to the WTO has increased competition for the Target Group from its international competitors” in the section headed “Risk factors”. However, as at the Latest Practicable Date, the Directors and the Proposed Directors were not aware of any overseas alumina suppliers which are directly involved in Renminbi alumina trading activities in the PRC after China’s accession to the WTO.

Business of the Target Group

Sourcing alumina

The Target Group primarily sources alumina from Australia, Jamaica, India and the United States of America. Those countries accounted for approximately 64%, 7%, 9% and 12% respectively of the alumina sourced by the Target Group in the year ended 31 December 2004. The Target Group also sourced alumina from Brazil, Venezuela and Greece.

The Target Group’s principal alumina suppliers are among the world’s largest resources companies such as Alcoa, Alcan Inc., Companhia Vale do Rio Doce, BHP Billiton Limited, Glencore International AG and National Aluminium Company Limited.

The five largest suppliers accounted, in aggregate, for approximately 67.6%, 50.6% and 51.8% of the alumina sourced by the Target Group in the three years ended 31 December 2004, respectively. The declining share of the five largest suppliers reflects the Target Group’s strategy of diversifying its sources of supply to avoid over dependence on a small number of suppliers. None of the Directors, the Proposed Directors or their respective Associates has any interest in any of these suppliers.

The Target Group’s largest source of alumina is through the Alcoa Contract which accounted for approximately 36.6%, 20.9% and 24.4% of the alumina sourced by the Target Group for the three years ended 31 December 2004 respectively. The declining share of the Alcoa Contract reflects the increasing volume of alumina purchased by the Target Group from other suppliers in those periods. The Alcoa Contract enables the Target Group to purchase a fixed amount of alumina of approximately 400,000 tonnes per annum.

The Target Group sources alumina pursuant to spot contracts and long-term contracts. Spot contracts contributed to approximately 44.0% of total volume alumina sold and the balance of approximately 56.0% was attributable to long-term contracts in the year ended 31 December 2004.

The Target Group’s strategy is to enter into more long-term sourcing contracts. The advantages of long-term sourcing contracts with alumina refiners are that they secure

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alumina supply for one (or more) particular calendar year(s) which provides a basis for the Target Group to enter into long-term sales contracts with its customers for the corresponding year(s), thus avoiding time devoted to re-negotiating short-term supply arrangements and reducing the Target Group's dependence on the physical market.

The purchase price for alumina purchased pursuant to the Alcoa Contract is detailed below. Purchase price under the other long-term sourcing contracts is either expressed as a percentage of the LME (price) or as a fixed price. All of the purchases are denominated in US dollars. Normally, no credit term is granted for settling the purchase price except for purchases under the Alcoa Contract which are invoiced in part on each shipment to be settled within 30 days of delivery and in part on a quarterly basis.

In relation to purchases on a FOB basis, the Target Group makes arrangements with various shipping companies, primarily through Minmetals Shipping, an indirect subsidiary of China Minmetals, as its agent for the shipment by dry bulk carrier of alumina to various ports in China. For more information, please refer to the section headed "Relationship with the Minmetals Group – Connected transactions – Non-exempt Continuing Connected Transactions" in this circular.

The Alcoa Contract

The Alcoa Contract is a long-term sourcing contract and is the Target Group's most important contract because:

- the Alcoa Contract provides the largest source of alumina supply for the Target Group accounting for approximately 24.4% of the total amount of alumina sourced by the Target Group in the year ended 31 December 2004;
- the duration of the Alcoa Contract is 30 years (to 30 June 2027) and is only terminable in specific circumstances set out in the contract, including by notice by either contracting parties in the two years following October 2006, or upon a material breach of the contract by the parties; and
- the Alcoa Contract enables the Target Group to source alumina at prices which correlate to Alcoa's production costs as if the Target Group were an alumina refiner owning a bauxite mine.

The annual price payable pursuant to the Alcoa Contract is determined by reference to a formula calculated in Australian dollars. An upfront payment of US\$240 million, was also paid in full in 1997 and Alcoa is liable to pay a sum to Sino Mining Alumina if the contract is terminated before the expiry of its full term in certain circumstance set out in the contract which the Directors and Proposed Directors considered to be fair. The upfront payment was funded by external bank loans and internal resources and the external bank loans were refinanced in 2002 whereby Sino Mining Alumina and CMN entered into an agreement dated 13 September 2002 (the "CMN Loan Agreement") in respect of the utilisation of a US\$100 million special-purpose foreign exchange loan granted by Bank of China to CMN (the "BOC Loan") for on-lending to Sino Mining Alumina (the "CMN

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Loan”) on the same commercial terms as the CMN Loan Agreement. As at 31 December 2004, the outstanding amount of the CMN Loan was approximately RMB703.5 million (equivalent to approximately HK\$663.7 million). BOC, CMN and Minmetals Aluminium entered into an agreement to transfer the BOC Loan whereby Minmetals Aluminium has agreed to assume CMN’s responsibility to repay the outstanding amount of the BOC Loan to BOC on the same terms (including the interest rate) as those in relation to the BOC Loan with effect from 13 June 2005. Incidentally, Minmetals Aluminium has also assumed the loan under the CMN Loan Agreement on 13 June 2005. As a result, the Target Group has no outstanding shareholder’s loan due to CMN as at the Latest Practicable Date.

The above CMN Loan is classified as long-term loans in the accounts of the Target Group as set out in the accountants’ report on Target BVI in Appendix I to this circular.

Incidental to the execution of the Alcoa Contract, an offtake agreement was also executed in favour of Sino Mining Alumina by CNNC whereby CNNC agreed to purchase or nominate an affiliate to purchase alumina sourced by Sino Mining Alumina under the Alcoa Contract. Incidental to the restructuring of CNNC and the Reorganisation, China Non-ferrous Metals Industry Association and China Minmetals have assumed the obligations of CNNC under such offtake agreement and nominated CMN to perform the purchase obligations under the offtake agreement. As CMN will in-principle cease to carry on any alumina and aluminium related operations and investments following the Reorganisation, Minmetals Aluminium has also been nominated to replace CMN as the nominated purchaser for the offtake agreement.

Importation arrangements

For the purpose of importing alumina into the PRC, in accordance with 商務部令 (2004年 第14號) 《對外貿易經營者備案登記辦法》(Decree No.14 of 2004 of the Ministry of Commerce Measures for the Record and Registration of Foreign Trade Operators), both foreign owned entities established in the PRC and domestic companies are allowed to apply to be a registered importer of alumina with the PRC Government. Upon successful registration, the registered importer is allowed to import alumina by handling the customs clearance under its name. Minmetals Aluminium, being a member of the Target Group, has completed the registration required under 《對外貿易經營者備案登記辦法》(Measures for the Record and Registration of Foreign Trade Operators) for the purpose of handling import activities in the PRC.

In addition to the registration required under 《對外貿易經營者備案登記辦法》(Measures for the Record and Registration of Foreign Trade Operators), for every shipment of alumina arriving at a PRC port, a registered importer under 《對外貿易經營者備案登記辦法》(Measures for the Record and Registration of Foreign Trade Operators) has to go through the formality in obtaining an AIL for each shipment contract from the Ministry of Commerce in accordance with 《中華人民共和國對外貿易法》(Foreign Trade Law of the People’s Republic of China) and 《貨物自動進口許可管理辦法》(Ministry of Foreign Trade and Economic Cooperation, Administration of Automatic Import Licensing of Goods Procedures). As a result of the austerity measures imposed by the PRC Government on 23 December 2003 (《國務院辦公廳轉發國家發展改革委等部門關於制止鋼鐵電解鋁水泥行業

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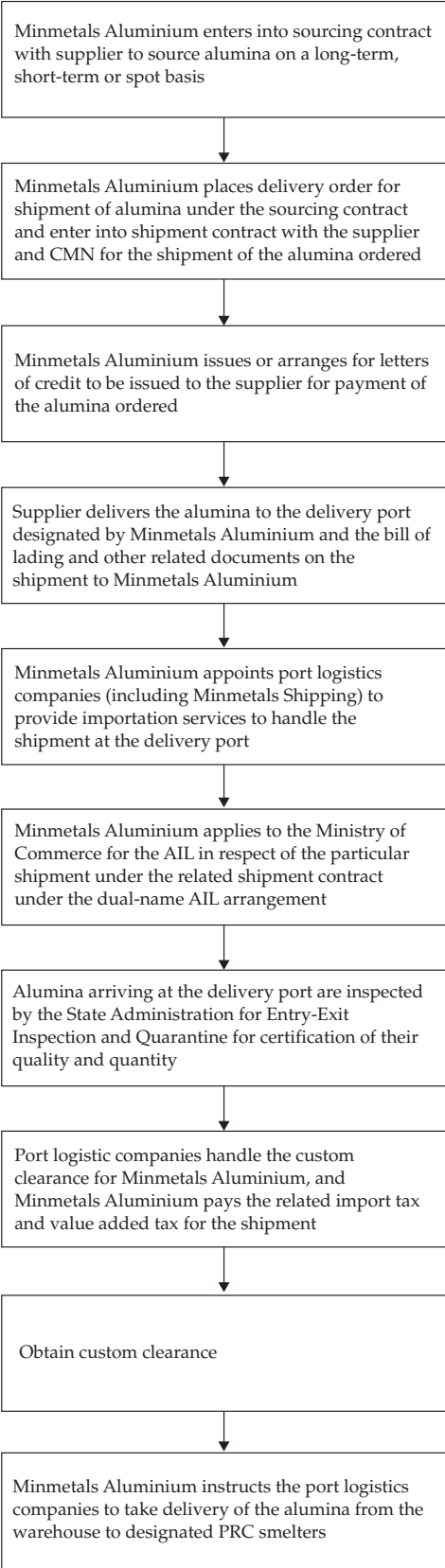
盲目投資若干意見的通知》(國辦法[2003]103號)) (Circular of the General Office of the State Council of the People's Republic of China on Transmitting and Issuing Several Opinions of the National Development and Reform Commission and Other Departments on Curbing Irrational Investment in Steel, Electrolytic Aluminium and Cement Industries (Guo Ban Fa [2003] No.103)), the PRC Government has implemented a series of measures targeting certain sectors, including the aluminium industry by way of monitoring the importation of alumina into the PRC, to prevent irrational expansion of the economy. As far as the Directors and the Proposed Directors are aware, such measures also include confining the issuance of AILs to a certain number of corporations and CMN remains one of them. With this in place, the Ministry of Commerce can closely monitor the total amount of alumina imported into the PRC by reference to the total number of AILs issued.

Since the Target Group has assumed the alumina and aluminium related business of CMN pursuant to the Reorganisation, Minmetals Aluminium has to carry on the importation process of alumina formerly carried out by CMN. Minmetals Aluminium has not obtained any AIL solely in its own name. It imports alumina by having its name included as a party to CMN's AIL (the dual-name AIL arrangement). Since the AIL is issued to Minmetals Aluminium as a party to CMN's AIL under this dual-name AIL arrangement, CMN's name needs to appear in the shipment contract to be submitted in the AIL application. As advised by the Company's PRC legal counsel, King and Wood, CMN has no rights and responsibilities under such contract and the dual-name AIL arrangement is legal and valid. Although CMN remains a party to the AIL and its name will appear on all shipment contracts submitted in the AIL application, the new arrangement does not require any actual involvement of CMN in the entire importation process for each shipment of alumina imported by the Target Group including the application of the AIL. CMN has, on 24 June 2005, provided an unconditional and irrevocable undertaking to Minmetals Aluminium to continue with this new arrangement. The dual-name AIL arrangement also serves the purpose of informing the relevant PRC Government officials that the alumina import business conducted by Minmetals Aluminium is a continuation of the same business previously conducted by CMN which is assumed by Minmetals Aluminium. Minmetals Aluminium has undertaken to the Company and the Company has undertaken to the Stock Exchange to procure Minmetals Aluminium to apply for AIL for the importation of alumina into the PRC in its sole name after Completion. The Directors and the Proposed Directors confirmed their intention to apply for AIL in the sole name of Minmetals Aluminium once the PRC laws and regulations allow Minmetals Aluminium to do the same.

All shipments of alumina sourced in overseas market are inspected upon arrival on a mandatory basis by the State Administration for Entry-Exit Inspection and Quarantine of the PRC Government at the port of entry to ensure that the specifications of the alumina conform with the applicable national standards.

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A flowchart showing the major steps in the importation process is set out below:



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Minmetals Aluminium has successfully completed a total of 23 transactions under the dual-name AIL arrangement since the first dual-name AIL was granted on 21 December 2004 and has not encountered any difficulty in customs clearance for importing alumina up to the Latest Practicable Date.

Under the dual-name AIL arrangement, the Target Group is able to independently handle the sourcing and sales of alumina directly with each of its own suppliers and customers respectively and to handle the entire importation process of alumina directly and independently.

Sales and distribution of alumina

The Target Group has trading relationships with more than half of the aluminium smelters in China (totalling about 152 as at 31 December 2004).

The Target Group sold approximately 1,889,100 tonnes of alumina in the year ended 31 December 2004 which accounted for approximately 32.4% of the total amount of alumina imported into China in that period and is the largest supplier of overseas sourced alumina in the China market for that year.

The five largest customers accounted, in aggregate, for approximately 34.8%, 30.7% and 22.6% of the Target Group's turnover in each of the three years ended 31 December 2004 respectively. None of the Directors, the Proposed Directors or their respective Associates has any interest in any of these customers. The largest customer accounted for approximately 11.1%, 8.9% and 6.5% of the Target Group's turnover in the same periods.

Historically, the Target Group hosts annual sales conference with its customers in the fourth quarter of each year in order to match the Target Group's anticipated supply of alumina with each customer's requirements for the following year. Based on the anticipated level of imported alumina for the coming year, the Target Group allocated its alumina to smelters with whom it has had long-standing relationships and that had good credit and a good reputation from past dealings. If the Target Group had alumina remaining to be allocated, it would then consider selling to other smelters. The majority of the Target Group's sales of alumina were made pursuant to letters of intent entered into at these annual conferences.

The Target Group is increasingly placing more reliance on regular communication and meetings with its customers in lieu of an annual sales conference to sign up letters of intent and short-term contracts and has begun to sell alumina pursuant to long-term sales contracts since 2003. Under the long-term sales contracts, the sales volume and the shipping schedule are fixed, and the price is linked to the three-month primary aluminium prices quoted on the LME or the SFE.

In the year ended 31 December 2004, sales of alumina pursuant to spot contracts and short-term contracts accounted for approximately 49.6% of the approximately 1,889,100 tonnes of alumina sold by the Target Group and the balance of approximately 50.4% was attributable to long-term sales contracts. The Target Group's strategy is to enter into more long-term sales contracts.

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Settlement for sales is normally required one to four weeks prior to delivery and therefore no credit term is currently being granted to any customers. The sales price is normally quoted on a FOB basis. In general, the customers bear the transportation risks and costs from the port of importation. Delivery of alumina is made from the port of importation by rail via the national railway system at prices fixed by the Ministry of Railways or, to a lesser extent, by road. The Target Group stores inventory at the warehouses and coastal port facilities at Lianyungang, Bayuquan, Tianjin, Qingdao, Zhanjiang, as well as Fangcheng in the PRC. These facilities stretch from the north to the south along the PRC coastline where many of China's smelters are located.

For the year ended 31 December 2004, approximately 85.7% of the alumina sales are denominated in RMB and the remaining are in US dollars. Customers who arrange for payment to be made in US dollars pay via L/Cs. These customers are aluminium smelters that prefer to use such trade finance as a form of payment instead of paying cash at the time of shipment in advance of the receipt of the alumina.

Other business activities

The Target Group's other business activities consist of tolling, sourcing and trading ingots and the provision of trade finance and port logistics services.

Tolling is where the Target Group engages aluminium smelters to process the Target Group's own alumina into ingots for export in return for a tolling fee from its overseas customers.

The Target Group sources ingots in the PRC domestic market for overseas customers. The Target Group's major customers are located in Japan and Korea.

Commission income is earned when the Target Group (through the Aluminium Trading Business) provides trade finance services such as obtaining L/Cs from banks for third parties importing alumina for their own use.

LYG provides port logistics services, which involve obtaining customs clearance, unloading and packing of alumina and receiving and delivering of alumina, for the alumina and aluminium trading operations of the Target Group at the port of Lianyungang, being one of the most important physical markets for sale and purchase of alumina in the PRC. LYG also conducts spot trading of alumina and information collection at the port of Lianyungang. The Target Group also engages Minmentals Shipping to provide customs clearance at the port of Lianyungang and port logistics services to its customers at the other ports of entry. For more information, please refer to the section headed "Relationship with the Minmetals Group – Connected transactions – Non-exempt Continuing Connected Transactions" in this circular.

Hedging

CMN conducted hedging activities on behalf of the Target Group prior to the completion of the Reorganisation. Employees of CMN who have been conducting such activities exclusively for the alumina and aluminium trading operations of the Target

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Group are now full time employees of the Target Group. The Target Group has adopted and has been complying with the internal hedging policies and guidelines similar to those of CMN as these policies and guidelines have been carried out by CMN since its incorporation in December 2001.

The Target Group does not and is prohibited (pursuant to its internal hedging policies and guidelines) to enter into aluminium futures contracts or any other derivative financial instruments for speculative purposes. The Target Group enters into aluminium futures contracts on the LME and the SFE to hedge against the risk of adverse price movements in the physical market in relation to alumina purchases, alumina sales, sourcing ingots, tolling and the Alcoa Contract.

Alumina purchases. In relation to purchases of alumina in which the purchase price is determined by a formula linked to the LME aluminium prices, there is a risk that the formula based purchase price will rise which will result in a reduced profit margin or, in the worst case, a loss in respect of the alumina which has been contracted to be sold at fixed prices. In this case, the Target Group's hedging policy may involve buying futures contracts to hedge against the risk of rising aluminium prices, that is, to put a cap on the purchase price of alumina. This aspect of the hedging policy, in effect, involve locking in purchase prices in the future in respect of purchases which the Target Group is likely to make when the Target Group, based on its experience, believes prices in the futures market are at or near cyclical low.

Alumina sales. In relation to sales of alumina where the sales price is determined pursuant to a formula linked to the LME/SFE aluminium prices, there is a risk that the formula based sales price will result in a reduced profit margin or, in the worst case, a loss if the alumina being sold has been purchased at a fixed price. In this case, the Target Group's hedging policy involves selling futures contracts to hedge against the risk of LME/SFE aluminium prices being lower in the future when the formula based sales price is determined, that is, to put a floor on the sales price of alumina. This aspect of the hedging policy, in effect, involve locking in alumina sales prices in the future in respect of sales which the Target Group is likely to make, when the Target Group based on its experience believes prices in the futures market are near or at cyclical high.

Sourcing ingots. In relation to the Target Group's business of sourcing ingots in the PRC domestic market for overseas customers where the sales price is determined by a formula linked to LME aluminium price on a LME (price) formula basis, the hedging policy involves entering into aluminium futures contracts to hedge against the risk of a mismatch between the LME (price) formula agreed to be paid to the smelter and the LME (price) formula agreed to be paid by the overseas customer as a result of those two agreements being entered into at different times. In this case, the Target Group may buy futures contracts to hedge against the risk of rising ingot prices, that is, to put a cap on the purchase price of ingots or sell futures contracts to hedge against the risk of LME/SFE prices being lower in the future when the formula based sales price is determined, that is, to put a floor on the sales price of ingots.

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Tolling. In relation to the tolling, the hedging policy involves selling futures contracts to hedge against the risk of a decline in LME prices, that is, with a view to putting a floor on the sales price of ingots.

Alcoa Contract. The Target Group hedges itself against the risk of the interest rate (LIBOR) volatility, the Australian dollar appreciating against the US dollar and the risk of a mismatch between its purchase price under the Alcoa Contract and its selling price to its customers by entering into interest rate swap, forward rate agreements and aluminium futures contracts.

Historically, CMN was involved in the planning and implementation of the Target Group's hedging policies, pursuant to an annual hedging plan. As a result of the Reorganisation, the Target Group has established corresponding departments to take over these functions.

Futures department. The futures department will prepare the initial drafts of the annual hedging plan in accordance with the Target Group's hedging policies with input from other departments. The hedging plan will then be discussed by various departments before being presented to the Board for approval and adoption. Upon receiving approval, the hedging plan will be filed with the risk management department. This department will be responsible for placing orders with futures brokers upon instructions from the aluminium trading department, provided that such orders comply with the hedging plan. If not, the order will be rejected. It will also be responsible for confirming transactions, conducting market analysis and preparing daily reports.

Risk management department. The risk management department will review and approve specific hedging plans, inspect transaction records, monitor the conduct of traders, assess risk, take risk control measures and issue status reports to management of the Board. The purpose of which is to ensure that transactions undertaken are in accordance with the annual hedging plan and not for speculative purpose. In addition, the risk management department will be responsible for matters such as account opening, file management, settlement, revising and confirming transaction records, allocating of funds as well as preparing and submitting daily reports regarding status of the outstanding futures positions.

Finance department. The finance department will handle payment formalities, check the balances of accounts with futures brokers and undertake other finance management.

Inventory management

Minmetals Aluminium has adopted an inventory management policy to ensure proper records of and handling of its inventories. The resources management staff keeps records of the inventory of the Target Group based on the shipment order made. This record will be matched against the reports from the port logistics companies when they take actual delivery of each shipment for the Target Group, and against their monthly inventory reports. The risk control staff are responsible for resolving inconsistency between these inventory records and reports and conducting inventory stock take to review the proper custody and handling of the Target Group's inventories.

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Employees

As at 31 March 2005, the Target Group had 44 employees engaged in the following operations:

Function	Number of employees
Aluminium trading business	37
Logistics services	7
Total	<u>44</u>

The Target Group has not experienced any disruption of its operations due to major labour disputes or encountered any difficulty in recruiting and retaining its employees. The Proposed Directors believe that the Target Group has a good relationship with its employees.

The Target Group provides employee benefits including a retirement benefit plan, a housing fund and medical insurance scheme for its PRC staff.

Retirement benefits plan. In accordance with applicable PRC regulations, the Target Group participates in retirement benefit plans organised by the provincial and municipal governments, under which the Target Group and its employees are each required to contribute an amount to the plan at the rate specified in the rules of such plans. According to the PRC legal advisers, the Target 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 Target Group, and represent contributions paid or payable by the Target Group at the rate specified in the rules of the plan.

Housing fund plan. Under the housing fund plan, the Target Group and its employees in the PRC are each required to contribute a certain amount every month to the housing fund plan during their term of employment. According to the State regulations implemented by the Beijing municipal government, the applicable rate for the Target Group is 10%. Both the Target Group and each of its employees contributes 10% of an amount specified by the Target Group in accordance with relevant regulations as the contribution base. The Target Group's contribution to the housing fund plan amounted to approximately RMB82,324, RMB83,749 and RMB624,812 in the three years ended 31 December 2004 respectively.

Medical insurance. The Target Group also provides medical insurance for its employees in accordance with the relevant provincial and municipal regulations. The amount of contribution to the medical insurance is shared by the Target Group and its employees. The Target Group's monthly contribution is a percentage of the aggregate amount of average monthly salaries of the employees in the preceding year. Such percentage ranges, from city to city, from 3% to 10%, depending on locations of the employees and applicable provincial and municipal regulations on basic medical insurance plans. Each employee's monthly contribution also varies from a fixed amount of RMB3 to 3% of the average monthly salary of the employee in the preceding year.

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The Target Group also provides a retirement benefit plan for its foreign employees in Australia involved in SMI's operation, under which the Target Group contributes 9% of each foreign employee's salary to such plan every month.

Insurance policy

The Target Group takes out insurance for alumina sourced on FOB and CFR basis in the ordinary course of business.

Intellectual property rights

Minmetals Aluminium has the right to use certain trademarks under the trademark licensing agreement entered into with China Minmetals. Further details of this connected transaction and the Target Group's intellectual property rights are set out in the paragraph headed "Relationship with the Minmetals Group – Connected Transactions" and in the section headed "Intellectual property" in Appendix VII to this circular.

Licences and permits

As advised by Allens Arthur Robinson, it is not necessary that Sino Mining Trading, Sino Mining Australia Pty Ltd., Sino Nickel Pty Ltd., Sino Gold Limited and its subsidiaries, should be licensed, qualified or otherwise entitled to carry on business under the laws of Australia in order to enforce its rights under any contract governed by Australian law or by reason only of the execution, delivery and performance of any such contract. As advised by the Company's PRC adviser, King and Wood, the Target Group has obtained all the required licences and permits for its current operation including the importation of alumina into the PRC.

THE GROUP

The Group is engaged in the trading of non-ferrous metals and in direct investment in industrial projects in the PRC. It became a listed vehicle of China Minmetals in Hong Kong in January 2004, when China Minmetals acquired a controlling interest in the Company through Coppermine on completion of the Restructuring Proposal.

In the past, the Group has traded in numerous non-ferrous metals including copper cathodes and blister, tungsten, tin, lead, nickel, metal sheets, sourcing them from the international market and selling them to customers comprising smelters, refineries and trading corporations in the PRC, Hong Kong and in the international markets. The Group's trading operation has, however, decreased in volume as the Group's business suffered from the negative market sentiment of non-ferrous metals. In the three-year period from 2000 to 2002, as there was a drastic drop in the price of alumina, the Group had to negotiate with its supplier to reschedule certain agreed shipments to subsequent years. At the same time, the Group's overdue bank debts were building up and there were difficulties in obtaining the necessary credit facilities to finance its trading business. As a result, the Group's trading business was suspended in January 2002. Trading business of the Group was subsequently resumed in 2003 with alumina trading as its main product. In the two years ended 31 December 2004, trading of alumina attributed to approximately 21.8% and 12.8% of the Group's total turnover for the respective year.

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The Group's direct investments are in aluminium fabrication, copper refinery and plica tubes production in the PRC. The Group started its direct investment in industrial projects in 1991 to diversify its business in anticipation of potential increase in competition in non-ferrous metals trading in the PRC, to expand its customers base and to obtain first hand market information on the metals. The operating environment of a few enterprises invested by the Company has deteriorated over the past few years and some of these enterprises have since been wound up.

Trading business of the Group

The alumina trading business accounted for 100% of the Group's trading business for the two years ended 31 December 2004 and accounted for approximately 21.8% and 12.8% of the Group's total turnover in the two years ended 31 December 2004 respectively. The Group's trading business was temporarily suspended in the year 2002.

The Company traded solely in alumina and sourced them solely under the Pechiney Contract in the two years ended 31 December 2004 selling them to (a) subsidiaries of China Minmetals, the ultimate controlling Shareholder, in 2003; and (b) Raffemet Pte Limited, an Independent Third Party, in 2004.

Pursuant to the Pechiney Contract, Pechiney Trading Company has agreed to supply an aggregate of 453,401 tonnes of alumina to the Company over a period from 1999 to 2004. The purchase price under the Pechiney Contract was determined as a percentage to the LME (price) on a FOB basis payable 30 days after delivery by L/C and was denominated in US dollars. Alumina purchased under the Pechiney Contract were delivered and stored at the port facilities at Lianyungang and Tianjin. Interest is payable over any overdue payments under the Pechiney Contract and disagreement over the alumina's conformity to the agreed specifications should be subject to the analysis by a referee laboratory agreeable to the parties, which referee's findings should be binding on the parties. In the event of any substantial default by any party to the Pechiney Contract, the other party may terminate the contract by giving written notice of the default and request to remedy, and should such default not be remedied by the party in default within 60 days of the notice, the contract should forthwith terminate without further notice.

The Pechiney Contract was not renewed after its expiry on 31 December 2004 and the Group has been exploring appropriate alternative supplies, including but not limited to through the acquisition of the Target Group which has secured various sources of alumina such as through the Alcoa Contract.

Purchase prices under the CMN Contract are denominated in US dollars settled by L/C.

Investment operations of the Group

Since 1991, the Group has adopted a strategy to expand its supplier and customer bases by diversifying its business through making direct investment in industrial joint ventures with its supplier and/or customers in the PRC. As the Group's trading operations

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have decreased in volume in the past few years, these investments have provided a significant contribution to the Group's turnover. For the three years ended 31 December 2004, in relation to the continuing operations of the Group as disclosed in the section headed "Financial information on the Group" in this circular, these investments accounted for about 89.6%, 72.4% and 84.9% respectively of the Group's total turnover for the respective year.

The Group's industrial investments are in the areas of aluminium fabrication and copper refinery and flexible metal conduits production. As at the Latest Practicable Date, the Group had investments in six main operating companies, namely NCA, YOPT, Changzhou Jinyuan Copper Company Limited, Qingdao M.C. Packaging Limited, Yantai Penghui Copper Industry Company Limited and Huludao Orienmet Copper Company Limited.

NCA

NCA is a Sino-foreign equity joint venture established in Heibei province, the PRC on 9 December 1993 for a term of 20 years. NCA has a total registered capital of RMB344,800,000 (equivalent to about HK\$325,283,019) and is owned as to 51% by the Group, 18.89% by 中國鋁業公司 (Aluminium Corporation of China), 16.31% by 中信興業投資有限責任公司 (CITIC Development Co., Ltd.) and 13.80% by 河北省人民政府國有資產監督管理委員會第三後勤服務中心 (The Third Rear-Service Center attached to State-owned Assets Supervision and Administration Commission of the People's Government of Hebei Province). NCA is engaged in the production and sale of aluminium foil plate, strip and aluminium extrusions in the PRC. Its products are supplied to the packaging, transportation, home appliances and publishing sectors. NCA's trading volume increased by approximately 2.6% to approximately 50,000 tonnes in 2004. NCA has invested in approximately HK\$185 million to modernise and upgrade its aluminium cold mill since 2003. The current production capacity of NCA is approximately 68,000 tonnes of aluminium foils and aluminium plates and strips per annum (2004 utilisation rate was approximately 110.0%).

YOPT

YOPT is a Sino-foreign equity joint venture established in the PRC on 31 December 1993 for a term of 20 years. YOPT has a total registered capital of US\$4,000,000 (equivalent to about HK\$31,200,000) and is owned as to 51% by the Group and the remaining 49% is owned by 中國電子進出口總公司 (China National Electronics Import & Export Corporation). YOPT is engaged in the production and sales of flexible metal conduits, which are mainly used in construction, infrastructure, machinery engineering, power network as well as anti-explosion and increased safety wiring system. The current production capacity of YOPT is approximately 2 million metres of flexible metal conduits per annum (2004 utilisation rate was approximately 102.0%). YOPT's sales volume of plica tubes increased by approximately 22.9% to approximately 2.1 million metres in 2004.

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常州金源銅業有限公司 (Changzhou Jinyuan Copper Company Limited) ("CZJY")

CZJY is a Sino-foreign equity joint venture established in the PRC on 31 March 1994 for a term of 30 years. CZJY has a total registered capital of RMB100 million and the Group has a 25% interest in this company. CZJY is engaged in the production and sale of copper rods in the PRC and abroad. During 2003, CZJY adopted various measures, including market development, costs reductions and products quality enhancement, with a view to maintaining sales and profit growth. The current production capacity of CZJY is approximately 30 tonnes of copper wires per hour (2004 utilisation rate was approximately 131.4%).

青島美特容器有限公司 (Qingdao M.C. Packaging Limited) ("QMCP")

QMCP is a Sino-foreign equity joint venture established in the PRC on 16 August 1993 for a term of 30 years. QMCP has a total registered capital of US\$25 million (equivalent to HK\$195 million) and the Group has a 20% interest in this company. QMCP is engaged in the manufacture and sale of various kinds of aluminium cans in the PRC. The current production capacity of QMCP is approximately 260 million aluminium cans per annum (2004 utilisation rate was approximately 105.8%).

煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Company Limited) ("YPCT")

YPCT is a Sino-foreign equity joint venture established in the PRC on 15 March 1993 for a term of 25 years. YPCT has a total registered capital of RMB229 million (equivalent to approximately HK\$216 million) and the Group has a 42% interest in this company. YPCT is engaged in the production and sale of copper cathodes in the PRC and abroad. The current production capacity of YPCT is approximately 39,000 tonnes of blister copper and approximately 54,000 tonnes of copper cathodes per annum (2004 utilisation rate was approximately 103.0% and 91.2% respectively).

葫蘆島東方銅業有限公司 (Huludao Orienmet Copper Company Limited) ("HOC")

HOC is a Sino-foreign equity joint venture established in the PRC on 7 May 1993 for a term of 20 years. HOC has a total registered capital of US\$46.6 million (equivalent to approximately HK\$363.5 million) and the Group has a 30% interest in this company. HOC is engaged in the production and sale of copper blisters in the PRC. The current production capacity of HOC is approximately 60,000 tonnes of blister copper per annum (2004 utilisation rate was approximately 80.5%).

Suppliers and customers of the Group's trading business and investment operations

The five largest suppliers of the Group accounted, in aggregate, for approximately 46.0%, 59.0% and 71.1% of the non-ferrous metals sourced by the Group in the three years ended 31 December 2004 respectively. The largest supplier of the Group accounted for approximately 12.6%, 21.2% and 26.8% of the non-ferrous metals sourced by the Group for the three years ended 31 December 2004 respectively. 河北銀興股份有限公司 (Hebei Yinxing Company Limited), being the first and fifth largest supplier of the Group for the two years ended 31 December 2003, respectively, was an associated company of the Group and has been deregistered on 1 March 2005. Save as aforesaid, none of the Directors, the Proposed Directors or their respective Associates has any interest in any of these suppliers.

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The five largest customers of the Group accounted, in aggregate, for approximately 22.1%, 31.2% and 36.1% of the Group's turnover for the three years ended 31 December 2004 respectively. The largest customer of the Group accounted for approximately 6.5%, 9.4% and 12.8% of the Group's turnover for the three years ended 31 December 2004 respectively. Pursuant to the CMN Contract, the Company sold an aggregate of approximately 140,000 metric tonnes of alumina to the Minmetals Group in the year ended 31 December 2003. Since the completion of the Group's debt and capital restructuring on 12 January 2004, the Group has made no further sales to the Minmetals Group. Save as aforesaid, none of the Directors, the Proposed Directors or their respective Associates has any interest in any of these customers.

Inventory control

Each of the two operating subsidiaries of the Group, namely NCA and YOPT, has owned or rented warehouse for storage of materials for its operational needs and has adopted its own inventory system. The Group constantly keeps track of the levels of inventory ranging from raw materials to finished products.

NCA

The quantity of raw materials in storage is determined according to the prescribed minimum and maximum storage quantities of each type of raw materials, which in turn are fixed with reference to the actual consumption of each type of raw materials in the previous years. The stock-keeping staff of NCA will constantly report the quantity of each type of raw materials in storage to the purchasing staff to ensure that such storage quantity will not at any time fall below the relevant minimum storage quantity or exceed the relevant maximum storage quantity. Such storage quantity is subject to an overall ceiling which is determined on the basis of various factors, including the annual productivity plan of NCA and its consumption rate and turnover rate of raw materials.

The storage quantities of different types of aluminium plates/strips/foils finished products of NCA depend on the category to which each type of such products belongs. Such finished products are categorised into three classes, namely, the regular universal products, the regular non-universal products and the non-regular products. For regular universal products, being products with higher sales and capable of being supplied to various customers, a reasonable amount of stocks shall be kept and the production system shall be directed to produce such products when the stock level falls below the prescribed minimum level. For regular non-universal products, being products supplied to the major customers on a massive and periodic basis, the sales department of NCA shall ensure that the amount of stock is kept within the prescribed range and that the month-end stock level is below the prescribed maximum stock level. For certain types of regular non-universal products of specific nature, no stock will be kept unless, if needs arise, written application is made by the sales department of NCA and approved by NCA's deputy general manager in charge. For non-regular products, NCA has not adopted any specific inventory control policy because of the non-regular nature of the products.

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YOPT

In the fourth quarter of each year, YOPT will organise and plan for the supply of materials for the subsequent year according to the annual materials demand plan submitted by the relevant departments of YOPT.

Materials supplied pursuant to the supply agreements between YOPT and its suppliers will be distributed to different warehouses of YOPT according to the respective capacities and usage rates of the warehouses, ensuring no excessive materials are accumulated and, at the same time, sufficient quantity and types of materials are in storage. The relevant staff will inspect and examine the quality and quantity of the materials to be delivered to the warehouses to ensure that materials of good quality and accurate amount are stored for YOPT's operational needs.

The stock-keeping staff will record the entry of new stocks and consumption of existing stocks on a daily basis and settle the inventory account on a monthly basis.

Intellectual property rights

The Group has registered a number of trademarks in the PRC for the promotion and sales of its products. It has also registered a few patents in the PRC. Further details in relation to the Group's intellectual property rights are set out in the paragraph headed "Intellectual property" in Appendix VII to this circular.

Research and development

NCA has been conducting research and development activities and will continue to conduct research and development with a view to enhancing its product quality and enrich its product variety, as well as improving its production technology. NCA's research and development centre comprises a research institute, a testing room and control station.

Licences and permits

The Group does not have any special permit or licence other than business licences. The Group has obtained all the required licences and permits for its operation, and has operated within the scope in its licences and permits.

Environmental protection

The Group is required to comply with the environmental protection laws, regulations and administrative rules promulgated by the PRC Government. These include provisions for the prevention of pollution, the treatment of wastes and the setting up of wastes discharge standards. The Group recognises the importance of environmental protection and places emphasis on environmental pollution control by implementing various measures to ensure compliance with the relevant laws and regulations.

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The Directors confirm that the production plants of the Group had gone through all necessary procedures before their commencement of production, which include the conducting of environmental impact study, obtaining approvals from the environmental protection authorities for the commencement and completion of construction of the production facilities, passing the test run of the production facilities and obtaining government approvals for commencement of production.

During the production process carried out in the Group's plants, waste water, gas, smoke and solid wastes will be emitted. The Group has implemented measures to reduce the emission of such wastes and ensure that such discharges did not exceed the prescribed standards set out in the relevant laws and regulations. A number of the Group's plants had implemented measures or reconstructed its production facilities to improve the treatment of waste water and the control of noise created during the production process.

The Group also has to pay an annual discharge fee for emission of air and water pollutants during its production process.

The Directors confirm that during the Track Record Period, the Group was in compliance with the relevant PRC environmental law and regulations. As at the Latest Practicable Date, the Group had not been alleged to have violated any environmental protection laws or regulations nor had it been fined or penalised for contravening them.

Properties

The Group does not possess good title to a number of its staff quarters and community facilities in the PRC. There are also issues with the title of certain properties in the PRC occupied by YOPT and two of the Group's associated companies (namely, YPCT and HOC) as production facilities and storage. Further details in this regard are set out in the property valuation report of CB Richard Ellis Limited on the properties of the Group, the text of which is set out in Appendix V to this circular. Apart from the issue concerning the title of the property occupied by YOPT for its production workshop and storage, which is disclosed as a risk factor in the section headed "Risk factors" in this circular, the Directors and the Proposed Directors are of the view that the impact of such title issues is immaterial because (a) its staff may be relocated if necessary, (b) the respective owners of the properties occupied by the relevant associated companies are also the respective largest shareholders of those companies and it is in their interests to ensure that the operations of those companies are not affected by the title defects, and (c) the Company has already made full provision on its investments in the relevant associated companies.

In addition, some of the Group's properties in the PRC are allocated land. The property interest relating to the allocated land accounted for approximately HK\$67.2 million (equivalent to 63% of the net book value of the Group's total property interests (including both land and buildings and investment properties) or approximately 16% of the net asset value of the Group) as at 31 December 2004.

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Employees

As at 31 March 2005, the Group excluding NCA and YOPT had 16 employees engaged in the following operations:

	Number of employees
Senior management	3
Sales and marketing	3
Finance	4
Personnel and administration	6
	16

As at 31 March 2005, NCA and YOPT had each employed 2,165 and 83 employees respectively, breakdown by function as follows:

	Number of employees at NCA	Number of employees at YOPT
Senior management	5	4
Administration	187	10
Finance	40	2
Purchases/sales and marketing	159	33
Technicians/workers/others	1,774	34
	2,165	83

The Directors consider that the Group maintains good working relationship with its employees. The Group has not experienced any strikes, work stoppages or labour disputes which affected its operations.

The Group also provides retirement benefits to all Hong Kong eligible employees under a mandatory provident fund (the “MPF Scheme”) in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the “MPF Ordinance”) and provides employee benefits including various insurance schemes for its employees in Hong Kong and the PRC.

The Company

Under the MPF Scheme, the Company and its employees make monthly contributions to the MPF Scheme at 5% of the employees’ salaries as defined under the MPF Ordinance. Contributions of both the Hong Kong subsidiaries and their employees are subject to a maximum of HK\$1,000 per month.

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The Company has taken out group life and health insurance for the Directors and its managerial and general staff. It has also maintained an employees' compensation insurance policy for the benefit of its employees as required under the Employees' Compensation Ordinance (Cap. 282, the laws of Hong Kong) as well as a directors' and officers' liability insurance policy in respect of claims made against any director or officer of the Group for his wrongful acts in accordance with the terms of the policy. The Company also provides vocational training opportunities for its employees in accordance with different requirements of their work.

The Company has adopted two share option schemes. The Share Option Scheme 1994 has expired and no further option can be granted thereunder. All Directors (including the independent non-executive Directors) and employees of the Group are entitled to participate in the Share Option Scheme 2004.

NCA

NCA shall, in accordance with the salary incomes of its employees, withhold various proportions of the salary incomes for various insurance premiums, for instance, 2% for unemployment insurance, 20% for pension insurance, 8% for housing allowance, 6.5% for medical insurance, 1.5% for employee education fund, and 14% for fringe benefit charge.

YOPT

YOPT shall, in accordance with the salary incomes of its employees, withhold various proportions of the salary incomes for various insurance premiums, for instance, 2% for unemployment insurance, 25.5% for pension insurance, 12% for housing allowance, 1% for birth insurance, 1.1% for employment insurance, 6.5% for medical insurance, 4% for supplemental medical insurance, and 1.5% for employee education fund.

RELATIONSHIP WITH THE MINMETALS GROUP

BACKGROUND ON CHINA MINMETALS

China Minmetals' origins in the aluminium business can be traced back to the 1950s when it first supplied imported ingots to aluminium fabricators in China. China Minmetals, a State-owned enterprise, is a large conglomerate with a history of trading in metals and minerals for more than 50 years. It is one of China's major suppliers of non-ferrous metals and products, the largest iron and steel trader in China and the largest supplier in China of raw materials for the steel-making industry. It is also engaged in finance, real estate, shipping, domestic trade and investment. China Minmetals has a worldwide sales network. As China's leading company in metals and minerals trading, China Minmetals meets the needs of its clients by providing services including finance, consulting, warehousing, forwarding and processing.

Minmetals HK, a wholly owned subsidiary of China Minmetals, has almost 10 years of experience in the trading of metals. CMN, an approximately 82.23% owned subsidiary of China Minmetals, is primarily engaged in the trading of non-ferrous metals (including copper, lead, zinc, tungsten, antimony, tin, precious metals and rare earth). CMN is also engaged in hedging activities at the SFE and LME covering a wide range of commodities such as copper, aluminium, lead, tin, nickel and silver. At the end of March 2004, CMN completed its acquisition of the remaining 49% interest in Sino Mining International from China Minmetals and Sino Mining International became a wholly owned subsidiary of CMN. Other than its interests in the Company and the Target Group, and the 10% minority interest in LYG which the Minmetals Group has openly offered for sale on the 北京產權交易所 (Beijing Equity Exchange), China Minmetals and CMN do not have any interest in a business which competes or is likely to compete, either directly or indirectly, with the alumina and aluminium related businesses carried on by the Enlarged Group.

As at the Latest Practicable Date, China Minmetals was beneficially interested in 74.98% of the existing share capital of the Company. Upon Completion and assuming the Placing does not take place, China Minmetals will be beneficially interested in approximately 90.60% of the share capital of the Company as enlarged by the issue of the Consideration Shares.

NON-COMPETITION AGREEMENT

On 30 December 2004, China Minmetals entered into the Non-competition Agreement in favour of the Company. Pursuant to this agreement, China Minmetals has, conditional upon Completion taking effect, undertaken not to, and will procure its controlled companies (comprising for this purpose, subsidiaries and companies in which they have or control a 30% or more interest or otherwise have control, but excluding the Enlarged Group) ("Affected Group") not to, engage in any business or invest in any entities in the PRC (including Hong Kong) which may compete with the alumina and aluminium related businesses carried on or to be carried on by the Enlarged Group save for:

- (a) CMN's existing interest in Sherwin and Guangxi Huayin;

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- (b) alumina related sourcing and sales contracts entered into by the Affected Group prior to the date of the Non-competition Agreement that are subject matter of the Agreement on Non-transferred Contracts (as defined below);
- (c) any holding by the Affected Group of less than 5% of the issued share capital of any other company which is listed on a stock exchange; or
- (d) those conducted with the prior written consent of the Company.

Should any alumina or aluminium related investment opportunity be made available to the Affected Group, and such business may directly or indirectly compete with the business of the Enlarged Group, China Minmetals will procure that such investment opportunities be first offered to the Enlarged Group for consideration at no less favourable terms than those offered to the Minmetals Group or Independent Third Parties. In the event that the Company for the time being does not have the resources to proceed with the investment and agree to allow China Minmetals to proceed with the investment, China Minmetals will use its best endeavours to avoid any direct competition with the Company. In connection with such investment undertaken by China Minmetals, China Minmetals has, conditional upon Completion taking effect, granted an option to acquire the relevant investment to the Enlarged Group. China Minmetals has also undertaken that Affected Group will offer to sell its interests in Sherwin and Guangxi Huayin on normal commercial terms to the Company within three years from 31 December 2004.

The decision to accept the offer to purchase CMN's interests in Sherwin and Guangxi Huayin in relation to exception (a) above and any decision to give consent to China Minmetals to engage or invest in any alumina and aluminium related businesses in relation to exception (d) above will be reviewed and approved by the independent non-executive Directors. Announcement on the above decisions will be made at the relevant time.

These undertakings and option shall cease to have effect on the earlier of:

- (a) the Minmetals Group directly or indirectly holding an aggregate of less than 30% of the issued share capital of the Company and exercising, or controlling the exercise of, less than 30% of the voting rights in the shareholders' meetings of the Company from time to time and do not control the composition of a majority of the Board; or
- (b) the Company ceases to be listed on the Stock Exchange or any other stock exchange.

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Information on Sherwin and Guangxi Huayin

Sherwin is an alumina refiner engaged in the production of alumina in the United States of America, Guangxi Huayin is in its development stage and will be engaged in the production of alumina in the PRC. Both Sherwin and Guangxi Huayin are engaged in upstream operation and are distinguished from the business of the Enlarged Group, being principally an alumina trading company and will not be engaged in alumina trading business. Accordingly, the Directors and the Proposed Directors are of the view that the business of Sherwin does not, and the business of Guangxi Huayin will not, directly or indirectly, compete with the business of the Enlarged Group.

(a) *Sherwin*

Sherwin (headquartered in the City of Corpus Christi, Texas Gulf Coast, the United States of America) is engaged in alumina refinery and has a current production capacity of 1.6 million tonnes of alumina per annum. Currently, Sherwin sells its alumina through external alumina trading companies and does not engage in alumina trading business. Sherwin is a potential supplier of alumina of the Target Group. As CMN (through its wholly-owned subsidiary, Aluminco Limited) only completed its acquisition of 51% indirect interest in Sherwin on 2 February 2005, Sherwin was excluded from the Acquisition when the Acquisition Agreement was entered into on 30 December 2004. The Directors and the Proposed Directors believe the Non-competition Agreement provides an opportunity for the Enlarged Group to acquire the 51% interest in Sherwin within the three years from 31 December 2004 and gives the Enlarged Group more time to better prepare itself in the furtherance of its plan for vertical integration after Completion. Sherwin has undertaken to the Group not to engage in any domestic sales of alumina in the PRC which may compete with the alumina and aluminium related businesses carried on by the Group save for those conducted with prior written consent of the Company.

Sherwin is ultimately owned as to 51% by CMN and as to 49% by BPU Associates, LLP (a limited liability company incorporated in Delaware, the United States of America and an Independent Third Party).

(b) *Guangxi Huayin*

Guangxi Huayin is a company incorporated in the PRC for the purpose of establishing an alumina project to explore for bauxite in the Guixi region of the PRC. Guangxi Huayin has a total investment and registered capital of Guangxi Huayin of RMB10 million and is owned as to 33% by CMN. The remaining 67% interest is owned as to 34% by 廣西投資(集團)有限公司 (Guangxi Investment Group Co., Ltd.) (formerly known as 廣西開發投資有限責任公司 (Guangxi Development and Investment Company)) and 33% by Chalco (both being an Independent Third Party).

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On 16 January 2004, the three shareholders of Guangxi Huayin have resolved, among other things, that (subject to approval by the relevant administrative authorities):

- (i) the total registered capital of Guangxi Huayin be increased to RMB668 million to be contributed according to the respective shareholding interest of the shareholders; and
- (ii) the planned annual production capacity of the alumina project be increased from 800,000 tonnes to 1.6 million tonnes per annum.

The approval was granted on 23 May 2005 which also approved an increase in the total investment and registered capital to RMB8,491.26 million and about RMB2,122.82 million respectively.

Guangxi Huayin will continue to be engaged in the production of alumina and exploration of bauxite after its development stage and will not engage in alumina trading business.

As Guangxi Huayin was still in its development stage pending relevant government approvals at the time when the Acquisition Agreement was entered into, and it is expected to require substantial amount of capital expenditure and demand for resources, the Directors are of the view that it is not an appropriate time to include the 33% interest in Guangxi Huayin in the Acquisition. The Directors and the Proposed Directors believe the Non-competition Agreement provides an opportunity for the Enlarged Group to acquire the 33% interest in Guangxi Huayin within the three years from 31 December 2004 and gives the Enlarged Group more time to better prepare itself in the furtherance of its plan for vertical integration after Completion.

CONNECTED TRANSACTIONS

A number of transactions will be, or will continue to be, carried out between members of the Enlarged Group and connected persons (as defined under Chapter 14A of the Listing Rules) of the Company and will constitute connected transactions for the Company under the Listing Rules upon Completion. Particulars of each of the connected transactions are set out below.

(1) Exempt Continuing Connected Transactions

The following Continuing Connected Transactions are exempt from the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.33 of the Listing Rules:

(a) Tenancy agreement (1)

Minmetals Aluminium has entered into a tenancy agreement dated October 2004 with China Minmetals for the lease of its office premises at

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Units A101, A103-109, A111, A113 and A115 on Level 1, Block A, No 5 Sanlihe Road, Haidian District, Beijing, the PRC (with a gross floor area of 159.85 square metres) at a rental of RMB5 per day per square metre (inclusive of management fee) for the period between 22 October 2004 and 31 December 2006. Unless both parties agree to terminate the tenancy agreement in writing, the tenancy agreement will be extended automatically for a further term of three years on the same basis including the provision on automatic extension but subject to the then applicable requirements governing continuing connected transactions under the Listing Rules, including but not limited to the approval by the Independent Shareholders (if required).


China Minmetals is a connected person of the Company by virtue of it being the ultimate controlling Shareholder. CB Richard Ellis Limited, an independent property valuer, has confirmed that the annual rental (equivalent to approximately RMB292,000) payable to China Minmetals is on normal commercial terms and is fair and reasonable (please refer to property numbered 2 of Appendix IV to this circular for further details).

The table below sets out the rental paid to China Minmetals by Minmetals Aluminium during the Track Record Period.

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Rental paid	381	292	292

The rental payable to China Minmetals under the tenancy agreement falls within the de minimus threshold as stipulated under Rule 14A.33(3) of the Listing Rules.

(b) Trademark licensing agreement

China Minmetals has entered into a trademark licensing agreement dated 28 June 2005 with Minmetals Aluminium whereby Minmetals Aluminium, its holding company and their respective subsidiaries were given the right to use the registered trademarks  and MINMETALS of China Minmetals in alumina and aluminium related operations in the PRC for so long as China Minmetals or any of its subsidiaries is or, together are, the controlling shareholder of Minmetals Aluminium. China Minmetals is a connected person of the Company by virtue of it being the ultimate controlling Shareholder. No consideration shall be paid by Minmetals Aluminium for the use of the trademarks under this trademark licensing agreement, and accordingly, the consideration payable thereunder shall fall within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules.

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(c) Composite services agreement

China Minmetals has entered into a composite services agreement dated 28 June 2005 with Minmetals Aluminium whereby the Minmetals Group shall continue to provide water supply, electricity supply, heating, catering, shuttle bus, telecommunication and security services to Minmetals Aluminium and its subsidiaries for a service fee to be charged on an actual cost basis, and on terms no less favourable than those offered to by Independent Third Parties for similar services of the same quality. As long as China Minmetals or its subsidiaries is, or together are the controlling shareholder of Minmetals Aluminium, the composite services will be provided to Minmetals Aluminium for a term effecting from the date of the agreement expiring on 31 December 2007. Unless both parties agree to terminate the composite services agreement in writing, the composite services agreement shall be automatically extended for a further term of three years on the same terms including the provision on automatic extension but subject to the then applicable requirements governing continuing connected transactions under the Listing Rules, including but not limited to the approval by the Independent Shareholders (if required).

China Minmetals is a connected person of the Company by virtue of it being the ultimate controlling Shareholder. The Directors and the Proposed Directors consider that the composite services agreement has been entered into after arm's length negotiation and is necessary to facilitate the business operations of Minmetals Aluminium and that the terms of the agreement are fair and reasonable and in the interest of the Company and the Shareholders taken as a whole.

The table below sets out the composite service fees paid to the Minmetals Group by Minmetals Aluminium during the Track Record Period.

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Composite service fees paid	258	408	258

The annual composite service fees payable to China Minmetals (currently estimated to be approximately RMB300,000 (equivalent to approximately HK\$283,000)) under the composite services agreement is expected to fall within the de minimus threshold as stipulated under Rule 14A.33(3) of the Listing Rules. If the annual composite service fees under the composite services agreement fall under non-exempt continuing transactions as stipulated under Rule 14A.35 of the Listing Rules, the composite services agreement will be subject to the then applicable requirements governing continuing connected transactions under the Listing Rules, including but not limited to the approval by the Independent Shareholders (if required).

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(d) Tenancy agreement (2)

Eastern Master (HK) Limited, one of the Company's subsidiaries, entered into a tenancy agreement dated 19 February 2004 with Texion Development Limited, a subsidiary of China Minmetals, for the lease of the Group's office premises at 9th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong at a monthly rental of HK\$57,930 (exclusive of rates, services, management and air-conditioning charges) for a fixed term of two years expiring on 31 December 2005.

Texion Development Limited is a connected person of the Company by virtue of it being a subsidiary of the ultimate controlling Shareholder. CB Richard Ellis Limited, an independent property valuer, has confirmed the annual rental payable to Texion Development Limited is on normal commercial terms and is fair and reasonable (please refer to property numbered 39 of Appendix V to this circular for further details).

The Group did not lease the subject property from Texion Development Limited for the two years ended 31 December 2002 and 2003. For the year ended 31 December 2004, the Group paid a rent of approximately HK\$695,000 to Texion Development Limited.

This tenancy agreement was entered into prior to the Acquisition and was exempt from the reporting, announcement and Independent Shareholders' approval requirements under the Listing Rules.

(2) Non-exempt Continuing Connected Transactions

The following Continuing Connected Transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Rule 14A.35 of the Listing Rules:

(a) Contracts that have not been novated pursuant to the Reorganisation

Prior to the incorporation of Minmetals Aluminium on 22 October 2004, substantially all of the contracts relating to the sourcing of alumina from suppliers and sale of alumina to customers were entered into by CMN on the one hand and the relevant suppliers or customers on the other hand. Following the incorporation of Minmetals Aluminium, the Target Group has entered into all new sourcing and sales contracts directly with its suppliers or customers (as the case may be) and the Minmetals Group has ceased to enter into any new contracts to source or to sell alumina. In addition, CMN has been actively procuring the novation of the existing sourcing and sales contracts to Minmetals Aluminium. However, three subsisting sourcing contracts (the "Non-transferred Sourcing Contracts") and nine subsisting sales contracts (the "Non-transferred Sales Contracts", together with the Non-transferred Sourcing Contracts collectively referred to as the "Non-transferred Contracts") are still held under

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the name of CMN. As the Directors and the Proposed Directors expect the consents for the novation of the Non-transferred Contracts (which have all been entered into with independent third party suppliers and customers of the Target Group) are unlikely to be forthcoming unless the terms of these contracts are revised in favour of the other contracting parties, Minmetals Aluminium has entered into an agreement on Non-transferred Contracts dated 28 June 2005 with CMN (the “Agreement on Non-transferred Contracts”) whereby 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 tonne with effect from 1 January 2005.

The Agreement on Non-transferred Contracts is an interim measure only and will expire on 31 December 2006. Except for the consummation of the Non-transferred Contracts, the Directors and the Proposed Directors have no intention to carry on any further alumina sourcing or sales through CMN.

CMN is a connected person of the Company by virtue of it being an approximately 82.23% owned subsidiary of China Minmetals, the ultimate controlling Shareholder.

The table below sets out the total purchase price paid under the Non-transferred Sourcing Contracts and the sales proceeds received under the Non-transferred Sales Contracts during the Track Record Period:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchase price paid	–	329,200	889,100
Sales proceeds received	–	–	2,537,900

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Cap

The aggregate annual value of purchase price payable and sales proceeds receivable under the Agreement on Non-transferred Contracts shall not exceed the limits set out below:

	Proposed annual cap	
	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>
Purchase price payable	630,000	340,000
As a % pro forma cost of sales of the Enlarged Group for the year ended 31 December 2004 of approximately HK\$7,132.5 million (equivalent to approximately RMB7,560.5 million)	8.3%	4.5%
Sales proceeds receivable	1,330,000	2,570,000
As a % pro forma turnover of the Enlarged Group for the year ended 31 December 2004 of approximately HK\$8,029.4 million (equivalent to approximately RMB8,511.2 million)	15.6%	30.2%

The proposed annual cap for the purchase price payable and sales proceeds receivable under the Agreement on Non-transferred Contracts was determined based on (i) the purchase volume and sales volume as stipulated in the Non-transferred Contracts which amount to 767,000 tonnes of alumina for the period from the date of Completion to 31 December 2005 and 1,196,000 tonnes of alumina for 2006, and (ii) the Company's estimated prevailing purchase price and sales price of the alumina. Of the proposed annual cap of purchase price payable and sales proceeds receivable in 2005 of no more than RMB1,960 million, in aggregate, only RMB767,000 is expected to be paid to CMN and the balance of approximately RMB1,959 million is expected to be paid to/received from the contracting parties under the Non-transferred Contracts through CMN pursuant to the Agreement on Non-transferred Contracts. Similarly, of the proposed annual cap of purchase price payable and sales proceeds receivable in 2006 of no more than RMB2,910 million in aggregate, only RMB1,196,000 is expected to be paid to CMN and the balance of approximately RMB2,909 million is expected to be paid/received from the contracting parties under the Non-transferred Contracts through CMN pursuant to the Agreement on Non-transferred Contracts.

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The Directors and the Proposed Directors (including the independent non-executive Directors) consider that the Agreement on Non-transferred Contracts was entered into on normal commercial terms after arm's length negotiation and the RMB1 per tonne merely serves to cover the administrative costs incurred by CMN and the transactions under the Non-transferred Contracts have been entered into in the usual and ordinary course of business of the Enlarged Group. The Directors and the Proposed Directors (including the independent non-executive Directors) also consider that the terms of the Agreement on Non-transferred Contracts and the proposed annual cap for the purchase price payable and sales proceeds receivable under the Agreement on Non-transferred Contracts are fair and reasonable and in the interest of the Company and the Shareholders taken as a whole.

(b) Logistics services agreement

Minmetals Shipping entered into a logistics services agreement dated 28 June 2005 with Minmetals Aluminium (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 to Minmetals Aluminium and its subsidiaries (the "Services"). The service fee to be charged for the Services shall be on terms no less favourable than those offered to independent third parties and determined in accordance with the following principles:

- (i) if the PRC Government has stipulated prices for that particular Services, the stipulated prices;
- (ii) if there are no such stipulated prices but the PRC Government has issued pricing guidelines, the guided prices;
- (iii) if there are no stipulated prices or guided prices, prices that are in line with market price; or
- (iv) if there are no stipulated prices, guided prices or market price, a price to be mutually agreed between the two parties and determined based on the cost incurred by Minmetals Shipping in providing that particular Services plus a reasonable profit of no more than 10% of the cost.

RELATIONSHIP WITH THE MINMETALS GROUP

The Logistics Services Agreement will be for a term effecting from the date of the agreement and expiring on 31 December 2007. Unless both parties agree to terminate the Logistics Services Agreement in writing, the Logistics Services Agreement will be extended automatically for a further term of three years on the same terms including the provision on automatic extension but subject to the then applicable requirements governing continuing connected transactions under the Listing Rules, including but not limited to the approval by the Independent Shareholders (if required).

Minmetals Shipping is a connected person of the Company by virtue of China Minmetals, the controlling Shareholder, having an attributable interest of approximately 71.7% in it.

The table below sets out the logistics service fees paid to Minmetals Shipping and its subsidiaries for the Services during the Track Record Period.

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Logistics service fees paid	35,744	39,599	152,847
Cap			

The aggregate annual logistics service fees payable under the Logistics Services Agreement shall not exceed the limits set out below:

	Proposed annual cap		
	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Logistics service fees	150,000	100,000	100,000
As a % pro forma cost of sales of the Enlarged Group for the year ended 31 December 2004 of approximately HK\$7,132.5 million (equivalent to approximately RMB7,560.5 million)	2.0%	1.3%	1.3%

RELATIONSHIP WITH THE MINMETALS GROUP

The increase in the logistics service fees paid during the Track Record Period was primarily due to the increase in shipping costs associated with the Services charged by external independent shipping companies from an average of approximately US\$8.3 per tonne in 2002 to an average approximately US\$11.2 per tonne in 2003 and US\$26.3 per tonne in 2004, and, to a lesser extent, increased in volume transported. The increase in the shipping costs associated with the Services charged by external independent shipping companies was primarily due to the increase in oil prices which has increased from an average of US\$25.1 per barrel in 2002 to US\$38.0 per barrel in 2004.

The proposed annual cap for logistics service fees payable under the Logistics Services Agreement was determined based on the internal projection of volume to be transported and assuming the average shipping costs associated with the Services to be at US\$30 per tonne for the three years ending 31 December 2005, 2006 and 2007.

The Directors and the Proposed Directors (including the independent non-executive Directors) consider that the Logistics Services Agreement was entered into on normal commercial terms after arm's length negotiation, in the usual and ordinary course of business of the Enlarged Group and that the fees for the Services are comparable to rates charged by Minmetals Shipping and its subsidiaries to independent third parties for the provision of similar services. The Directors and the Proposed Directors (including the independent non-executive Directors) also consider that the terms of the Logistics Services Agreement and the proposed annual cap for the logistics service fees payable under the Logistics Service Agreement are fair and reasonable and in the interest of the Company and the Shareholders taken as a whole.

The Directors and the Proposed Directors believe that the above continual service of CMN in handling the Non-transferred Contracts to be an interim measure only for the completion of the Reorganisation and that the other continuing connected transactions are only peripheral to the core operation of the Enlarged Group. The main activities, namely sourcing and sales of alumina, will remain independently run by the Enlarged Group's own staff and management team. As China Minmetals has executed the Non-competition Agreement in favour of the Company, the Directors and the Proposed Directors believe that the Enlarged Group is well positioned to operate independently as a distinct and separate platform for all alumina and aluminium related operations and interests of China Minmetals.

The Non-exempt Continuing Connected Transactions are subject to, among other things, the approval by the Independent Shareholders at the EGM. Coppermine, the controlling Shareholder holding about 74.98% of the existing issued share capital of the Company as at the Latest Practicable Date, and its Associates will abstain from voting on the ordinary resolution for approving these Non-exempt Continuing Connected Transactions at the EGM.

RELATIONSHIP WITH THE MINMETALS GROUP

Conditions of the transactions under the Agreement on Non-transferred Contracts and the Logistics Services Agreement

The Company will seek the approval of the Independent Shareholders of the Agreement on Non-transferred Contracts and the Logistics Services Agreement and the respective caps in relation to these Non-exempt Continuing Connected Transactions on the following conditions:

- (1) the total annual transaction value of each of the Agreement on Non-transferred Contracts and the Logistics Services Agreement will not exceed the following cap amounts (collectively the “Cap Amounts”):
 - (a) in relation to the transactions under Agreement on Non-transferred Contracts, the aggregate value of transactions thereunder for the two years ending 31 December 2006 will not exceed RMB1,960 million (equivalent to approximately HK\$1,849.1 million) and RMB2,910 million (equivalent to approximately HK\$2,745.3 million), respectively; and
 - (b) in relation to the transactions under the Logistics Services Agreement, the aggregate value of service fees payable by Minmetals Aluminium for the three years ending 31 December 2007 will not exceed RMB150 million (equivalent to approximately HK\$141.5 million), RMB100 million (equivalent to approximately HK\$94.3 million) and RMB100 million (equivalent to approximately HK\$94.3 million), respectively;
- (2) transactions under the Agreement on Non-transferred Contracts and the Logistics Services Agreement will be:
 - (a) entered into in the usual and ordinary course of business of the Enlarged Group;
 - (b) conducted either (i) on normal commercial term; or (ii) if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Enlarged Group than terms available to or from (as appropriate) independent third parties; and
 - (c) entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders taken as a whole;

RELATIONSHIP WITH THE MINMETALS GROUP

- (3) the independent non-executive Directors will review the Non-exempt Continuing Connected Transactions and confirm in the annual report and accounts that the Non-exempt Continuing Connected Transactions have been entered into:
 - (a) in the ordinary and usual course of business of the Company;
 - (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
 - (c) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (4) the auditors of the Company will review the Non-exempt Continuing Connected Transactions annually and confirm to the Directors in writing (with a copy to be provided to the Stock Exchange) in respect of each relevant financial year during which the Non-exempt Continuing Connected Transactions were conducted, stating whether:
 - (a) the Non-exempt Continuing Connected Transactions have been approved by the Directors (including the independent non-executive Directors);
 - (b) the Non-exempt Continuing Connected Transactions have been entered into in accordance with the pricing policies of the Enlarged Group;
 - (c) the Non-exempt Continuing Connected Transactions have been entered into in accordance with the terms of the relevant agreements governing them; and
 - (d) the values of the Non-exempt Continuing Connected Transactions have not exceeded the respective Cap Amounts set out in paragraph (1) above;
- (5) the Company and each party to the transactions described in the Agreement on Non-transferred Contracts and the Logistics Services Agreement respectively shall procure that, for so long as the Shares are listed on the Stock Exchange and the relevant Non-exempt Continuing Connected Transactions continue, the auditors of the Company be given full access to inspect their respective accounts and records for the purpose of preparing the reports referred to in paragraph (4) above;

RELATIONSHIP WITH THE MINMETALS GROUP

- (6) the Company has undertaken to promptly notify the Stock Exchange if it knows or has reason to believe that the independent non-executive Directors and/or the auditors of the Company will not be able to confirm the matters set out in Rules 14A.37 and/or 14A.38 of the Listing Rules respectively; and
- (7) the Company will, in relation to each of the Non-exempt Continuing Connected Transactions, comply with the relevant requirements under Chapter 14A of the Listing Rules governing continuing connected transactions.

In the event of any amendments to the terms of the Agreement on Non-transferred Contracts or the Logistics Services Agreement (unless as provided for under the terms of the relevant agreements) and any extension of the term thereof, the Company will comply with the relevant requirements under Chapter 14A of the Listing Rules.

Sponsor's opinion

The Sponsor is of the view that the Non-exempt Continuing Connected Transactions have been entered into on normal commercial terms and the terms of the Non-exempt Continuing Connected Transactions and the caps applied for the aggregate values of such transactions are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders taken as a whole. In addition, the Sponsor is of the view that the transactions under the Non-transferred Contracts and the Logistics Services Agreement have been entered into in the ordinary and usual course of the business of the Enlarged Group.

(3) Discontinued connected transactions of the Target Group

Purchase commission

The Target Group uses the services of various subsidiaries of China Minmetals to arrange for L/Cs in settlement of its purchase payments. The service fees were charged at a rate comparable to those charged to independent third parties by these companies. The total annual sum paid to each of these subsidiaries in the three years ended 2003 were all below RMB1,000,000 except for one company which has received about RMB1,550,000 for the year ended 31 December 2003. Please also refer to note 26 of Appendix I to this circular for details.

It is the intention of the Directors and the Proposed Directors to cease to use these services following Completion unless otherwise considered advantageous and desirable to the Enlarged Group, and if any such services are used, they will be conducted in compliance with all applicable Listing Rules.

RELATIONSHIP WITH THE MINMETALS GROUP

INDEPENDENT OPERATION OF THE ENLARGED GROUP

The Directors and the Proposed Directors confirm that the Enlarged Group will be able to operate independently of the Minmetals Group for the following reasons:

- **Distinct business**

After China Minmetals became the ultimate controlling shareholders of the Company in January 2004, China Minmetals has been reviewing the business operations of the Group with a view to rationalising the competing business between the Minmetals Group and the Group. The Acquisition allows China Minmetals to consolidate its alumina and aluminium operations and interests into one single platform under the Enlarged Group. To further delineate the Enlarged Group's business from the business of the Minmetals Group, China Minmetals has further entered into the Non-competition Agreement, and offered to sell to the Enlarged Group the up-stream operation in relation to the alumina and aluminium trading operations of the Enlarged Group, namely, its interests in Sherwin and Guangxi Huayin, as detailed in the paragraph headed "Non-competition Agreement" above. Accordingly, the Enlarged Group will have a business that is separate and distinct from that of the Minmetals Group.

- **Independent board**

Following Completion, none of the executive Directors will have any position in the Minmetals Group and will be able to carry on the business of the Enlarged Group independently of the Minmetals Group.

- **Distinct senior management team and operational staff**

The Enlarged Group will be managed by a distinct senior management team, none of whom will hold any position in the Minmetals Group, and will be operated by its own team of staff in its core trading and supporting activities.

- **Connected transactions are of interim or no core supporting purposes only**

The Continuing Connected Transactions following Completion between the Enlarged Group and the Minmetals Group, namely the lease of certain office premises, use of certain trademarks, composite services and logistics services are supporting services that are peripheral to the core trading activities of the Enlarged Group. The Agreement on Non-transferred Contracts is an interim measure to tidy up the business operations for completing the Reorganisation and it will expire on 31 December 2006.

RELATIONSHIP WITH THE MINMETALS GROUP

- **Independent conduct of all core trading activities**

All core trading activities (including the sourcing of alumina from the international markets and sales of imported alumina to the PRC aluminium smelters) will be conducted by the Enlarged Group's own staff. All core supporting activities will also be conducted by the Enlarged Group on its own independently of China Minmetals.

- **No outstanding loans and guarantees**

The balance of secured and unsecured loans from CMN to the Target Group as at 31 December 2004 was RMB731.6 million. Incidental to the execution of the novation deed dated 13 June 2005 as detailed in the paragraph headed "Information on the Target Group and the Group – The Target Group – Business of the Target Group – Sourcing alumina – The Alcoa Contract" above, Minmetals Aluminium has also assumed the loan under the CMN Loan Agreement. Accordingly, the Enlarged Group would have secured all its funding independently of the Minmetals Group and there will be no outstanding loans and guarantees provided to the Enlarged Group from the Minmetals Group upon Completion.

- **Importation arrangements**

Under the dual-name AIL arrangement, the Enlarged Group will carry out the entire alumina importation arrangements directly and independently without the actual involvement of CMN. For details, please refer to the paragraph headed "Information of the Target Group and the Group – The Target Group – Business of the Target Group – Importation arrangements" of this circular.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. LIN Xizhong, aged 60, joined the Group as an executive Director in January 2004 and became the chairman of the Company in February 2004. Mr. Lin is responsible for the leadership and management of the Board. Mr. Lin is the vice chairman and managing director of Minmetals HK and a director of Coppermine. He is the chairman of each of ONFEM Holdings Limited and AXA-Minmetals Assurance Ltd. in Shanghai. Mr. Lin graduated in 1973 with a Bachelor of Arts degree in Literature from the Beijing Foreign Studies University, the PRC. From 1995 to 1998, he was China's representative in the APEC Business Advisory Council (ABAC) of Asia-Pacific Economic Cooperation Organisation. He was the vice chairman of First Pacific Bank during 1993 to 2000. Mr. Lin has over 31 years of experience in international trading, strategic investment and financial corporate management. It is proposed that Mr. Lin will resign as Director with effect from the date of Completion.

Mr. XU Huizhong, aged 47, joined the Group as an executive Director in April 2002 and has become the president of the Company since May 2002. Mr. Xu is responsible for the management of the Group's operations and the strategic planning for the Company. Mr. Xu is a director and deputy general manager of Minmetals HK and an employee of 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 China Minmetals in 1979 and has been a qualified economist in the PRC since 24 September 1987. Prior to joining the Group, he held senior management positions with corporations engaged in the trading of metals and property development in the PRC, Japan and New Zealand for over 18 years. Mr. Xu has extensive experience in international metals trading, property development and investment, investment strategies and corporate management. It is proposed that Mr. Xu will resign as director and deputy general manager of Minmetals HK and remain as an executive Director and the president of the Company with effect from the date of Completion. Mr. Xu will be responsible for the management of the Enlarged Group's operations and the strategic planning for the Company after Completion.

Mr. QIAN Wenchao, aged 39, joined the Group as an executive Director in January 2004. Mr. Qian is responsible for overseeing the financial management of the Group. Mr. Qian is currently a director of each of Minmetals HK and Coppermine, and an employee of China Minmetals. He is also a director of ONFEM Holdings Limited. Mr. Qian has a Bachelor of Arts degree in Economics from Beijing Technology and Business University in the PRC in 1987 and completed his graduate study in accounting in the same university in 1989. He qualified as a senior accountant on 2 April 1999. He joined China Minmetals in 1989 and has worked in the overseas enterprises division of China Minmetals and Minmetals HK with responsibilities in financial management. Mr. Qian has over 10 years of experience in financial corporate management. It is proposed that Mr. Qian will resign as Director with effect from the date of Completion.

DIRECTORS AND SENIOR MANAGEMENT

Mr. TANG Xiaojin, aged 43, was appointed as the vice president of the Company in October 2003 and became an executive Director in January 2004. Mr. Tang is responsible for overseeing the Group's industrial investments in the PRC. He is also an employee of China Minmetals. Mr. Tang joined the Group in 1995 and has been the general manager of Orienmet Industry Company Limited since 1998. He has also served as a director of certain principal subsidiaries and associated companies of the Company. Mr. Tang graduated from the Faculty of Mechanical Engineering of the Southern Institute of Metallurgy, the previous Jiangxi Institute of Metallurgy, the PRC, in 1983 with a bachelor degree in engineering. He joined Beijing General Research Institute for Mining and Metallurgy in 1983, engaging in metallurgical research and design. In 1989, he joined the personnel department of the previous CNNC. Mr. Tang qualified as a senior engineer on 17 November 1994 and has over 21 years of experience in the non-ferrous metals industry. It is proposed that Mr. Tang will resign as Director and remain as the vice president of the Company with effect from the date of Completion. Mr. Tang will continue to be responsible for overseeing the Enlarged Group's industrial investments in the PRC after Completion.

As a result of the Acquisition, CMN will become a new Shareholder and the business of the Target Group will be integrated into that of the Company after Completion. The composition of the Board will therefore be adjusted upon and subject to Completion to reflect and cater for such new changes. An announcement on the proposed changes to the Board has been published on 30 June 2005 in accordance with Rule 13.51 of the Listing Rules.

Proposed executive Director

The following Director is proposed to be appointed to the Board as executive Director with effect from the date of Completion:

Mr. WANG Lixin, aged 37, is the vice president of CMN and the general manager and director of Minmetals Aluminium. 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 Minmetals Group in 1995. He has over 10 years of experience in foreign trade and corporate management, as well as five years of experience with government services. It is proposed that Mr. Wang will resign as vice president of CMN and become an executive Director and the vice president of the Company with effect from the date of Completion. Mr. Wang will be responsible for the management of the Target Group's operations after Completion.

Proposed non-executive Directors

The following Directors are proposed to be appointed to the Board as non-executive Directors with effect from the date of Completion. These proposed non-executive Directors will not be engaged in the management of the Enlarged Group's business and operations on a daily basis.

DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHOU Zhongshu, aged 52, is the president of China Minmetals and the chairman of CMN and Minmetals HK. He has been the chairman of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) since March 2005. He graduated from Shanghai International Studies University in the PRC and majored in Spanish language. He joined the Minmetals Group in 1978. From 2000 to 2002, Mr. Zhou was Commercial Counsellor of Chinese Embassy in Spain. Mr. Zhou has over 20 years of experience in non-ferrous metals industry. It is proposed that Mr. Zhou will become the non-executive chairman of the Company with effect from the date of Completion.

Dr. ZHU Guang, aged 48, is the senior vice president of China Minmetals. 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 joined the Minmetals Group in 1987. He has been a director of CMN since 2001. Dr. Zhu has also been the vice chairman of Xiamen Tungsten Co., Ltd. (a company listed on the Shanghai Stock Exchange) since 2003, and was a director of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) from May 2000 to February 2003. Dr. Zhu 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 has over 10 years of experience in non-ferrous metals industry. It is proposed that Dr. Zhu will become the non-executive vice chairman of the Company with effect from the date of Completion.

Ms. SHEN Ling, aged 44, is the chief financial officer of China Minmetals. 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 Minmetals Group in 1987. She has been a director of each of CMN and Minmetals HK since 2004 and a director of Minmetals Development Co., Ltd. (a company listed on the Shanghai Stock Exchange) since 2003. She has over 20 years of experience in accounting and financial corporate management.

Mr. LI Linhu, aged 50, is the general manager of the human resource department of China Minmetals and has been a director of CMN 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 Minmetals Group in 1996. He has been a director of Minmetals HK since 2004. He has over 10 years of experience in foreign trade and corporate management.

Mr. ZONG Qingsheng, aged 45, is the general manager of the investment management department of China Minmetals. Mr. Zong joined the Minmetals Group in 1995. 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. He has been a director of each of CMN and Minmetals HK 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 over 20 years of experience in foreign trade, business management and investment.

DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHANG Shoulian, aged 50, is the president of CMN. He graduated from Dongbei University of Finance and Economics and majored in foreign trade and economics. From 1982 to 1993, Mr. Zhang worked for the Economics and Trade Bureau of the State Planning Commission. He joined the Minmetals Group in 1994 and worked as the vice president of CMN from 2001 to 2003. He has over 10 years experience in the non-ferrous industry.

Save as disclosed in this circular, the Proposed Directors do not have any relationships with any Directors, senior management of the Company or substantial or controlling Shareholders. The proposed length of service and emoluments, if any, of the Proposed Directors will be determined after the Proposed Directors are appointed by the Company and where appropriate, determined by the remuneration committee of the Board.

Independent non-executive Directors

Mr. LIU Hongru, aged 74, was appointed as an independent non-executive Director 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 CSRC. 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, Titan Petrochemicals Group 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 52, was appointed as an independent non-executive Director in May 2002. Mr. Chan is also an independent non-executive director of each of Hualing Holdings Limited, IIN International Limited, Mexan Limited, Sam Woo Holdings Limited, Jinheng Automotive Safety Technology Holdings Limited, Sino Union Petroleum & Chemical International Limited and Zhongda International Holdings Limited. Previously, Mr. Chan was a non-executive director of Pickquick Plc., a company incorporated in the United Kingdom which was dissolved on 9 May 2004 as a result of creditors' voluntary liquidation. Mr. Chan has confirmed that he is not liable for any liability as a result of the dissolution of Pickquick Plc. Mr. Chan has over 24 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. TING Leung Huel, Stephen, aged 52, was appointed as an independent non-executive Director in June 2002. He is also a non-executive director of Chow Sang Sang Holdings International Limited and an independent non-executive director of each of the 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.

The table below summarised the composition of the board of Directors upon Completion:

Name	Age	Position
Mr. ZHOU Zhongshu	52	Chairman of the Board and non-executive Director
Dr. ZHU Guang	48	Vice chairman of the Board and non-executive Director
Mr. XU Huizhong	47	Executive Director and president
Mr. WANG Lixin	37	Executive Director and vice president
Ms. SHEN Ling	44	Non-executive Director
Mr. LI Linhu	50	Non-executive Director
Mr. ZONG Qingsheng	45	Non-executive Director
Mr. ZHANG Shoulian	50	Non-executive Director
Mr. LIU Hongru	74	Independent non-executive Director
Mr. CHAN Wai Dune	52	Independent non-executive Director
Mr. TING Leung Huel, Stephen	52	Independent non-executive Director

Since none of the executive Directors will hold any position in the Minmetals Group upon Completion, the Directors and the Proposed Directors believe that the Company will have an independent board to carry on its business independently upon Completion.

SENIOR MANAGEMENT

Senior management of the Company

Mr. TANG Xiaojin will continue to be the vice president of the Company and will not hold any management position in the Minmetals Group after Completion as long as he is a senior management of the Company. Mr. Tang will continue to be responsible for overseeing the Enlarged Group's industrial investments in the PRC after Completion.

DIRECTORS AND SENIOR MANAGEMENT

Qualified Accountant

Mr. CHU Charn Fai, Daniel, aged 35, joined the Group in 1998 and was appointed as the financial controller of the Company in August 2002. He is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Prior to joining the Group, Mr. Chu worked in an international accounting firm. He has over 12 years of experience in financial management and auditing. Mr. Chu will continue to be the financial controller of the Company after Completion.

Senior management of the Target Group

Mr. LI Liangang, aged 41, is the vice general manager of Minmetals Aluminum. He graduated from the Teacher's College for Foreign Language of Beijing Union University and majored in English language. He joined the Minmetals Group in 1987 and worked for a number of overseas subsidiaries of the Minmetals Group from 1989 to 1998. He was responsible for sourcing and importing alumina. He has over 18 years of working experience in the non-ferrous metals industry. Mr. Li will serve Minmetals Aluminum on a full time basis and will not hold any position within the Minmetals Group after Completion as long as he is a senior management of the Target Group.

Mr. WANG Ji, aged 44, is the vice general manager of Minmetals Aluminum. He earned his MBA degree from the University of International Business and Economics in the PRC in 2001. Mr. Wang joined the Minmetals Group in 1994. He has over 10 years of experience in foreign trade and corporate management. He will serve the Minmetals Aluminum on a full time basis and will not hold any position within the Minmetals Group after Completion as long as he is a senior management of the Target Group.

Mr. WANG Xiaolei, aged 34, is the manager of the metal department of Minmetals Aluminum. He graduated from the Central University of Finance and Economics and holds a Master degree in national economics. He worked for Liaoning Metals & Minerals Import & Export Corporation and Air China Group Import & Export Trading Company. Subsequently, Mr. Wang joined the Minmetals Group in 1996. He has over 10 years of working experience in the trading of metal products. He is mainly responsible for hedging and sales of metal products. Mr. Wang will continue to serve Minmetals Aluminum on a full time basis and will not hold any position with the Minmetals Group after Completion as long as he is a senior management of the Target Group.

Mr. WANG Zhizhong, aged 43, was appointed to the board of Sino Mining Alumina on 21 November 2000. Mr. Wang was a director and vice president of Cheerglory Traders Limited, a wholly owned subsidiary of Minmetals HK and has significant experience in the trade and futures business in aluminum and alumina. He will serve the Sino Mining Group on a full time basis and will not hold any position within the Minmetals Group as long as he is a senior management of the Target Group.

DIRECTORS AND SENIOR MANAGEMENT

Mr. ZHONG Jianguo, aged 48, is the vice president of SMI. Mr. Zhong was the vice general manager of the financial division and general manager of the audit division of China Minmetals. From 1993 to 1996 he was based in USA as a treasurer for a subsidiary of the Minmetals Group. Mr. Zhong has an accounting and finance background with detailed knowledge of the Chinese sector coupled with extensive international experience. He will serve the Sino Mining Group on a full time basis and will not hold any position within the Minmetals Group as long as he is a senior management of the Target Group.

Other senior management of the Group

Mr. JIANG Shixiong, aged 42, is the general manager of NCA. He earned his bachelor degree in mining from Beijing Steel Institute in 1984. Mr. Jiang joined the Minmetals Group in 1986 and subsequently, the Company in 1994. He has over 10 years of experience in foreign trade and corporate management. He will serve NCA on a full time basis and will not hold any position within the Minmetals Group after Completion as long as he is a senior management of NCA.

Mr. MA Jianxiang, aged 49, is the general manager of YOPT. He earned his bachelor degree in ferrous metal refining from Shenyang North Eastern University in 1978. Mr. Ma joined 營口無線電機械廠 (Yingkou Wireless Machinery Factory) in 1978 and was subsequently promoted as the general manager. From 1994 to 1998, he was the general manager of 遼寧無線電三廠 (Liaoning Wireless No. 3 Factory). Mr. Ma has been the general manager of YOPT since 1998. He has extensive experience in marketing, production and corporate management. He will serve YOPT on a full time basis, and will not hold any position within the Minmetals Group after Completion as long as he is a senior management of YOPT.

COMPANY SECRETARY

Miss LEUNG Suet Kam, Lucia, aged 43, is the company secretary of the Company. She joined the Group in 1993. She holds a Bachelor's degree in Economics from the University of London, the United Kingdom and a Postgraduate Diploma in Corporate Administration from the City University of Hong Kong. She is an associate member of both The Institute of Chartered Secretaries and Administrators in United Kingdom and the Hong Kong Institute of Company Secretaries. Miss Leung has over 12 years of experience in company secretarial affairs and over 19 years of experience in administration.

AUDIT COMMITTEE

The Company established an audit committee in compliance with Rules 3.21 to 3.23 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee has adopted its terms of reference since 2 July 1999.

The current audit committee comprises three independent non-executive Directors, namely Mr. Chan Wai Dune (Chairman), Mr. Liu Hongru and Mr. Ting Leung Huel, Stephen. The primary duties of the audit committee are to review the accounting principles

DIRECTORS AND SENIOR MANAGEMENT
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and practices adopted by the Company and its subsidiaries from time to time, the interim and annual results and reports of the Company and its subsidiaries from time to time, and any connected transactions of the Company and to discuss with management the auditing, internal control and financial reporting matters.

COMPLIANCE ADVISER

The Company intends to appoint Rothschild, which is the Sponsor to the Company, as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules and to engage the compliance adviser in advising the Company in the following circumstances in compliance with Rule 3A.23 of the Listing Rules:

- (a) before the publication of any regulatory announcement, circular or financial report;
- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Company.

The term of the appointment of the compliance adviser shall commence on the date of Completion and end on the date on which the Company distributes its annual report in respect of its financial results for the first full financial year commencing after the date of Completion.

FINANCIAL INFORMATION ON THE ENLARGED GROUP

GENERAL

Pursuant to the Acquisition Agreement, the Group will acquire a 100% interest in Target BVI which on completion of the Reorganisation, has a 100% interest in Minmetals Aluminium, which in turn owns (1) a 100% interest in Sino Mining International and (2) a 90% interest in LYG and assumes (3) the entire operation of the Aluminium Trading Business. Upon Completion, the Enlarged Group's operations will principally comprise (a) alumina and aluminium trading, (b) aluminium fabrication, (c) copper refinery and plica tube production and (d) provision of logistics services.

The following discussion and analysis of the financial information and results of operations of the Enlarged Group should be read in conjunction with the financial statements and information set forth in Appendices I to III to this circular.

COMBINED RESULTS OF OPERATIONS

The following table shows the pro forma combined results of the Enlarged Group for the year ended 31 December 2004 as extracted from the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this circular. The unaudited pro forma results have been prepared based on the audited financial information of the Group and the Target Group, after making pro forma adjustments reflecting the consequence of the Acquisition.

	Year ended 31 December 2004 HK\$'000
Turnover	<u><u>8,029,357</u></u>
Profit before taxation	697,499
Taxation	<u>(186,576)</u>
Profit after taxation	510,923
Minority interests	<u>(35,630)</u>
Profit attributable to Shareholders	<u><u>475,293</u></u>

FINANCIAL INFORMATION ON THE ENLARGED GROUP

UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS STATEMENT

The following is the unaudited pro forma consolidated net tangible assets statement of the Enlarged Group as at 31 December 2004 as extracted from Appendix III to this circular.

The statement is prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

Unaudited pro forma consolidated net assets of the Enlarged Group as at 31 December 2004 HK\$'000 (Note 1)	Less: Goodwill of the Target Group HK\$'000 (Note 1)	Less: Estimated goodwill arising from the Acquisition HK\$'000 (Note 1)	Unaudited pro forma consolidated net tangible assets of the Enlarged Group as at 31 December 2004 HK\$'000 (Note 2)	Unaudited pro forma consolidated net tangible assets per share of the Enlarged Group as at 31 December 2004 HK\$ (Note 3)
3,308,005	(6,819)	(1,373,641)	1,927,545	1.19

Notes:

1. The balance is extracted from Section I(B) headed "Unaudited pro forma consolidated balance sheet" as set out in Appendix III to this circular.
2. The upfront payment for alumina purchasing rights with fair value of approximately HK\$1,778,400,000 as at 31 December 2004, which is similar to prepayments, has been included in the computation of the net tangible assets.
3. The number of Shares used for the calculation of this figure is 1,616,440,521 Shares, comprising 607,349,612 existing Shares in issue as at 31 December 2004 and the Consideration Shares of 1,009,090,909 new Shares to be allocated and issued by the Company to satisfy the consideration for the Acquisition.

Owing to the nature of the pro forma accounts, the Directors and the Proposed Directors are of the view that the above financial information may not give an indication of the financial results of the Enlarged Group in the future as it does not take into account revenue enhancement and cost synergies arising from the integration of the operations of the Target Group and of the Group.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Net current assets

As at 31 December 2004, the Enlarged Group had net current assets of approximately HK\$310.8 million. Current assets of the Enlarged Group comprised primarily of cash and bank balances of approximately HK\$609.7 million, inventories of approximately

FINANCIAL INFORMATION ON THE ENLARGED GROUP

HK\$879.9 million, and trade receivables, prepayments and other receivables of approximately HK\$582.5 million. Current liabilities of the Enlarged Group comprised primarily of trade payables and accrued charges of approximately HK\$503.9 million, short-term bank loans of approximately HK\$690.0 million and advance from customers of approximately HK\$327.2 million.

Funding and banking facilities

The Enlarged Group generally finances its operations through cash generated from operations and external bank borrowings. The Enlarged Group's cash requirements relate primarily to its alumina trading activities, production and operation activities, repayment of liabilities as they become due and capital expenditures.

As at 31 December 2004, the Enlarged Group had aggregate banking facilities of approximately HK\$1,607.1 million, of which approximately HK\$714.6 million have been utilised. The Enlarged Group's banking facilities are secured by certain fixed assets and construction in progress. There is no guarantee given by the Directors and the Proposed Directors in respect of these banking facilities.

CAPITAL COMMITMENTS

As at 31 December 2004, the Enlarged Group had capital commitments of HK\$64.8 million in respect of purchase of plant and machinery.

WORKING CAPITAL STATEMENT

Following Completion, after taking into account the operating cash flow, the Directors and Proposed Directors confirm that the Enlarged Group has available sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

INDEBTEDNESS

Borrowings

As at the close of business on 30 April 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining information contained in this indebtedness statement, the Enlarged Group had outstanding bank borrowings of approximately HK\$1,305,334,000 (which comprised secured bank loans of approximately HK\$939,038,000 and unsecured bank loans of approximately HK\$366,296,000), unsecured loan from a related company, 五礦集團財務有限責任公司 (Minmetals Finance Company Limited), of approximately HK\$9,434,000 and bills payable of approximately HK\$183,469,000.

Upon Completion, all outstanding borrowings provided to the Group and Target Group from their controlling Shareholder and its associates will be fully repaid.

FINANCIAL INFORMATION ON THE ENLARGED GROUP

Securities and guarantees

As at the close of business on 30 April 2005, the Enlarged Group's outstanding secured bank borrowings of approximately HK\$939,038,000 were secured by (a) certain fixed assets, construction in progress and bank deposits of the Enlarged Group; (b) all the equity interests of Sino Mining Alumina, a subsidiary of the Enlarged Group; (c) all the assets of Sino Mining Alumina; and (d) the Enlarged Group's upfront payment for alumina purchasing rights.

Contingent liabilities

As at 30 April 2005, the Enlarged Group had contingent liabilities in respect of the following:

- (a) The Company provided a corporate guarantee to a financial institution in respect of banking facilities extended to an associate amounting to approximately HK\$23,585,000.
- (b) The Enlarged Group had unsettled tax payables in respect of certain properties in the PRC which may result in potential additional charges. No provision has been made by the Enlarged Group since the amount of additional charges, if any, cannot be reliably determined. However, the potential additional charges are not expected to exceed HK\$1,285,000.
- (c) The Enlarged Group had contingent liabilities in respect of trade bills and bank acceptance notes discounted with recourse with a total amount of approximately HK\$72,365,000.

Save as aforesaid and apart from intra-group liabilities and trade payables in the normal course of business, no companies within the Enlarged Group had, at the close of business on 30 April 2005, any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, obligations under finance leases, guarantees, or other material contingent liabilities.

The Directors and the Proposed Directors have confirmed that there has not been any material adverse change in the indebtedness and contingent liabilities of the Enlarged Group since 30 April 2005.

For the purpose of the above statement of indebtedness, foreign currency amounts have been translated into Hong Kong dollars at the rates of exchange prevailing at the close of business on 30 April 2005.

FINANCIAL INFORMATION ON THE ENLARGED GROUP

PROPERTY INTERESTS

The property interests of the Group have been valued at approximately HK\$297.5 million, out of which approximately HK\$136.3 million was attributable to the Group as at 31 March 2005, and no commercial value has been attributable to the property interests of the Target Group as at 31 March 2005 by CB Richard Ellis Limited, an independent property valuer. The texts of the letter with a summary of the valuation and a valuation certificate of these property interests prepared by CB Richard Ellis Limited are set out in Appendices IV and V to this circular.

The following table shows a reconciliation of the value of the property interests of the Group as disclosed above to the net book value as reflected in the audited consolidated financial statements in Appendix II to this circular:

	Net book value as at 31 December 2004 HK\$'000	Depreciation and net additions/ (disposals) HK\$'000	Net book value as at 31 March 2005 HK\$'000	Valuation gain/ (loss) HK\$'000	Capital value in existing state as at 31 March 2005 HK\$'000
Investment properties					
In relation to property items 1, 2, 6, 7 and 8 as reflected in Appendix V to this Circular	7,090	–	7,090	10	7,100
Land and buildings					
In relation to property items 9, 10, 11 and 12 as reflected in Appendix V to this Circular	100,157	(1,498)	98,659	93,291	191,950
Sub-total	107,247	(1,498)	105,749	93,301	199,050
In relation to remaining property items	–	–	–	–	98,400
Grand total	<u>107,247</u>	<u>(1,498)</u>	<u>105,749</u>	<u>93,301</u>	<u>297,450</u>

Note: As the property interests in relation to the remaining property items are owned by the associated companies of the Group, accordingly, these are not reflected as fixed assets in the audited consolidated financial statements of the Group.

FINANCIAL INFORMATION ON THE ENLARGED GROUP

DIVIDEND POLICY

No dividends were declared or paid by the Company or Target BVI during the Track Record Period.

As at 31 December 2004, the Company had accumulated losses of approximately HK\$1,040.4 million. Under the laws of Hong Kong pursuant to which the Company is incorporated, dividends may only be declared out of a company's profits. Accordingly, in order for the Company to consider whether or not a dividend may be declared, it will be necessary for the Company to implement the proposal to reduce its Share premium account for the purpose of eliminating its accumulated losses as discussed above and/or earn profits in excess of such accumulated losses. However, future dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among other things, the Enlarged Group's operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as the Board may deem relevant.

NO MATERIAL ADVERSE CHANGE

The Directors and the Proposed Directors confirm that since 31 December 2004 (being the date at which the latest audited financial statements of the Group and the Target Group were made up), there has been no material adverse change in the financial or trading position of the Group or the Target Group.

FINANCIAL INFORMATION ON THE TARGET GROUP

OVERVIEW

Target BVI became the holding company of Minmetals Aluminium (100%) which in turn holds Sino Mining International (100%), LYG (90%) and has assumed the entire operations of the Aluminium Trading Business pursuant to the Reorganisation.

Sino Mining International was incorporated on 14 February 1995 and prior to the completion of the Transfer, was owned as to 51% by CMN and 49% by China Minmetals. On 30 December 2003, China Minmetals and CMN entered into a share transfer agreement whereby China Minmetals agreed to transfer and CMN agreed to acquire the remaining 49% interest in Sino Mining International for a cash consideration of approximately RMB474.7 million which was based on an independent appraised value (the "Transfer"). Following completion of the Transfer at the end of March 2004, CMN owned 100% of Sino Mining International and accordingly, the entire operational results of Sino Mining International have been recorded in the financial statements of the Target Group since 1 April 2004. Please refer to the paragraph headed "Information on the Target Group and the Group – Reorganisation" in this circular for further details on the Reorganisation.

As at 31 December 2004, the Target Group was the largest supplier of overseas sourced alumina from the international market to the China market. The Target Group is involved in the following principal businesses:

- (a) trading of alumina and aluminium ingots, which is carried out by the PRC based Minmetals Aluminium and the Australia based Sino Mining International;
- (b) provision of trade finance services, such as obtaining L/Cs from banks for third parties importing alumina into the PRC for their own use, which is carried out by Australia based Sino Mining Trading; and
- (c) provision of logistics services, involving obtaining customs clearance, unloading and packing of alumina and the receiving and delivering of alumina, which is carried out by the PRC based LYG and Australia based Sino Mining Trading.

The following discussion and analysis of the financial information and results of the operations of the Target Group should be read in conjunction with the financial statements and information set forth in Appendix I to this circular.

The accountants' report of the Target Group set out in Appendix I to this circular has been prepared on the basis as described in the accountants' report and the accounting policies adopted in the preparation of the said report are in conformity with HK GAAP and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants.

FINANCIAL INFORMATION ON THE TARGET GROUP

TRADING RECORD

Set out below is a summary of the combined profit and loss accounts of the Target Group prepared under HK GAAP for the Track Record Period as extracted from Appendix I to this circular.

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover	<u>1,745,228</u>	<u>5,162,040</u>	<u>7,335,872</u>
Profit before taxation	143,783	393,093	601,902
Taxation	<u>(20,291)</u>	<u>(117,810)</u>	<u>(185,784)</u>
Profit after taxation	123,492	275,283	416,118
Minority interests	<u>(61,492)</u>	<u>(12,441)</u>	<u>(20,116)</u>
Profit for the year	<u>62,000</u>	<u>262,842</u>	<u>396,002</u>

(a) Turnover

The table below shows a breakdown of the Target Group's turnover by segment during the Track Record Period.

	Year ended 31 December					
	2002		2003		2004	
	RMB'000	%	RMB'000	%	RMB'000	%
Sales of alumina and others	1,689,677	96.8	4,455,111	86.3	6,399,969	87.2
Sales of aluminium ingots	45,391	2.6	695,991	13.5	922,763	12.6
Commission income	8,822	0.5	9,952	0.2	12,523	0.2
Logistics agency fee	<u>1,338</u>	<u>0.1</u>	<u>986</u>	<u>0.0</u>	<u>617</u>	<u>0.0</u>
Total	<u>1,745,228</u>	<u>100.0</u>	<u>5,162,040</u>	<u>100.0</u>	<u>7,335,872</u>	<u>100.0</u>

Turnover primarily represents (i) the net invoiced value of goods sold net of any value added tax payable by the Target Group and intra-group transactions, (ii) commission income in respect of being an agent in assisting third parties to import alumina, and (iii) port logistics agency fee from provision of logistics agency services at the port of Lianyungang.

The Target Group is primarily involved in sourcing alumina from the international markets and supplying such alumina to aluminium smelters in China. The PRC smelters, the Target Group's customers, used to enjoy an 8% export rebate, which was abolished on 1 January 2005, and a 5% export tax has since been levied. Such changes in tax charges are pursuant to an industry wide policy implemented by the PRC Government which affects

FINANCIAL INFORMATION ON THE TARGET GROUP

the PRC smelters as well as the entire alumina and aluminium industry in the PRC since the beginning of 2005. As the Target Group is mainly involved in the import of alumina, reduction of export rebate and imposition of export tax do not have any direct material impact on the Target Group. However, the increase in operating costs of the PRC smelters may affect their sales and indirectly affect the performance of the Target Group. The Target Group is in the process of making assessment of the impact of these changes on the Target Group's future revenues as a result of such an increase in the operating costs of the PRC smelters.

The Target Group also sells aluminium ingots that it sources from third party aluminium smelters in the PRC and from its own tolling operation to overseas users. The significant increase in sales of aluminium ingots from approximately RMB45.4 million for the year ended 31 December 2002 to approximately RMB922.8 million for the year ended 31 December 2004 was mainly due to an increase in market demand for aluminium ingots, as well as an increase in sourcing of aluminium ingots from third party aluminium smelters which purchased alumina from the Target Group, a way to secure future demand for its alumina.

Commission income refers to income earned when the Target Group (through its wholly owned subsidiary, Sino Mining Trading) provides trade finance services such as obtaining L/Cs from banks for third parties importing alumina for their own use. For such transactions, the credit risk is mitigated as the bills of lading are in the possession of the Target Group.

Logistics agency fee refers to income earned when LYG provides logistics agency services to third parties at the port of Lianyungang.

During the Track Record Period, the alumina and aluminium ingots trading operation was the major revenue contributor to the Target Group accounting for substantially its entire turnover. The table below sets out the Target Group's turnover, sales volume and average selling price for alumina during the Track Record Period.

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Sales of alumina			
Turnover (RMB'000) (Note)	1,687,903	4,453,119	6,395,600
Sales volume ('000 tonnes)	1,102.9	1,768.5	1,889.1
Average selling price (RMB per tonne)	1,530	2,518	3,386

Note: Turnover, as noted in the table above, excludes the sale of others which relates to the sale of packing materials for alumina.

The increase in average selling price of alumina for the Target Group during the Track Record Period was in line with the global price cycle of alumina during the corresponding period.

FINANCIAL INFORMATION ON THE TARGET GROUP

(b) Gross profit and gross profit margin

The table below summarises the gross profit margin of the Target Group during the Track Record Period:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	1,745,228	5,162,040	7,335,872
Less: Cost of sales	<u>(1,462,819)</u>	<u>(4,572,903)</u>	<u>(6,538,660)</u>
Gross profit	<u>282,409</u>	<u>589,137</u>	<u>797,212</u>
Gross profit margin (%)	16.2%	11.4%	10.9%

During the Track Record Period, the Target Group's gross profit margin declined from approximately 16.2% for the year ended 31 December 2002 to approximately 10.9% for the year ended 31 December 2004 while achieving a compound annual growth rate of approximately 105.0% in turnover between 2002 and 2004.

The table below sets out the Target Group's cost of goods sold, volume sold and average purchase cost for alumina respectively during the Track Record Period.

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Purchases of alumina			
Cost of goods sold (<i>RMB'000</i>)	1,253,215	3,480,141	4,995,486
Volume sold (<i>'000 tonnes</i>)	1,102.9	1,768.5	1,889.1
Average purchase cost (<i>RMB per tonne</i>)	1,136	1,968	2,644

During the Track Record Period, the Target Group had long-term sourcing contracts (including the Alcoa Contract which provides an annual supply of 400,000 tonnes of alumina from Alcoa for a period of 30 years from 1997 to 2027) contributing to, on average, approximately half the total volume of alumina sold. The remaining balance of alumina sold was purchased from the physical market which enabled the Target Group to have a certain degree of flexibility to capitalise on price fluctuations in the physical market.

However, with the increase in global price cycle of alumina during the Track Record Period, the purchase price of alumina experienced by the Target Group increased correspondingly and resulted in a decline in gross margin over the Track Record Period.

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Although the Target Group increased the percentage of alumina sold from long-term sourcing contracts as a percentage of the total volume of alumina sold from approximately 37.7% for the year ended 31 December 2002 to approximately 56.0% for the year ended 2004, these new long-term sourcing contracts were entered into in a market of rising alumina prices, which led to an increase in the average purchase price of alumina. In particular, for the year ended 31 December 2003, the Target Group's lowest and highest purchase cost of alumina in the physical market were approximately RMB1,408.5 per tonne and approximately RMB3,632.7 per tonne respectively resulting in an increase in the average purchase cost for the year to approximately RMB1,768.5 per tonne, thus, leading to a decrease in gross profit margin for the Target Group in 2003. In addition, the Target Group increased the percentage of alumina sold under long-term sales contracts as a percentage of total volume of alumina sold from approximately 7.3% in 2002 to approximately 50.4% in 2004 in a market of rising alumina prices, which lead to a decline in the gross profit margin as the sales prices were less than the prevailing market prices in the physical market. However, as it is not possible to accurately predict the cyclical movement of the commodity market, the management of the Target Group, based on their experience and knowledge of the industry, seek to maintain the delicate balance between entering into long-term and physical sourcing and sales contracts so as to ensure that the Target Group achieves a sustainable gross profit margin, with the flexibility of taking advantage of any significant price movement in the physical market or growth in alumina demand.

FACTORS AFFECTING RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following factors have, and will continue to have, a material impact on the operations and financial performance of the Target Group:

(a) Economic growth in the PRC

The business operations of the Target Group primarily involve the sourcing of alumina from the international markets and the supplying of such alumina to aluminium smelters in China. Majority of the Target Group's customers are located in the PRC. For the year ended 31 December 2004, approximately 74.7% of the total turnover of the Target Group was derived from domestic sales of alumina. Boosted by the comprehensive economic reforms initiated by the PRC Government since 1979, the PRC economy has grown rapidly. China's rapid economic growth, in particular growth in industries which are predominant users of primary aluminium such as construction, power, transportation, packaging and consumer products, in recent years has been accompanied by growth in primary aluminium consumption at a compound annual growth rate of approximately 15.3% from 2000 to 2004. As China's domestic production of alumina is insufficient for its consumption and there are constraints limiting the potential expansion of domestic production capacity, the Target Group believes that, with continued growth of the Chinese economy, a substantial amount of alumina is expected to continue to be sourced from the international markets to meet domestic demand which will in turn have a positive impact on its business prospects.

(b) PRC Government control and policies

The PRC Government exercises a substantial degree of influence over the aluminium industry in China. As a result of the austerity measures imposed by the PRC Government on 23 December 2003, the PRC Government has implemented a series of measures targeting certain sectors, including the aluminium industry by way of monitoring the importation of alumina into the PRC, to prevent irrational expansion of the economy. As far as the Directors and the Proposed Directors are aware, such measures also include confining the issuance of AILs to a certain number of corporations and CMN remains one of them. Since the Target Group has assumed the alumina and aluminium related business of CMN pursuant to the Reorganisation, Minmetals Aluminium has carried on the importation process of alumina by having its name included as a party to CMN's AIL. Changes in the level of government control over the applicable policies will have a direct impact on the business, financial condition and results of operations of the Target Group and the Enlarged Group. Minmetals Aluminium has undertaken to the Company and the Company has undertaken to the Stock Exchange to procure Minmetals Aluminium to apply for AIL for the importation of alumina into the PRC in its sole name after Completion. Minmetals Aluminium is currently exploring the possibility of obtaining the AILs in its own name and the Target Group will also formulate and adjust its business strategies and operations to cater for evolving PRC Government policies.

(c) Purchase costs and sales prices

In general, the purchase cost of alumina is determined by a formula linked to the LME aluminium prices while sale price is determined by a formula linked to the LME/SFE aluminium prices. The gross margin that the Target Group makes on the alumina trading business is dependent on the ability of the Target Group to lock in a lower purchase cost in a market of rising alumina prices and the ability to lock in a higher sales price in a market of declining alumina prices. To achieve this, the Target Group strives to increase its purchase and sales of alumina pursuant to long-term contracts which have the advantage of reducing the Target Group's dependence on the physical market.

During the Track Record Period, as the Target Group has purchased approximately half of its alumina supply via long-term sourcing contracts, (including the Alcoa Contract), it was able to enjoy a relatively favourable purchase cost in a market of rising alumina prices. However, as the sales volume of alumina increased, the Target Group had to meet such demand by making purchases from the physical market which resulted in an increase in its average purchase cost per tonne of alumina during the Track Record Period.

In view of the Target Group's dominant position as the largest supplier of overseas sourced alumina to the Chinese market, the Target Group has enjoyed a certain degree of influence over the setting of the sales price of imported alumina in the PRC market. As the supply of imported and domestically produced alumina increased in the PRC, the Target Group may face increased pricing pressure on its products.

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The ability of the Target Group to maintain its current profit margin and market share is dependent on its ability to increase its source of long-term supply of alumina at favourable purchase cost while maintaining the quality of its products to attract new and retain existing customers in a more competitive environment.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Target Group's principal accounting policies are set out in note 2 of the accountants' report on Target BVI in Appendix I to this circular. Some of the accounting policies require subjective estimates and judgements of the Proposed Directors based on information and financial data that may change in future periods and which is often difficult to predict with certainty. Below is a summary of the critical accounting policies that the Proposed Directors believe are both important to the presentation of the Target Group's financial results and involve a need to make subjective estimates and judgement.

Upfront payment for alumina purchasing rights

Upfront payment for alumina purchasing rights represent costs incurred to obtain the rights to purchase a pre-determined quantity of alumina from a third party over a period of 30 years pursuant to an alumina sourcing contract i.e. the Alcoa Contract. The costs are amortised on a straight-line basis over the period of 30 years during which the Target Group will derive economic benefits.

The amortisation period is the same as the contract period which will be highly probable for execution and, during this contract period, the Alcoa Contract enables the Target Group to source alumina at prices which correlate to Alcoa's production costs as if the Target Group were an alumina refiner owning a bauxite mine which gives the Target Group competitive advantage. Since the Group has the right to purchase alumina up to a fixed quantity of approximately 400,000 tonnes each year for the period from 1997 to 2027, such upfront payment is amortised on a straight-line basis.

The Proposed Directors are of the view that the above amortisation policy is reasonable considering the said factors and circumstances.

Derivative financial instruments

The Target Group has conducted hedging activities during the Track Record Period and will continue to do so after Reorganisation.

The following is extracted from the accountant's report on Target BVI in Appendix I to this circular, which sets out the accounting policies on hedging activities applied by the Target Group in preparation of its financial information:

"The Target Group enters into various derivative contracts which include foreign exchange forward contracts, commodity futures contracts and options, and interest rate swaps. The accounting treatment for these derivative financial instruments is dependent upon whether the instruments are entered into for hedging or speculative purposes.

FINANCIAL INFORMATION ON THE TARGET GROUP

The derivative financial instruments are classified as hedging instruments and speculative instruments based on management's intention upon the inception of the transactions and the actual hedging results.

Where commodity futures contracts are used to hedge the fluctuations in the price of primary aluminium of future commitments or transactions in delivering primary aluminium, and where foreign forward contracts are used to hedge future commitments or transactions in foreign currencies, the realised gains and losses are matched to the hedged items and charged to profit and loss account.

Where these relate to interest rate movements, interest payable and receivable under such instruments is accrued and recorded as an adjustment to the interest income or expense related to the underlying exposure.

The unrealised gains and losses resulting from instruments closed prior to the recognition of the hedged items are deferred and recognised as deferred income or deferred losses in the balance sheet and transferred to the profit and loss account to match the gains and losses on the related hedged items.

Ineffective hedging and speculative instruments are recognised and re-measured at their fair values and any related gains and losses are recognised in the profit and loss account.

Premiums paid or received on options are included in deferred income and charged or credited to the profit and loss account upon the expiry of the options."

In the preparation of the financial statements of the Target Group for the three years ended 31 December 2004, derivative financial instruments are separately classified as hedging or non-hedging contracts. Management has performed assessment on the effectiveness of the derivative financial instruments in order to determine whether they can be treated as hedging contracts for accounting purposes.

In carrying out the above assessments, major considerations include the matching of the derivative financial instruments with the quantity, amount and timing of the underlying future transactions. Management of the Target Group would also assess the effectiveness based on the historical trend, agreed transaction dates (including shipment dates of alumina and interest payment dates) and the Target Group's budget and estimation.

During the Track Record Period, effective hedging gains/losses mainly relate to commodity futures contracts, foreign exchange forward contracts and certain interest rate swaps undertaken by the Target Group. These are matched to the hedged items and are recorded in the cost of sales and finance costs accounts respectively. Ineffective hedging gains/losses mainly relate to commodity option contracts and certain interest rate swaps which are recognised and re-measured at their fair values and any related gains and losses are recognised in the profit and loss account.

The current accounting treatments on hedging activities applied by the Target Group do not fully comply with the new Hong Kong Accounting Standards ("HKAS") 39 'Financial Instruments; Recognition and Measurement'.

FINANCIAL INFORMATION ON THE TARGET GROUP

As at 31 December 2004, the total fair value of hedging derivative financial instruments not recognised in the accounts was approximately RMB198,256,000 (loss). According to HKAS 39, such derivative financial instruments are required to be recognised at their fair value. If HKAS 39 had been adopted and fully complied with, the net assets and the owner's equity of the Target Group as at 31 December 2004 would have been reduced by approximately RMB198,256,000.

NEW ACCOUNTING STANDARDS

The following is extracted from the accountants' report on Target BVI in Appendix I to this circular, which sets out the explanation of the difference between the currently applied accounting policies and the new Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs and the impact of adoption of the new HKFRSs:

"Goodwill"

Under HKFRS 3 'Business Combinations', goodwill will no longer be amortised but instead will be subject to rigorous annual impairment testing. This will result in a change to the Target Group's current accounting policy under which goodwill is amortised over its useful life of 20 years and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortisation will no longer be charged, but goodwill will be tested annually for impairment, as well as when there are indications of impairment. This new policy will be applied prospectively from 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the conditions under which impairment will be assessed are not yet known.

Financial instruments

Under HKAS 39 'Financial Instruments: Recognition and Measurement', financial instruments will be carried at either amortised cost or fair value, depending on their classification. Depending on the classification of the financial instruments, movements in fair value will be either charged to net profit or loss or taken to equity in accordance with the standard. In addition, all derivatives, including those embedded in non-derivatives host contracts will be recognised in the balance sheet at fair value.

This will result in a change to the Target Group's current accounting policy in respect of classification, measurement and recognition of certain investments. This new accounting policy will be applied prospectively from 1 January 2005 and requires the available for sales investments (currently shown as investment securities) to be accounted for at fair value through equity. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the fair value of such investments at next balance sheet date is not currently available.

This will also result in a change to the Target Group's current accounting policies in respect of classification, measurement and recognition of derivative financial instruments. This new accounting policy will be applied prospectively from 1 January 2005. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not been completed. However, the requirements to recognise derivatives and certain other

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financial instruments with changes in fair value being reflected in the profit and loss account or the equity reserve may result in increased volatility in the Target Group's profit and net assets.

Hedge accounting

Under HKAS 39 'Financial Instruments: Recognition and Measurement', foreign exchange forward contracts, commodity future contracts and interest rate swap contracts held for hedging purposes will be classified as cash flow hedges or fair value hedges, on the basis that the qualifying criteria outlined in the HKAS 39 are satisfied. This will result in the recognition of hedging instruments at their fair value as assets or liabilities, with resulting gains or losses being charged to net profit or loss or taken to equity in accordance with the hedge accounting rules.

Currently, the derivatives designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging and any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

In addition, HKAS 39 set out strict criteria for achieving hedge accounting. Failure to achieve hedge accounting for a significant proportion of the Group's foreign exchange, interest rate management and commodity hedging activities could lead to increased volatility of both profit and net assets. This new accounting policy will be applied prospectively from 1 January 2005. As at 31 December 2004, the total fair value of hedging derivative financial instruments not recognised in the accounts was approximately RMB198,256,000 (loss).

Derecognition of financial assets and liabilities

HKAS 39, 'Financial Instruments: Recognition and Measurement', gives a clear guidance on derecognition of financial assets and liabilities. This new accounting policy will be applied prospectively from 1 January 2005.

Functional currency

Under HKAS 21 'The Effects of Changes in Foreign Exchange Rates', the Target Group has re-evaluated the functional currency of each of the consolidated entities based on HKAS 21. All the entities now comprising the Target Group have the same functional currency as their measurement currency in maintaining their company and records. There is no material effect on the Target Group's policy.

On the basis that the adoption of the new HKFRSs in 2005 would not require retrospective application in accordance with transitional provisions in the respective standards, the Target BVI's directors consider that the adoption of the new HKFRSs would not have a significant impact on the Target Group's financial position as at 31 December 2004 and the Target Group's results of operation for the year then ended."

If the new HKFRSs had been adopted and fully complied with by the Target Group during the year ended 31 December 2004, the net profit of the Target Group for the year ended 31 December 2004 would have been reduced by approximately RMB54,441,000, whilst the net assets and the owners' equity of the Target Group as at 31 December 2004 would have been reduced by a net impact of approximately RMB28,348,000.

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ANALYSIS OF THE COMBINED PROFIT AND LOSS ACCOUNTS OF THE TARGET GROUP

(a) Year ended 31 December 2003 compared to year ended 31 December 2002

Turnover

The Target Group's turnover increased significantly by approximately 195.8% to approximately RMB5,162.0 million for the year ended 31 December 2003 when compared to 2002. The increase was due primarily to an increase in the average sales price for alumina by approximately 64.6%, coupled with an increase in sales volume by approximately 60.3% in 2003 when compared to 2002. The increase in average sales price and sales volume was mainly due to increased global alumina prices and sustained demand for alumina in the PRC.

The Target Group sourced a total of approximately 1,906,100 tonnes of alumina in 2003 (2002: 1,133,900 tonnes), which accounted for approximately 34.7% (2002: 24.8%) of the total amount of approximately 5,500,000 tonnes (2002: 4,570,000 tonnes) of overseas sourced alumina imported into China during the same period. The Target Group was the largest supplier of overseas sourced alumina to the China market in 2003.

The Target Group sold a total of approximately 1,768,500 tonnes of alumina in 2003 (2002: 1,102,900 tonnes), out of which, approximately 48.0% (2002: 37.7%) was derived from long-term sourcing contracts.

The Target Group sold a total of approximately 58,490 tonnes of aluminium ingots in 2003, representing a significant increase of approximately 1,377.0% from 2002. The increase was primarily due to a gradual build up in this business activity which the Target Group only commenced operation in 2001.

For the year ended 31 December 2003, commission income earned from the provision of trade finance services such as obtaining L/Cs from banks to third parties amounted to approximately RMB10.0 million (2002: RMB8.8 million). The increase of approximately 13.6% was mainly due to a higher number of transactions undertaken during the year.

Cost of sales

The cost of sales for the year ended 31 December 2003, comprised substantially of the purchase price of alumina and aluminium ingots, which amounted to approximately RMB4,572.9 million, representing an increase of approximately 212.6% when compared to 2002. The Target Group sourced its supply of alumina from countries such as Australia, India and America pursuant to long-term sourcing contracts (contributing to approximately 48.0% and 37.7% of the total volume of alumina sold in 2003 and 2002 respectively) and from the physical spot markets (contributing to the remaining balance of approximately 52.0% and 62.3% of the alumina sold in 2003 and 2002 respectively).

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The table below shows a breakdown of the cost of sales for the year ended 31 December 2002 and 2003.

	Year ended 31 December			
	2002		2003	
	RMB'000	%	RMB'000	%
Purchase cost of alumina and aluminium ingots	1,299,446	88.8	4,173,185	91.3
Customs duty	74,657	5.1	280,648	6.1
Insurance and freight	34,686	2.4	55,669	1.2
Amortisation of upfront payment for alumina purchasing rights under the Alcoa Contract	66,109	4.5	66,364	1.5
Hedging gain	(16,692)	(1.1)	(7,956)	(0.2)
Others	4,613	0.3	4,993	0.1
Total	<u>1,462,819</u>	<u>100.0</u>	<u>4,572,903</u>	<u>100.0</u>
% of turnover	83.8%		88.6%	

The increase in total cost of sales from approximately RMB1,462.8 million for the year ended 31 December 2002 to approximately RMB4,572.9 million in 2003 was primarily due to the increase in turnover, as well as the increase in the average purchase cost of alumina per tonne by approximately 73.2% for 2003. As the amount of alumina purchased by the Target Group on a FOB basis for the year ended 31 December 2003 was higher than 2002, insurance and freight expenses for the year ended 31 December 2003 also increased by approximately 60.5% as compared with 2002. Customs duty increased by approximately RMB206.0 million as a result of the increase in turnover. Hedging gain mainly relates to realised effective hedging gain from commodity futures contracts undertaken by the Target Group during the year.

Gross profit

Gross profit for the year ended 31 December 2003 was approximately RMB589.1 million, which increased by approximately 108.6% when compared to 2002 primarily due to the increase in turnover while the gross profit margin decreased from approximately 16.2% in 2002 to approximately 11.4% in 2003 mainly as a result of the increase in the average purchase cost of alumina of approximately 73.2% exceeding the corresponding increase in the average sales price of approximately 64.6% due to the increase in global price cycle of alumina. As overseas sourced alumina secured under the Target Group's long-term sourcing contracts was not sufficient to meet the increased in alumina demand from its customers, the Target Group made purchases from the physical market at the then prevailing market prices. Of the total volume of alumina sold in 2003, approximately 919,600 tonnes of alumina or approximately 52.0% was sourced from the physical market, which was

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approximately 232,500 tonnes or approximately 33.8% more than that of 2002. In 2003, the Target Group's lowest and highest purchase cost of alumina in the physical market were approximately RMB1,408.5 and RMB3,632.7 per tonne respectively. As the Target Group has increased the volume of alumina purchased from the physical market in a market of rising alumina price cycle while it conducts approximately 6.8% of its sales under long-term sales contracts, it was not able to pass the entire increase in its purchase costs to its customers, thereby contributing to a decrease in the Target Group's gross profit margin in 2003 as compared to 2002.

Selling expenses

Selling expenses amounted to approximately RMB88.4 million for the year ended 31 December 2003, which represented an increase of approximately 86.1% as compared to 2002. Selling expenses as a percentage of the Target Group's turnover decreased from approximately 2.7% in 2002 to 1.7% in 2003 primarily due to lower port expenses as a percentage of turnover, which relate to expenses incurred for unloading, storing and packing of alumina at the port facilities, as a greater percentage of port logistics services was provided by LYG, a 90% owned subsidiary of the Target Group which was incorporated in August 2002. The table below shows a breakdown of selling expenses for the year ended 31 December 2002 and 2003.

	Year ended 31 December			
	2002		2003	
	RMB'000	%	RMB'000	%
Port expenses and inspection fee	38,945	82.0	76,551	86.6
Employees' costs	4,430	9.3	5,361	6.1
Others	4,133	8.7	6,502	7.3
Total	<u>47,508</u>	<u>100.0</u>	<u>88,414</u>	<u>100.0</u>
% of turnover	2.7%		1.7%	

Administrative expenses

Administrative expenses amounted to approximately RMB36.9 million for the year ended 31 December 2003, representing a decrease of approximately 14.4% from 2002. When expressed as a percentage of the Target Group's turnover, administrative expenses decreased from approximately 2.5% in 2002 to 0.7% in 2003, primarily due to economies of scale and the fixed nature of most of the expenses which did not

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increase proportionately with the increase in sales volume. The table below shows a breakdown of the administrative expenses for the year ended 31 December 2002 and 2003.

	Year ended 31 December			
	2002		2003	
	RMB'000	%	RMB'000	%
Employees' costs	18,126	42.0	18,102	49.1
Bank processing fees	2,002	4.6	2,181	5.9
Exchange loss	103	0.2	–	–
Travelling expenses	2,005	4.6	2,522	6.8
Rental	2,454	5.8	2,924	7.9
Others	18,430	42.8	11,172	30.3
	<u>43,120</u>	<u>100.0</u>	<u>36,901</u>	<u>100.0</u>
Total				
% of turnover	2.5%		0.7%	

Gain on disposal of an associated company

For the year ended 31 December 2002, there was a gain on disposal of an associated company of approximately RMB32.4 million which represented the Target Group's investment gain when it reduced its shareholdings in Sino Gold Limited from approximately 37.1% as at 31 December 2001 to approximately 16.0% prior to the listing of Sino Gold Limited's shares on the Australian Stock Exchange on 3 December 2002.

Gain on disposal of investment securities

Gain on disposal of investment securities of approximately RMB4.2 million in the year 2003 represented the Target Group's investment gain when it reduced further its shareholding in Sino Gold Limited from approximately 16.0% as at 31 December 2002 to approximately 12.2% as at 31 December 2003.

Operating profit

Operating profit for the year ended 31 December 2003 was approximately RMB470.4 million, representing an increase of approximately 106.6% from 2002 mainly as a result of an increase in sales volume and average sales price of alumina of approximately 60.3% and 64.6% respectively for the year. Operating profit margin declined from approximately 13.0% for the year ended 31 December 2002 to approximately 9.1% in 2003 primarily due to the decline in gross profit as discussed above as the impact of the increase in selling expenses was not significant.

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Finance costs

Finance costs of the Target Group comprised primarily of interest expense on the bank loan undertaken to finance the upfront payment of US\$240 million pursuant to the Alcoa Contract and the gain and loss on the corresponding interest rate swap undertaken to hedge the interest rate exposure of this loan which decreased from approximately RMB96.7 million for the year ended 31 December 2002 to approximately RMB77.3 million for the year ended 31 December 2003. Interest expense amounted to approximately RMB78.8 million for the year ended 31 December 2003 (2002: RMB93.2 million). The decrease in finance costs in 2003 was primarily due to a reduction in the principal amount outstanding, as well as the reduction in interest margin from LIBOR+3.0% to LIBOR+0.9% when the syndicated loan was refinanced in December 2002. For the year ended 31 December 2003, the gain on the interest rate swap was approximately RMB5.7 million (2002: RMB23.0 million). Interest expense for the year ended 31 December 2002 also included an amount relating to the amortisation of capitalised syndicated loan fees of approximately RMB25.2 million as a result of refinancing of the loan facility in December 2002.

Taxation

Taxation for the year ended 31 December 2003 was approximately RMB117.8 million, representing an increase of approximately 480.6%. The increase in taxation was principally attributable to the significant increase in taxable income for the year for the Aluminium Trading Business. Taxation for the Aluminium Trading Business and LYG is based on the statutory income tax rate of 33.0% in the PRC for the Track Record Period while the effective income tax rate of the Sino Mining Group was approximately 14.5% for the year ended 31 December 2003 (2002: 7.06%). The increase in effective income tax rate of the Sino Mining Group in 2003 as compared to 2002 was primarily attributable to a higher percentage of the profit being derived from Sino Mining Trading which was subject to taxation in Australia as profits derived from Sino Mining Alumina was not subject to taxation.

Minority interests

Minority interests for the year ended 31 December 2003 were approximately RMB12.4 million, representing a decrease of approximately 79.8% from 2002 mainly as a result of the decrease in profit for Sino Mining International for the year. The profit recorded by Sino Mining International primarily relates to the sourcing of alumina pursuant to the Alcoa Contract and its sale to the Aluminium Trading Business pursuant to the offtake agreement as mentioned in the section headed "Information on the Target Group and the Group" in this circular. The decline in profit in 2003 was primarily due to a reduction in gain from the disposal of the Target Group's investments in Sino Gold Limited, held through Sino Mining International, of approximately RMB4.2 million in 2003 as compared to a gain of approximately RMB32.4 million in 2002.

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Net profit

The Target Group recorded a net profit of approximately RMB262.8 million for the year ended 31 December 2003, representing an increase of approximately 323.9% when compared to 2002. Net profit margin increased from approximately 3.6% for the year ended 31 December 2002 to approximately 5.1% in 2003, primarily due to the reduction in finance costs and minority interests.

(b) Year ended 31 December 2004 compared to year ended 31 December 2003

CMN completed the acquisition of the remaining 49% interest in Sino Mining International from China Minmetals in March 2004. Accordingly, 100% of the results of Sino Mining International have been recorded in the financial statements of the Target Group since 1 April 2004.

Turnover

The Target Group's turnover increased by approximately 42.1% to approximately RMB7,335.9 million for the year ended 31 December 2004 when compared to 2003 primarily as a result of an increase of approximately 34.5% in the average sales price of alumina.

The Target Group sourced a total of approximately 1,894,200 tonnes of alumina in 2004 (2003: 1,906,100 tonnes), which accounted for approximately 32.4% (2003: 34.7%) of the total amount of approximately 5,850,000 tonnes (2003: 5,500,000 tonnes) of alumina imported into China during the same period. The Target Group was the largest supplier of overseas sourced alumina to the China market in 2003.

The Target Group sold a total of approximately 1,889,100 tonnes of alumina in 2004 (2003: 1,768,500 tonnes), out of which, approximately 56.0% (2003: 48.0%) was derived from long-term sourcing contracts.

The Target Group sold approximately 65,510 tonnes of aluminium ingots in 2004, representing an increase of approximately 12.0% from the volume of aluminium ingots sold in 2003. The increase in aluminium ingots sold was primarily attributable to the increase in aluminium ingots purchased from third party aluminium smelters which also purchased alumina from the Target Group, a way to secure future demand for its alumina.

For the year ended 31 December 2004, commission income earned from the provision of trade finance services such as obtaining L/Cs from banks to third parties amounted to approximately RMB12.5 million (2003: RMB10.0 million). The increase was principally due to a higher number of transactions undertaken during the period.

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Cost of sales

The cost of sales for the year ended 31 December 2004, comprised substantially of the purchase price of alumina and aluminium ingots, which amounted to approximately RMB6,538.7 million, representing an increase of approximately 43.0% when compared to 2003. The Target Group sourced its supply of alumina from countries such as Australia, India and America pursuant to long term sourcing contracts (contributing to approximately 56.0% (2003: 48.0%) of the alumina sold in 2004) and from the physical markets (contributing to the remaining balance of approximately 44.0% (2003: 52.0%) of the alumina sold in 2004).

The table below shows a brief breakdown of the cost of sales for the year ended 2003 and 2004.

	Year ended 31 December			
	2003		2004	
	RMB'000	%	RMB'000	%
Purchase cost of alumina and aluminium ingots	4,173,185	91.3	5,923,548	90.7
Customs duty	280,648	6.1	355,709	5.4
Insurance and freight	55,669	1.2	145,035	2.2
Amortisation of upfront payment for alumina purchasing rights under the Alcoa Contract	66,364	1.5	66,283	1.0
Hedging (gain)/loss	(7,956)	(0.2)	41,605	0.6
Others	4,993	0.1	6,480	0.1
Total	<u>4,572,903</u>	<u>100.0</u>	<u>6,538,660</u>	<u>100.0</u>
% of turnover	88.6%		89.1%	

The increase in total cost of sales from approximately RMB4,572.9 million for the year ended 31 December 2003 to approximately RMB6,538.7 million in 2004 was primarily due to the increase in turnover of approximately 42.1%, resulting in a corresponding increase in total purchase cost of alumina and aluminium ingots of approximately 41.9% for 2004. Hedging gain/loss was mainly attributable to realised effective hedging gain from commodity futures contracts undertaken by the Target Group in accordance with the accounting policies in note 2 to the accountants' report on Target BVI in Appendix I to this circular.

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Gross profit

Gross profit for the year ended 31 December 2004 was approximately RMB797.2 million, which increased by approximately 35.3% when compared to 2003 while gross profit margin remained relatively stable at approximately 10.9% for 2004 as compared with approximately 11.4% for 2003. The slight drop in the gross profit margin was attributable to the increase in average sales price of approximately 34.5% being in line with the approximate increase of 34.3% in average purchase cost of alumina. In addition, the volume of alumina sold which was sourced from the physical market of approximately 831,200 tonnes was less than that of approximately 919,600 tonnes in 2003, thus causing less pressure on the gross profit margin.

Selling expenses

Selling expenses amounted to approximately RMB82.0 million for the year ended 31 December 2004, which represented a decrease of approximately 7.3% as compared to 2003. When expressed as a percentage of the Target Group's turnover, selling expenses decreased from approximately 1.7% in 2003 to approximately 1.1% in 2004 as a result of the reduction in average port logistics fee rate from approximately RMB51 per tonne in 2003 to approximately RMB40 per tonne in 2004. The table below shows a breakdown of selling expenses for the year ended 31 December 2003 and 2004.

	Year ended 31 December			
	2003		2004	
	RMB'000	%	RMB'000	%
Port expenses and inspection fee	76,551	86.6	68,928	84.1
Employees' costs	5,361	6.1	6,410	7.8
Others	6,502	7.3	6,631	8.1
	<u>88,414</u>	<u>100.0</u>	<u>81,969</u>	<u>100.0</u>
Total				
% of turnover	1.7%		1.1%	

Administrative expenses

Administrative expenses amounted to approximately RMB46.3 million for the year ended 31 December 2004, representing an increase of approximately 25.5% as compared to 2003. In terms of as a percentage of the Target Group's turnover, administrative expenses remained relatively stable at approximately 0.6% in 2004. The table below shows a breakdown of the administrative expenses for the year ended 31 December 2003 and 2004.

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	Year ended 31 December			
	2003		2004	
	RMB'000	%	RMB'000	%
Employees' costs	18,102	49.1	19,027	41.1
Bank processing fees	2,181	5.9	3,358	7.3
Exchange loss	–	–	223	0.5
Travelling expenses	2,522	6.8	2,586	5.6
Rental	2,924	7.9	1,875	4.0
Others	11,172	30.3	19,233	41.5
Total	<u>36,901</u>	<u>100.0</u>	<u>46,302</u>	<u>100.0</u>
% of turnover	0.7%		0.6%	

Operating profit

Operating profit for the year ended 31 December 2004 was approximately RMB670.2 million, representing an increase of approximately 42.5% from 2003 mainly as a result of an increase in average sales price of alumina per tonne of approximately 34.6%. Operating profit margin remained relatively stable at approximately 9.1% for 2004 and 2003 primarily as a result of the relatively stable gross profit margin as discussed above. The impact of the increase in administrative expenses was not significant.

Finance costs

Finance costs of the Target Group comprised primarily of interest expense on the bank loan undertaken to finance the Alcoa Contract and the gain and loss on the corresponding interest rate swap undertaken to hedge the interest rate exposure of this loan. Interest expense amounted to approximately RMB77.9 million for the year ended 31 December 2004 (2003: RMB78.8 million). The reduction in finance costs for 2004 as compared with 2003 was primarily due to the reduction in loan amount outstanding, as well as the gain on the interest rate swap of approximately RMB8.5 million (2003: RMB5.7 million).

Taxation

Taxation for the year ended 31 December 2004 was approximately RMB185.8 million, representing an increase of approximately 57.7% when compared to 2003. The increase in taxation was attributable to the increase in taxable income for the period for the Aluminium Trading Business. Taxation for the Aluminium Trading Business is based on the statutory income tax rate of 33.0% in the PRC for the Track Record Period while the effective income tax rate of the Sino Mining Group was approximately 8.8% for the year ended 31 December 2004 (2003: 14.5%). The decrease

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in effective income tax rate of the Sino Mining Group in 2004 was due to a higher percentage of profits being derived from Sino Mining Alumina, which was not subject to taxation.

Minority interests

Minority interests increased by approximately 61.7% as a result of the increase in profit for Sino Mining International for the year ended 31 December 2004 as compared to 2003. As mentioned above, CMN completed its acquisition of the remaining 49% interest in Sino Mining International and accordingly, the entire operational results of Sino Mining International (i.e. 100%) have been recorded in the financial statements of the Target Group since 1 April 2004.

Net profit

The Target Group recorded a net profit of approximately RMB396.0 million for the year ended 31 December 2004, representing an increase of approximately 50.7% when compared to 2003 as a result of the increase in turnover. Net profit margin remained relatively stable at approximately 5.4% for 2004 (2003: 5.1%), primarily due to the relatively stable gross profit margin.

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ANALYSIS OF THE COMBINED BALANCE SHEET OF THE TARGET GROUP

The following table sets out the Target Group's combined balance sheets as at 31 December 2002, 31 December 2003 and 31 December 2004.

	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Non-current assets			
Fixed assets	1,402	1,261	1,559
Interest in associated company	–	1,093	4,089
Investment securities	33,258	32,204	32,196
Goodwill	–	–	7,253
Long-term receivables	–	9,816	7,863
Upfront payment for alumina purchasing rights	1,622,284	1,555,920	1,489,637
	<u>1,656,944</u>	<u>1,600,294</u>	<u>1,542,597</u>
Current assets			
Inventories	102,667	505,283	697,113
Trade receivables, prepayments and other receivables	57,134	79,166	335,866
Bill receivables	250	650	22,548
Due from related companies	11,544	59,179	166,513
Deferred losses	–	–	12,282
Pledged bank deposits	37,248	37,245	37,245
Cash and bank balances	148,123	164,000	176,061
	<u>356,966</u>	<u>845,523</u>	<u>1,447,628</u>

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	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Current liabilities			
Trade payables, other payables and accruals	(78,057)	(131,521)	(225,495)
Bill payables	–	–	(189,267)
Advances from customers	(125,271)	(372,367)	(347,997)
Due to related companies	(6,456)	(3,372)	(219,661)
Taxation payable	(1,464)	(4,222)	(839)
Deferred income	(2,359)	(927)	(2,351)
Derivative financial instruments	(4,056)	(4,238)	(4,193)
Short-term bank loans – unsecured	(62,430)	(257,182)	(501,150)
Current portion of long-term loans	(62,080)	(49,660)	(77,799)
	<u>(342,173)</u>	<u>(823,489)</u>	<u>(1,568,752)</u>
Net current assets/(liabilities)	14,793	22,034	(121,124)
Total assets less current liabilities	<u>1,671,737</u>	<u>1,622,328</u>	<u>1,421,473</u>
Non-current liabilities			
Deferred income	–	(9,816)	(8,442)
Derivative financial instruments	(14,584)	(8,790)	(6,665)
Long-term loans	(826,902)	(731,660)	(653,844)
	<u>(841,486)</u>	<u>(750,266)</u>	<u>(668,951)</u>
Minority interests	(434,330)	(447,595)	(814)
Represented by owner's equity	<u>(395,921)</u>	<u>(424,467)</u>	<u>(751,708)</u>

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(a) Upfront payment for alumina purchasing rights

As disclosed under the section headed “Information on the Target Group and the Group” in this circular, the Target Group made an upfront payment of US\$240 million pursuant to the Alcoa Contract to Alcoa in 1997 through external bank loans and internal resources. In accordance with the principal accounting policies as stated in the accountants’ report on Target BVI in Appendix 1 to this circular, this upfront payment has been classified as non-current assets of the Target Group as the nature of which is similar to that of prepayments and is amortised on a straight-line basis over a period of 30 years, being the term of the Alcoa Contract, which the Target Group will derive economic benefits. As at 31 December 2004, the upfront payment for alumina purchasing rights had a net book value of approximately RMB1,489.6 million.

(b) Inventories

The Target Group had approximately RMB697.1 million of inventories as at 31 December 2004, compared to approximately RMB505.3 million as at 31 December 2003. The higher inventory balance as at 31 December 2004 was due to higher purchase cost of alumina in 2004. Inventories comprised alumina in storage at the port or in transit at sea and are stated at the lower of cost and net realisable value. The Target Group’s inventory turnover days was approximately 38.9 days in 2004 (2003: 40.3 days and 2002: 25.6 days), defined as (inventory balance at year-end/cost of sales for the year) x 365 days. Inventory turnover days averaged approximately 34.9 days for the three financial years ended 31 December 2004 as the Target Group’s policy is to keep approximately one month of inventory at any one time. The high inventory turnover days in 2003 was due to the intentional inventory balance built up by the Target Group in anticipation of the increase in alumina price in 2004.

As at 31 December 2004, the entire inventory balance of approximately RMB697.1 million relates to alumina were held for less than 6 months. As at 30 April 2005, the entire balance has been sold.

(c) Trade receivables, prepayments and other receivables

As at 31 December 2004, the balance for trade receivables, prepayments and other receivables relates to:

	Year ended 31 December	
	2003	2004
	RMB’000	RMB’000
Trade receivables	17,620	68,682
Prepayments	15,933	191,459
Other receivables	45,613	75,725
Total	79,166	335,866

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Trade receivables (net of provision for doubtful debts) increased from approximately RMB17.6 million as at 31 December 2003 to approximately RMB68.7 million as at 31 December 2004 primarily due to the increase in turnover during that year. Due to the Target Group's business practise of accepting advance payment or letters of credit from customers, trade receivables turnover days, defined as (trade receivables balance at year-end/turnover for the year) x 365 days, was not significant at approximately 3.4 days in 2004 (2003: 1.2 days and 2002: 2.7 days). As at 31 May 2005, approximately 98.3% of the outstanding trade receivables balance was fully settled. The Target Group's general provisioning policy is as follows:

Days overdue	Amount of provision (% of amount outstanding)
181- 365 days	25
1 year to 2 years	50
Over 2 years	100

As at 31 December 2004, the Target Group had prepayments of approximately RMB191.5 million (2003: RMB15.9 million), which primarily relate to the Target Group's prepayment for alumina purchases via L/Cs. As at 31 May 2005, inventories relating to the entire prepayments balance as at year end were received.

(d) Due from/to related companies

As at 31 December 2004, the Target Group had approximately RMB166.5 million due from related companies, of which approximately RMB74.1 million was non-trading in nature. Of the non-trading amount due from related companies, approximately RMB73.2 million relate to funds placed by the Target Group at 五礦集團財務有限責任公司 (Minmetals Finance Company Limited), a 92.5% owned subsidiary of China Minmetals engaged in the provision of funds collection and payment services, opening of L/Cs and provision of guarantees for the Minmetals Group with licence from the People's Bank of China. The practice of placing funds, primarily from cashflows generated from the operations of the Target Group at 五礦集團財務有限責任公司 (Minmetals Finance Company Limited) will be discontinued by the Target Group upon Completion.

As at 31 December 2004, the Target Group had approximately RMB219.7 million due to related companies, of which approximately RMB3.0 million was non-trading in nature and relate to reimbursement of travelling expenses of employees of Sino Mining International to CMN.

The Proposed Directors considered that the related party transactions carried out by the Target Group during the Track Record Period were on normal commercial terms. The Proposed Directors confirm that the amounts due from/to related companies which are non-trading in nature have been properly approved and recorded. All balances that were non-trading in nature will be fully settled prior to Completion.

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(e) Trade payables, other payables and accruals

As at 31 December 2004, the balance for trade payables, other payables and accruals relates to:

	Year ended 31 December	
	2003	2004
	RMB'000	RMB'000
Trade payables	38,882	122,641
Other payables	64,266	67,668
Accruals	28,373	35,186
Total	131,521	225,495

Trade payables were approximately RMB122.6 million as at 31 December 2004, compared to approximately RMB38.9 million as at 31 December 2003. The increase in balance was primarily due to a transaction at year end whereby the Target Group has yet to receive the supplier's invoice for inventories received. In 2004, trade payables turnover days, defined as (trade payables balance at year-end/cost of sales for the year) x 365 days, for the Target Group was approximately 6.8 days (2003: 3.1 days and 2002: 10.9 days). The decrease in trade payables turnover in 2003 as compared to 2002 was mainly due to the increase of payment to suppliers via L/Cs by the Target Group. The increase in trade creditors days from 2003 was primarily due to the increase in trade creditors balance as noted above.

(f) Advances from customers

Advances to customers relate to advance payments made by the customers to the Target Group to secure the sales of alumina from the Target Group. Normally, in a market where supply of alumina is tight, customers are willing to place more advances with the Target Group, so as to lock in the certainty of the sales contracts. The Target Group had approximately RMB348.0 million of advances from customers as at 31 December 2004, compared to approximately RMB372.4 million as at 31 December 2003 and approximately RMB125.3 million as at 31 December 2002. The decrease in this balance was due to non occurrence of the situation as at 2003 whereby in view of the rising alumina price market, customers made more advance payments to the Target Group to secure the supply of alumina.

(g) Bank loans

The Target Group's total debt was approximately RMB1,232.8 million as at 31 December 2004. As at 31 December 2004, the Target Group had total cash (including pledged bank deposits) of approximately RMB213.3 million and net debt of approximately RMB1,019.5 million. The net gearing of the Target Group, defined as net debt divided by shareholders' funds, was approximately 135.6% as at 31 December 2004 (as at 31 December

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2003: 197.2% and 2002: 193.5%). During the Track Record Period, the high net gearing ratio of the Target Group was due to the upfront payment for alumina purchasing rights under the Alcoa Contract, being primarily funded by external bank loans as mentioned in the section headed “Information on the Target Group and the Group – The Alcoa Contract” in this circular.

The increase in short-term loans during the Track Record Period was primarily due to the increase in funding for working capital as the business activities of the Target Group increased from revenue amounting to approximately RMB1,745.2 million in 2002 to approximately RMB7,335.8 million in 2004.

As mentioned in the paragraph headed “Information on the Target Group and the Group – The Target Group – Business of the Target Group - Sourcing of alumina – Alcoa Contract” in this circular, the external bank loans for the upfront payment of US\$240 million pursuant to the Alcoa Contract were refinanced in 2002 whereby Sino Mining Alumina and CMN entered into an agreement dated 13 September 2002 (the “CMN Loan Agreement”) in respect of the utilisation of a US\$100 million special-purpose foreign exchange loan granted by Bank of China to CMN (the “BOC Loan”) for on-lending to Sino Mining Alumina (the “CMN Loan”) on the same commercial terms as the CMN Loan Agreement. As at 31 December 2004, the outstanding amount of the CMN Loan was approximately RMB703.5 million (equivalent to approximately HK\$663.7 million). BOC, CMN and Minmetals Aluminium entered into an agreement to transfer the BOC Loan whereby Minmetals Aluminium has agreed to assume CMN’s responsibility to repay the outstanding amount of the BOC Loan to BOC on the same terms (including the interest rate) as those in relation to the BOC Loan with effect from 13 June 2005. Incidentally, Minmetals Aluminium has also assumed the loan under the CMN Loan Agreement on 13 June 2005. As a result, the Target Group has no outstanding shareholder’s loan due to CMN as at the Latest Practicable Date.

The unsecured loans from CMN of approximately RMB28.1 million as at 31 December 2004 was fully repaid in February 2005.

(h) Minority interests

Minority interests decreased to approximately RMB0.8 million as at 31 December 2004 from approximately RMB447.6 million as at 31 December 2003 due to completion of the acquisition of the remaining 49% of Sino Mining International by CMN from China Minmetals at the end of March 2004. Following completion of the acquisition, CMN owned 100% of Sino Mining International and accordingly, the entire operational results of Sino Mining International have been recorded in the financial statements of the Target Group since 1 April 2004.

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ANALYSIS OF COMBINED CASH FLOW STATEMENTS OF THE TARGET GROUP

The following table sets out the Target Group's combined cash flow statement for each of the three years ended 31 December 2004:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Net cash inflow from operating activities	176,762	156,500	358,541
Net cash inflow/(outflow) from investing activities	61,905	6,001	(471,606)
Net cash (outflow)/inflow from financing activities	(177,382)	(148,063)	125,535
Increase in cash and cash equivalents	<u>61,285</u>	<u>14,438</u>	<u>12,470</u>
Cash and cash equivalent at end of year/period	<u>148,123</u>	<u>164,000</u>	<u>176,061</u>
Pledged bank deposits at end of year	<u>37,248</u>	<u>37,245</u>	<u>37,245</u>

The Target Group has historically met its working capital and other capital requirements principally from cash generated from operating activities, advances from customers and short-term bank loans. As the Target Group's business is trading in nature, a significant amount of cash is required to fund its operations. Should there be any significant reduction in net cash inflow from operations, which could not be funded by bank loans, the operations of the Target Group could be adversely affected.

Following Completion, the Target Group expects to fund its expenditures and development plans with external loan facilities from financial institutions and internal cash resources. Failure to obtain capital on reasonable commercial terms would increase the Target Group's financing costs and might cause delay to its development plans.

(a) Cash flow from operating activities

The Target Group derives cash inflow from operations primarily from the receipt of cash advances from customers and payments for the sale of its products and services while cash outflow primarily relates to payment for purchases of alumina and aluminium ingots, selling and administrative expenses.

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For the year ended 31 December 2004, the Target Group had a net cash inflow generated from operations of approximately RMB626.6 million. This inflow was primarily a result of approximately RMB737.9 million of operating profit before working capital changes and an approximately RMB189.3 million and RMB216.3 million increase in bills payable and balance due to related companies respectively, partially offset by an approximately RMB191.8 million increase in inventories and an approximately RMB255.2 million increase in trade receivables, prepayments and other receivables. The increase in bills payable was primarily attributable to a transaction at year-end whereby the Target Group has yet to receive the supplier's invoice which will be settled via L/C while the increase in balance due to related companies was attributable to higher trade balance due to a related company for the purchase of alumina.

For the year ended 31 December 2003, the Target Group had a net cash inflow generated from operations of approximately RMB350.4 million. This inflow was primarily a result of approximately RMB527.0 million of operating profit before working capital changes and an approximately RMB247.1 million increase in advances from customers, partially offset by an approximately RMB402.7 million increase in inventories. The increase in advances due from customers was due to customers who made more advance payments to the Target Group to secure the supply of alumina in view of the rising alumina price market as at 31 December 2003.

For the year ended 31 December 2002, the Target Group had a net cash inflow generated from operations of approximately RMB286.5 million. This inflow was primarily a result of approximately RMB258.3 million of operating profit before working capital changes and an approximately RMB103.9 million increase in advances from customers, partially offset by an approximately RMB20.2 million increase in inventories.

(b) Cash flow from investing activities

The Target Group's cash inflow from investing activities primarily consists of interest income and proceeds from disposal of investments while cash outflow primarily consists of investments made.

For the year ended 31 December 2004, the Target Group had a net cash outflow from investing activities of approximately RMB471.6 million, which was mainly attributable to the approximately RMB474.7 million of additional purchases of interests in SMI.

For the year ended 31 December 2003, the Target Group had a net cash inflow from investing activities of approximately RMB6.0 million, which was mainly attributable to the approximately RMB5.3 million of proceeds from disposal of interests in Sino Gold Limited.

For the year ended 31 December 2002, the Target Group had a net cash inflow from investing activities of approximately RMB61.9 million, which was mainly attributable to the approximately RMB59.9 million of proceeds from disposal of interests in Sino Gold Limited.

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(c) Cash flow from financing activities

The Target Group's cash inflow from financing activities primarily consists of draw downs of new loans while cash outflow primarily consists of repayment of loans and funds returned to owner.

For the year ended 31 December 2004, the Target Group had a net cash inflow from financing activities of approximately RMB125.5 million, which was mainly attributable to the approximately RMB501.2 million of increase in new loans, which was offset by the approximately RMB306.9 million in loans repayment and approximately RMB68.8 million returned to owner.

For the year ended 31 December 2003, the Target Group had a net cash outflow from financing activities of approximately RMB148.1 million, which was mainly attributable to the approximately RMB170.1 million in loans repayment and approximately RMB235.2 million returned to owner, which was offset by an approximately RMB257.2 million increase in new loans.

For the year ended 31 December 2002, the Target Group had a net cash outflow from financing activities of approximately RMB177.4 million, which was mainly attributable to the approximately RMB189.9 million in loans repayment and approximately RMB50.0 million returned to owner, which was partially offset by an approximately RMB62.4 million increase in new loans.

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OVERVIEW

The Group is principally engaged in the trading of non-ferrous metals and the manufacture and distribution of aluminium and copper products. As a result of a slowdown in global economic growth which resulted in weak demand in the non-ferrous metals as well as the difficulties faced by the Company in collecting receivables in the PRC, low returns generated from the Company's industrial investment projects and substantial overdue bank loans, the Group reported net losses and suffered from significant liabilities from 1997 to 2001. In the Company's annual report for each of the two years ended 31 December 2001 and 2002, the Company's auditors stated that they were unable to form an opinion as to whether or not the Company's financial statements gave a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2001 and 2002 and of the profit and loss and cash flows of the Group for the years then ended because of the fundamental uncertainty relating to the Company's and the Group's ability to continue as a going concern.

On 16 October 2003, the Group announced the Restructuring Proposal which was completed on 12 January 2004 pursuant to which China Minmetals became the ultimate controlling Shareholder. The introduction of China Minmetals as the Company's ultimate controlling Shareholder enabled the Company to continue to operate on an ongoing basis and the financial position of the Company has improved significantly as a result of the Restructuring Proposal. The Group has also been able to benefit from China Minmetals' extensive experience in both metal trading and investment management. Upon completion of the restructuring, the Group eliminated a debt of approximately HK\$466.7 million and restored itself to a positive net asset value position.

The following discussion and analysis of the financial information and results of the operations of the Group should be read in conjunction with the financial statements and information set forth in Appendix II to this circular.

TRADING RECORD

Set out below is a summary of the audited consolidated financial information of the Group prepared under HK GAAP for the three years ended 31 December 2004 as extracted from Appendix II to this circular. In connection with the audited accounts of the Group for the two years ended 31 December 2001 and 2002, the auditors of the Company drew attention to the fundamental uncertainty of going concern in preparation of the Company's and the Group's accounts and a qualified opinion was issued by the auditors in this regard. Given the significant improvement of the financial position of the Group as a result of the Restructuring Proposal as discussed above, the auditors of the Company issued an unqualified audit opinion in connection with the audited accounts of the Group for the two years ended 31 December 2003 and 2004.

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	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>875,676</u>	<u>1,363,072</u>	<u>1,288,485</u>
Profit before taxation	27,504	91,567	246,108
Taxation	<u>(2,487)</u>	<u>6,470</u>	<u>(11,688)</u>
Profit after taxation	25,017	98,037	234,420
Minority interests	<u>(5,341)</u>	<u>(8,835)</u>	<u>(16,694)</u>
Profit attributable to Shareholders	<u>19,676</u>	<u>89,202</u>	<u>217,726</u>
Dividend per Share	<u>–</u>	<u>–</u>	<u>–</u>
Basic Earnings per Share (HK\$)(Note)	<u>0.15</u>	<u>0.68</u>	<u>0.37</u>

Note: The calculation of basic earnings per Share is based on the Group's profit attributable to Shareholders of approximately HK\$19,676,000, HK\$89,202,000 and HK\$217,726,000 for the years ended 31 December 2002, 2003 and 2004, respectively and the weighted average number of 131,972,695, 131,972,695 and 593,062,328 shares in issue during the years respectively.

(a) Turnover

The table below shows the Group's turnover during the Track Record Period.

	Year ended 31 December					
	2002		2003		2004	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Continuing operations						
– Trading	–	–	296,470	21.8	164,778	12.8
– Aluminium fabrication	763,538	87.2	959,292	70.4	1,058,593	82.2
– Copper refinery and plica tubes production	<u>20,735</u>	<u>2.4</u>	<u>27,608</u>	<u>2.0</u>	<u>35,106</u>	<u>2.7</u>
	784,273	89.6	1,283,370	94.2	1,258,477	97.7
Discontinuing operations	<u>91,403</u>	<u>10.4</u>	<u>79,702</u>	<u>5.8</u>	<u>30,008</u>	<u>2.3</u>
Total	<u>875,676</u>	<u>100.0</u>	<u>1,363,072</u>	<u>100.0</u>	<u>1,288,485</u>	<u>100.0</u>

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Note: As disclosed under the sub-section headed “Trading record – Turnover” in this section of this circular, Yixing Jinfeng Copper Materials (“YJCM”) received the winding up order from the PRC court on 30 July 2004. Accordingly, turnover attributable to YJCM was reflected under discontinuing operations in the above table. However, in Appendix II of this circular, turnover of approximately HK\$27,926,000 in the year 2002, which was attributable to YJCM, was reflected under continuing operations as YJCM had not commenced its liquidation process at the time that the 2002 annual report was published.

Turnover represents the sales of goods, net of value-added tax, returns and discounts. The Group’s sales are conducted predominantly in the PRC.

The Group’s trading operation involved the trading of non-ferrous metals with alumina as its main product. Due to financial difficulties faced by the Company in 2002, it temporarily suspended its trading operation in 2002. The financial difficulties then confronted by the Company, which adversely affected the Group’s ability to obtain the necessary banking facilities to finance its trading activities, are as follows:

(i) *Net deficit in shareholders’ funds*

As at 31 December 2001, due to accumulated losses suffered by the Group, the Group had audited consolidated net deficits of approximately HK\$363.4 million and net current liabilities of approximately HK\$571.1 million.

(ii) *Defaults on repayment of bank loans*

In 2001, due to accumulated losses suffered by the Group, the Group was in a net liabilities position and defaulted on repayment of bank loans of approximately HK\$399 million as at 31 December 2001. In July 2002, a steering committee was formed by the banks to seek recovery of such amount. Lenders of the Company’s syndicated loan issued writs of summons against the Company for the repayment of a loan of approximately HK\$109 million. Judgement was given in their favour by the Court in January 2003.

(iii) *Qualification of accounts*

Due to the fundamental uncertainty relating to the Group’s ability to continue as a going concern, the auditors of the Group, PwC, expressed a qualified opinion in the auditors’ reports for each of the two years ended 31 December 2001 and 2002 respectively.

The Company’s financial difficulties were resolved through the successful completion of its debt and capital restructuring with the support from China Minmetals in January 2004.

During the Track Record Period, the trading operation as a percentage of the total turnover of the Group ranged between approximately 12.8% to 21.8%.

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During the Track Record Period, the aluminium fabrication operation as a percentage of the total turnover of the Group ranged between approximately 70.4% to 87.2% and represented the Group's major source of revenue. The Group operates its aluminium fabrication operation through NCA, a 51% owned subsidiary by the Group and one of the largest aluminium foil fabricators in the PRC. The aluminium fabrication operation experienced strong growth for the financial year ended 31 December 2003 and 2004 mainly as a result of the strong demand in aluminium products in the PRC and its trading volume increased by approximately 14% and 4% to approximately 48,000 tonnes in 2003 and 50,000 tonnes in 2004 respectively.

The Group operates its copper refinery and plica tubes production through YOPT, a 51% owned subsidiary by the Group. During the Track Record Period, the copper refinery and plica tubes production operation as a percentage of the total turnover of the Group ranged between approximately 2.0% to 2.7%.

As the Group was reporting net losses from 1997 to 2001, the Company undertook measures to review and rationalise its industrial investment portfolio so as to optimise resources allocation and enhance the return on its investments. As the Group's aluminium cans operations, which was conducted through its 60% owned subsidiary, Zhangzhou International Aluminium Container Company Limited ("ZIAC"), continued to be negatively affected by the over supply of aluminium cans in the PRC while its copper wire operation, which was conducted through its 58% owned subsidiary, Yixing Jinfeng Copper Materials Company Ltd ("YJCM"), continued to incur losses, in order to optimise resources allocation and enhance the return on its investments, the Group has decided to discontinue operations in these investments.

On 15 April 2004, the Group (through its wholly owned subsidiary) together with two other shareholders representing in aggregate 85% of the registered capital of ZIAC filed an application to the relevant PRC Government authority to wind up its business prior to the expiration of the joint venture period in September 2004. ZIAC received the winding up order from the PRC court and started its liquidation process on 28 June 2004. On 11 June 2004, the board of directors of YJCM had passed a resolution to wind up its business prior to the expiration of its joint venture period pursuant to the termination clause as stipulated in its articles of association. YJCM received the winding up order from the PRC court on 30 July 2004 and completed the liquidation process on 20 November 2004. Accordingly, ZIAC and YJCM were deconsolidated from the Group and the results of these subsidiaries (up to their liquidation dates) were reported as discontinuing operations in the accounts.

As ZIAC and YJCM only accounted for approximately 2.3% (2003: 5.8%) of the Group's turnover for the financial year ended 31 December 2004, the Directors are of the view that discontinuance of these operations is unlikely to have any material adverse impact on the financial and operational position of the Group and would enable the Group to concentrate its resources on more competitive and promising operations.

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(b) Gross profit and gross profit margin

The table below summarises the gross profit/(loss) and margins of the Group's business activities for the Track Record Period.

	Year ended 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Turnover			
– Trading	–	296,470	164,778
– Aluminium fabrication	763,538	959,292	1,058,593
– Copper refinery and plica tubes production	20,735	27,608	35,106
– Discontinuing operations	91,403	79,702	30,008
Total	875,676	1,363,072	1,288,485
Less: Cost of sales			
– Trading	–	(194,290)	(94,631)
– Aluminium fabrication	(670,647)	(854,617)	(948,955)
– Copper refinery and plica tubes production	(8,018)	(11,401)	(18,833)
– Discontinuing operations	(88,531)	(69,979)	(33,119)
Total	(767,196)	(1,130,287)	(1,095,538)
Gross profit/(loss)			
– Trading	–	102,180	70,147
– Aluminium fabrication	92,891	104,675	109,638
– Copper refinery and plica tubes production	12,717	16,207	16,273
– Discontinuing operations	2,872	9,723	(3,111)
Total	108,480	232,785	192,947
Gross profit/(loss) margin (%)			
– Trading	–	34.4%	42.6%
– Aluminium fabrication	12.2%	10.9%	10.4%
– Copper refinery and plica tubes production	61.3%	58.7%	46.4%
– Discontinuing operations	3.1%	12.2%	(10.4)%
Total	12.4%	17.1%	15.0%

Note: As disclosed under the sub-section headed “Trading record – Turnover” in this section of this circular, YJCM received the winding up order from the PRC court on 30 July 2004. Accordingly, turnover and the corresponding costs of sales attributable to YJCM were reflected under discontinuing operations in the above table. However, in Appendix II of this circular, turnover of approximately HK\$27,926,000 in the year 2002, which was attributable to YJCM, was reflected under continuing operations as YJCM had not commenced its liquidation process at the time that the 2002 annual report was published.

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During the Track Record Period, the Group recorded an overall improvement in gross profit margin from approximately 12.4% for the financial year ended 2002 to approximately 15.0% for the year ended 31 December 2004 (despite a drop in the gross profit margin from approximately 17.1% for the year ended 31 December 2003) while achieving a compound annual growth rate of approximately 21.3% in turnover between 2002 and 2004. The improvement in gross profit margin was mainly attributable to the overall improvement in the Group's trading operation.

The discontinuing operations relate to the Group's investment in ZIAC and YJCM as disclosed above under the sub-paragraph headed "Financial information on the Group – Trading record – Turnover" in this circular. ZIAC was mainly engaged in the production and sales of aluminium cans while YJCM was primarily engaged in the production and sales of copper wires. In order to optimise resources allocation and enhance return on its investments, the Group decided to discontinue operations in ZIAC, which continued to be negatively affected by the oversupply of aluminium cans in the PRC and in YJCM, which continued to incur losses and was in a net liabilities position since 2001.

ANALYSIS OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNTS OF THE GROUP

(a) Year ended 31 December 2003 compared to year ended 31 December 2002

Turnover

The Group's turnover improved significantly by approximately 55.7% to approximately HK\$1,363.1 million in 2003 when compared to 2002, which was mainly driven by the resumption of alumina trading operations in 2003, due to strong demand of alumina in the PRC caused by insufficient supply. The Group temporarily suspended its alumina trading operations in 2002 as it was unable to obtain the necessary trade credit facilities due to financial difficulties encountered by the Group in 2001 and had to defer certain shipments of alumina under the Pechiney Contract to 2004. The Group traded approximately 140,000 tonnes of alumina in 2003. Turnover from its aluminium fabrication operation also recorded a significant improvement of approximately 25.6% to approximately HK\$959.3 million and accounted for approximately 70.4% of the Group's turnover in 2003, with its trading volume increased by approximately 14% to approximately 48,000 tonnes in 2003. The increase in turnover from aluminium fabrication operations was attributable to improvement in the sales and operating environment of the aluminium fabricators which was stimulated by increased demand for aluminium products in the PRC during the year. The increase in turnover from copper refinery and plica tubes production from approximately HK\$20.7 million in 2002 to approximately HK\$27.6 million in 2003 was mainly attributable to the increase in trading volume by approximately 21% to 1.7 million metres.

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Gross profit

Gross profit increased significantly by approximately 114.6% to approximately HK\$232.8 million in 2003 when compared to 2002, primarily due to contribution from the resumed alumina trading operations in 2003 as driven by the strong demand for alumina in the PRC. Gross profit margin also improved from approximately 12.4% in 2002 to approximately 17.1% in 2003 as the resumed alumina trading operations reflected a gross profit margin of approximately 34.4% in 2003 as compared to 0% in 2002 while gross profit margin from discontinuing operations was approximately 12.2% in 2003 as compared to approximately 3.1% in 2002.

Selling expenses

The increase in selling expenses of approximately 22.3% to approximately HK\$38.0 million in 2003 was mainly attributable to the resumption of alumina trading operations during the year.

Administrative expenses

Although administrative expenses increased by approximately 24.8% to approximately HK\$76.4 million in 2003, as a percentage of turnover, it decreased from approximately 7.0% for the year ended 31 December 2002 to approximately 5.6% for the year ended 31 December 2003 given the fixed nature of these costs which did not increase proportionately with the increase in turnover.

Other operating income/(expenses)

The Group incurred other operating expenses of approximately HK\$5.0 million for the year ended 31 December 2003, as compared with an other operating income of approximately HK\$53.1 million in 2002, comprising mainly, a provision for bad and doubtful debts on amounts due from associated companies of approximately HK\$14.6 million.

The Group recorded other operating income of approximately HK\$53.1 million for the year ended 31 December 2002 which was mainly attributable to the reversal of provision for foreseeable loss on the Pechiney Contract of alumina of approximately HK\$43.8 million as a result of the recovery in the market price of alumina, as well as a gain on deconsolidation of Da Hua Non-ferrous Metals Company Limited, a wholly owned subsidiary of the Company which was ordered by the Court to wind up on 21 October 2002, of approximately HK\$29.8 million.

Operating profit

The Group's operating profit for the year ended 31 December 2003 was approximately HK\$118.4 million, representing a significant increase of approximately 60.6% from 2002, which was primarily due to the increase in turnover for 2003 as discussed above.

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Finance costs

Finance costs reduced by approximately 26.7% from 2002 to approximately HK\$38.2 million for the year ended 31 December 2003, which was mainly due to reduced interest rates in 2003 on bank debts and reduction in the Group's long-term borrowings.

Share of profits less losses of associated companies

The Group's share of profits from associated companies for 2003 amounted to approximately HK\$11.3 million, representing an increase of approximately 93.5% from 2002, primarily attributable to higher profit contribution from its investment in Changzhou Jinyuan Copper Co. Limited, a 25% owned associated company of the Group whose main business is the production and sale of copper rods, which recorded improved profit due to the adoption of various measures such as market development and reduction of purchasing and finance costs.

Taxation

The Group recorded a tax credit of approximately HK\$6.5 million in 2003, which related primarily to the deferred tax effect of the utilisation of unrecognised tax losses. The fluctuation in tax expense for 2003 and 2002 was primarily due to deferred taxation.

Net profit

The Group recorded a net profit of approximately HK\$89.2 million and a net profit margin of approximately 6.5% in 2003 as compared with a net profit of approximately HK\$19.7 million and net profit margin of approximately 2.2% in 2002, mainly due to higher gross margin, reduction in finance costs and recognition of a tax credit in 2003.

(b) Year ended 31 December 2004 compared to year ended 31 December 2003

Turnover

The Group's turnover decreased slightly by approximately 5.5% to approximately HK\$1,288.5 million for the year ended 31 December 2004 when compared to 2003. The decrease in revenue of the trading operations by approximately 44.4% from 2003 was mainly due to the decreased volume of alumina traded during 2004 of approximately 59,000 tonnes as compared to approximately 140,000 tonnes in 2003. In 2003 and 2004, the Group only had one alumina trading contract i.e. the Pechiney Contract, which was for the purchase of an aggregate of 453,401 tonnes of alumina. The decline in trading volume of alumina in 2004 as compared with 2003 was mainly due to the decrease in remaining volume of alumina to be executed under this contract. The increase in revenue generated from the Group's aluminium fabrication and copper refinery and plica tubes production operations by

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approximately 10.8% for the year ended 31 December 2004 was primarily due to the improved aluminium price in the market, as well as proactive sales and marketing strategies adopted by YOPT.

Gross profit

Gross profit decreased by approximately 17.1% to approximately HK\$192.9 million for the year ended 31 December 2004 when compared to 2003, primarily due to the decrease in trading volume as discussed above. Gross profit margin also decreased correspondingly from 17.1% for 2003 to approximately 15.0% for 2004 primarily due to the gross loss margin of approximately 10.4% from the discontinuing operations as compared to a gross profit margin of approximately 12.2% in 2003.

Selling expenses

Selling expenses increased slightly by approximately 10.0% to approximately HK\$41.8 million for the year ended 31 December 2004 while as a percentage of total turnover, it remained relatively stable at approximately 3% for 2004 and 2003.

Administrative expenses

As a percentage of total turnover, administrative expenses remained relatively stable at approximately 5% for 2004 and 2003.

Other operating income

The Group recorded other operating income of approximately HK\$64.6 million for the year ended 31 December 2004, as compared to other operating expenses of approximately HK\$5.0 million for 2003, attributable mainly to the reversal of provision for bad and doubtful debts on amounts due from fellow subsidiaries, receivables and prepayments of approximately HK\$49.1 million, as well as the reversal of provision for impairment in value of fixed assets of approximately HK\$8.5 million.

Reversal of consolidated losses upon deconsolidation of subsidiaries

The amount of approximately HK\$97.4 million (2003: nil) related to the winding up of the Group's two subsidiaries, ZIAC and YJCM, as discussed above.

Operating profits

The Group's profit from operations for the year ended 31 December 2004 was approximately HK\$252.2 million, representing an increase of approximately 113.0% from 2003, which was primarily due to the gain in other operating income and reversal of consolidated losses upon the deconsolidation of ZIAC and YJCM as discussed above.

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Finance costs

Finance costs reduced to approximately HK\$16.4 million for the year ended 31 December 2004, as compared to approximately HK\$38.2 million for 2003, which was mainly due to the reduction in the Group's borrowings following completion of the Restructuring Proposal in January 2004 whereby a total of approximately HK\$420.4 million of bank debts was eliminated.

Share of profits less losses of associated companies

The Group's share of profits from associated companies for the year ended 31 December 2004 amounted to approximately HK\$10.3 million, resulting primarily from its share of profits of Changzhou Jinyuan Copper Company Limited.

Taxation

The Group recorded a tax expense of approximately HK\$11.7 million for the year ended 31 December 2004 as compared with a tax credit of approximately HK\$6.5 million in 2003, resulting from the higher profit before taxation generated during the year. The fluctuation in tax expense for 2004 and 2003 was primarily due to deferred taxation.

Net profit

The Group recorded a net profit of approximately HK\$217.7 million and a net profit margin of approximately 16.9% for the year ended 31 December 2004 as compared with a net profit of approximately HK\$89.2 million and net profit margin of approximately 6.5% for 2003, mainly due to the reversal of consolidated losses upon deconsolidation of ZAIC and YJCM, an increase in other operating income and reduction in finance costs.

FINANCIAL INFORMATION ON THE GROUP

ANALYSIS OF THE CONSOLIDATED BALANCE SHEET OF THE GROUP

The following table sets out the Group's consolidated balance sheets as at 31 December 2002, 31 December 2003 and 31 December 2004.

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Non-current assets			
Fixed assets	331,871	286,337	308,264
Construction in progress	84,892	202,381	203,008
Interests in associated companies	64,981	48,121	43,059
Investment securities	2,146	2,217	–
Long-term receivables	6,226	5,392	4,717
Deferred tax assets	–	12,916	7,843
	<u>490,116</u>	<u>557,364</u>	<u>566,891</u>
Current assets			
Inventories	208,155	170,620	224,518
Trade receivables, prepayments and other receivables	201,090	230,962	266,775
Taxation recoverable	1,516	–	–
Amounts due from fellow subsidiaries	–	–	24,959
Pledged bank deposits	3,056	9,892	14,648
Cash and bank balances	95,810	140,879	176,236
	<u>509,627</u>	<u>552,353</u>	<u>707,136</u>
Current liabilities			
Trade payables and accrued charges	(211,154)	(280,006)	(291,920)
Bills payable	(29,245)	(11,321)	(18,116)
Amount due to a shareholder	(4,478)	(4,930)	–
Amounts due to related companies	(50,056)	(51,630)	–
Amounts due to associated companies	(12,381)	(7,250)	–
Amounts due to minority investors	(30,187)	(31,730)	–
Taxation payable	(9,721)	(8,389)	(14,721)
Provision	(9,315)	(7,501)	(6,792)
Bank loans	(631,551)	(638,514)	(218,868)
	<u>(988,088)</u>	<u>(1,041,271)</u>	<u>(550,417)</u>

FINANCIAL INFORMATION ON THE GROUP

	As at 31 December		
	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000
Net current (liabilities)/assets	(478,461)	(488,918)	156,719
Total assets less current liabilities	<u>11,655</u>	<u>68,446</u>	<u>723,610</u>
Financed by:			
Share capital	131,973	131,973	30,367
Reserves	<u>(483,042)</u>	<u>(393,778)</u>	<u>391,638</u>
Shareholders' (deficit)/funds	(351,069)	(261,805)	422,005
Minority interests	158,007	165,157	178,963
Non-current liabilities			
Bank loans	176,415	136,792	94,340
Deferred income	<u>28,302</u>	<u>28,302</u>	<u>28,302</u>
	<u>204,717</u>	<u>165,094</u>	<u>122,642</u>
	<u>11,655</u>	<u>68,446</u>	<u>723,610</u>

(a) Inventories

The Group had approximately HK\$224.5 million worth of inventories as at 31 December 2004, compared to approximately HK\$170.6 million as at 31 December 2003. The inventories consist primarily of raw materials, work in progress and finished goods at its subsidiary, NCA. The increase in the Group's inventory turnover days, defined as (inventory balance at year-end/cost of sales for the year) x 365 days, to approximately 74.8 days in 2004 (2003: 55.1 days and 2002: 99 days) was primarily due to intentional inventory build up at NCA at year end to take advantage of the favourable pricing situation of aluminum ingots, one of its major raw materials. The high stock turnover days in 2002 was due to the temporary suspension of the Group's trading business which led to a decrease in cost of sales.

FINANCIAL INFORMATION ON THE GROUP

(b) Trade receivables, prepayments and other receivables

As at 31 December 2004, the balance for trade receivables, prepayments and other receivables relates to:

	Year ended 31 December	
	2003	2004
	HK\$'000	HK\$'000
Trade receivables	179,595	217,655
Prepayments and other receivables	51,367	49,120
	<hr/>	<hr/>
Total	230,962	266,775
	<hr/>	<hr/>

Trade receivables, net of provision for doubtful debts, increased from approximately HK\$179.6 million as at 31 December 2003 to approximately HK\$217.6 million as at 31 December 2004, primarily due to a trading transaction of approximately HK\$79.1 million which was made just prior to year end and which was subsequently settled in January 2005. As at 31 May 2005, approximately 93.4% of the outstanding trade receivables balance was fully settled. In 2004, trade receivables turnover days, defined as (trade receivables balance at year-end/turnover for the year) x 365 days, for the Group was approximately 61.7 days (2003: 48.1 days and 2002: 72.9 days). The increase in trade receivables turnover days in 2004 was primarily due to the increase in trade receivables balance of approximately HK\$79.1 million as mentioned above. The high trade receivables turnover days in 2002 was due to the temporary suspension of the Group's trading business which led to a decrease in revenue. During the Track Record Period, the Group's trade receivables turnover days was in line with its credit policy of 30-90 days. The Group's general provisioning policy is as follows:

Days overdue	Amount of provision (% of amount outstanding)
180-365 days	25
1 year to 2 years	50
Over 2 years	100

(c) Trade payables and accrued charges

Trade payables and accrued charges were approximately HK\$291.9 million as at 31 December 2004 compared to approximately HK\$280.0 million as at 31 December 2003. Included in the Group's trade payables and accrued charges as at 31 December 2004 were trade payables of approximately HK\$125.4 million (approximately HK\$111.2 million as at 31 December 2003). In 2004, trade payables turnover days, defined as (trade payables balance at year-end/cost of sales for the year) x 365 days, for the Group was approximately 41.8 days (2003: 35.9 days and 2002: 36.3 days). The increase in trade payables turnover days in 2004 was due to higher trade payables balance at year-end which was attributable to a trading transaction at year-end and which was subsequently paid up in January 2005 as noted in the corresponding increase in trade receivables balance as at 31 December 2004. The trade payables turnover days have remained stable for 2002 and 2003.

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(d) Bank loans

The Group's total bank loans reduced substantially by approximately HK\$462.1 million or 59.6% to approximately HK\$313.2 million as at 31 December 2004 when compared to the total bank loans as at 31 December 2003. This was primarily due to the elimination of approximately HK\$420.4 million of bank debts pursuant to completion of the Restructuring Proposal in January 2004. As at 31 December 2004, the Group had total cash (including pledged bank deposits) of approximately HK\$190.9 million and net debt of approximately HK\$122.3 million. The net gearing of the Group, defined as net debt divided by shareholders' funds, was approximately 29.0% as at 31 December 2004. The Group was in net shareholders' deficit position as at 31 December 2002 and 2003.

The Group restored to net assets position following completion of the debt and capital restructuring exercise in January 2004. The Group had net assets of approximately HK\$422.0 million as at 31 December 2004 as compared to net liabilities of approximately HK\$261.8 million as at 31 December 2003. The Group had positive reserves of approximately HK\$391.6 as at 31 December 2004 compared to negative reserves of approximately HK\$393.8 million as at 31 December 2003.

As disclosed in the circular of the Company dated 6 November 2003, it was intended that as soon as practicable after the Restructuring Proposal, the Board will put forward to the Shareholders a proposal to reduce the share premium account of the Company for the purpose of eliminating the accumulated losses of the Company to be effected as soon as practicable after the completion of the Restructuring Proposal. The Company is in the process of preparing for the relevant proposal for the Shareholders' consideration and further announcement(s) will be made by the Company as and when appropriate.

(e) Taxation payable

Taxation payable was approximately HK\$14.7 million as at 31 December 2004 compared to approximately HK\$8.4 million as at 31 December 2003. The Group's taxation payable as at 31 December 2004 was primarily attributable to the taxation payable of its subsidiary, NCA.

For the year ended 31 December 2004, the Group had certain income not subject to taxation with a total tax effect of approximately HK\$38.4 million, which was primarily attributable to the tax effect of the reversal of consolidated losses upon deconsolidation of subsidiaries of approximately HK\$17.0 million and reversal of provision for bad and doubtful debts of approximately HK\$10.8 million.

The background information of the reversal of consolidated losses upon deconsolidation of subsidiaries is summarised as follows:

On 15 April 2004, the Company announced that certain investors of Zhangzhou International Aluminium Container Company Limited ("ZIAC"), a 60% owned subsidiary of the Group engaging in the manufacturing of aluminium cans, had filed an application to the relevant PRC Government authorities to wind up its business prior to the expiration

FINANCIAL INFORMATION ON THE GROUP

of its joint venture period in September 2004. ZIAC received the winding up order from the PRC court and began its liquidation process on 28 June 2004.

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

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

DISCLOSURE PURSUANT TO CHAPTER 13 OF THE LISTING RULES

The Directors confirmed that as at the Latest Practicable Date, the Group had complied with Chapter 13 of the Listing Rules.

DISTRIBUTABLE RESERVES

The Company had no reserve available for distribution as at 31 December 2004.

SHARE CAPITAL

SHARE CAPITAL

The table below sets out details relating to the Company's share capital as at the Latest Practicable Date as adjusted for the issue of the Consideration Shares:

Authorised share capital:		<i>HK\$</i>
<u>6,000,000,000</u>	Shares	<u>300,000,000</u>
Issued share capital:		
607,349,612	Shares in issue as at the Latest Practicable Date	30,367,480
<u>1,009,090,909</u>	Consideration Shares of HK\$0.05 par value each	<u>50,454,545</u>
<u>1,616,440,521</u>		<u>HK\$80,822,025</u>

The above tables take no account of Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme 1994 or Share Option Scheme 2004 or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the issuing mandate and repurchase mandate as described below or of any new Shares which may be allotted and issued by the Company pursuant to the Placing.

SHARE OPTION SCHEMES

Details of the Share Option Scheme 1994 and Share Option Scheme 2004 are set out in Appendix VII to this circular.

Upon Completion, assuming the Placing is by way of new Shares only and no share options are exercised, the total number of issued Shares will be 1,952,623,768. Assuming the full exercise of all the outstanding options, comprising 11,110,000 share options, the enlarged share capital of the Company will be 1,963,733,768 Shares and the option shares will constitute approximately 0.57% of the enlarged share capital of the Company (assuming that there will be no further change in the Company's issued share capital).

In this respect, assuming the full exercise of all the outstanding options, an additional 11,110,000 Shares will be issued. Since the exercise price of these options exceeds the current trading price of the Shares, it is unlikely that these options will be exercised and therefore it is not expected that the options will have any impact on the earnings per Share, unless and until the trading price of the Shares is above the exercise price.

Save for the capital of the Company, there is no capital of any member of the Group which is under option, or agreed conditionally or unconditionally to be put under option.

SHARE CAPITAL

ISSUING MANDATE

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

- (a) 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution on 18 May 2005; and
- (b) the total amount of the share capital of the Company repurchased by the Company (if any) pursuant to the repurchase mandate referred to below.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants of the Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme 1994 and the Share Option Scheme 2004.

This mandate will expire:

- (a) at the conclusion of the Company's next annual general meeting; or
- (b) upon the expiry of the period within which the next annual general meeting of the Company is required by Hong Kong law or the articles of association of the Company to be held; or
- (c) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever first occurs.

For further information about the issuing mandate, please refer to the paragraph headed "General mandates to issue and to repurchase Shares" in Appendix VII to this circular.

REPURCHASE MANDATE

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with a total nominal value of not more than 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution on 18 May 2005.

This mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules.

SHARE CAPITAL

This mandate will expire:

- (a) at the conclusion of the Company's next annual general meeting; or
- (b) upon the expiry of the period within which the next annual general meeting of the Company is required by Hong Kong law or the articles of association of the Company to be held; or
- (c) when varied or revoked by an ordinary resolution of the Shareholders in general meeting,

whichever first occurs.

For further information about the repurchase mandate and a summary of the relevant Listing Rules, please refer to the paragraph headed "General mandates to issue and to repurchase Shares" in Appendix VII to this circular.

CHANGES IN THE SHARE CAPITAL OF THE COMPANY AND MEMBERS OF THE ENLARGED GROUP

The following alterations in the share capital of the Company have taken place within the two years preceding the Latest Practicable Date:

Date	Event	Issued share capital (HK\$'000)
1 January 2003	Balance	131,973
6 January 2004	(a) 1 for 10 share consolidation and increase in par value from HK\$0.10 to HK\$1.00, and	131,973
	(b) capital reduction arising from the reduction in par value from HK\$1.00 to HK\$0.05	6,599
12 January 2004	475,376,917 Shares issued to Coppermine in connection with the Restructuring Proposal	30,367

On 22 October 2004, Minmetals Aluminum was incorporated in the PRC with registered capital of RMB1,060 million contributed by China Minmetals as to RMB53 million (i.e. 5%) in cash and by CMN as to RMB1,007 million (i.e. 95%) by way of cash for an amount of RMB21,815,400 and an injection of 100% equity interest in SMI and 90% equity interest in LYG.

On 29 October 2004, one share of par value US\$1 in Target BVI was issued to Top Create Resources for cash at par.

SHARE CAPITAL

On 20 December 2004, one share of par value US\$1 in Target BVI was issued to Top Create Resources in settlement of the consideration payable by Target BVI for the acquisition of 100% equity interest in Minmetals Aluminium.

Save as set out above and in the section headed “Information about the Target Group and the Group – Reorganisation” in this circular, there has been no alteration in the share capital of any member of the Enlarged Group within the two years preceding the date of this circular.

The following is the text of a report, prepared for the purpose of inclusion in this circular, from the reporting accountants of the Group, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

30 June 2005

The Directors
Oriental Metals (Holdings) Company Limited
Peak Strategic Industries Limited

N M Rothschild & Sons (Hong Kong) Limited

Dear Sirs,

We set out below our report on the financial information of Peak Strategic Industries Limited ("Target BVI"), its subsidiaries and associated companies for the years ended 31 December 2002, 2003 and 2004 (the "Track Record Period") for inclusion in the circular of Oriental Metals (Holdings) Company Limited ("OMCL") dated 30 June 2005 in connection with the proposed acquisition of Target BVI by OMCL (the "Circular"), detailed in the Acquisition section of Letter from the Board in the Circular. Target BVI and its subsidiaries are hereinafter collectively referred to as the "Target Group".

Target BVI was incorporated in the British Virgin Islands on 12 December 2003 with limited liability. As discussed in note 1 of section II of this report, pursuant to a reorganisation in 2004 and 2005 (the "Reorganisation"), China Minmetals Non-ferrous Metals Company Limited, a company incorporated in the People's Republic of China (the "PRC"), transferred its aluminium trading business to Target BVI. Subsequent to the Reorganisation and as at the date of this report, Target BVI had direct and indirect interests in various subsidiaries, details of which are set out in note 27 of section II below.

All companies now comprising the Target Group and the associated companies have adopted 31 December as their financial year-end date. The management accounts of all these entities were prepared in accordance with the relevant accounting principles and financial regulations in the countries/jurisdiction where they were incorporated or operate.

No audited financial statements have been prepared by Target BVI since the date of establishment of Target BVI as it was newly established and has not been involved in any business transactions other than the Reorganisation. For the purpose of the Reorganisation, the directors of Target BVI have prepared the combined financial statements of the Target Group for the Track Record Period in accordance with the relevant accounting principles

and financial regulations applicable to PRC enterprises (the “PRC GAAP Financial Statements”), based on the audited financial statements or unaudited management accounts of Target BVI, its subsidiaries and associated companies. The directors of the respective companies now comprising the Target Group and the associated companies, at the Track Record Period, are responsible for preparing financial statements which give a true and fair view. In preparing these financial statements, it is fundamental that appropriate accounting policies are selected and applied consistently. For the purpose of this report, we have carried out independent audit procedures on the PRC GAAP Financial Statements in accordance with the Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The financial information as set out in sections I to III (the “Financial Information”) has been prepared based on the PRC GAAP Financial Statements, after making such adjustments as are appropriate. We have examined the Financial Information and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline “Prospectuses and the Reporting Accountant” issued by the HKICPA.

The directors of Target BVI and OMCL are responsible for the Financial Information which gives a true and fair view. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report and prepared on the basis set out in notes 1 and 2 of Section II below, gives a true and fair view of the combined state of affairs of the Target Group as at 31 December 2002, 2003 and 2004, and of the combined results and cash flows of the Target Group for the Track Record Period.

I. COMBINED ACCOUNTS

(a) Combined profit and loss accounts

The following is a summary of the combined profit and loss accounts of Peak Strategic Industries Limited ("Target BVI") and its subsidiaries ("the Target Group") for the years ended 31 December 2002, 2003 and 2004 (the "Track Record Period"), prepared on the basis as set out in note 1 of section II below, after making adjustments as are appropriate:

	<i>Section II Note</i>	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
Turnover	3	1,745,228	5,162,040	7,335,872
Cost of sales		<u>(1,462,819)</u>	<u>(4,572,903)</u>	<u>(6,538,660)</u>
Gross profit		282,409	589,137	797,212
Other revenues	3	2,650	2,962	7,068
Selling expenses		(47,508)	(88,414)	(81,969)
Administrative expenses		(43,120)	(36,901)	(46,302)
Other operating income	4	952	6	–
Other operating expenses	5	(34)	(568)	(5,781)
Gain on disposal of an associated company	11	32,371	–	–
Gain on disposal of investment securities		<u>–</u>	<u>4,196</u>	<u>–</u>
Profit from operations	6	227,720	470,418	670,228
Finance costs	7	(96,708)	(77,325)	(69,923)
Share of result of associated company		<u>12,771</u>	<u>–</u>	<u>1,597</u>
Profit before taxation		143,783	393,093	601,902
Taxation	8	<u>(20,291)</u>	<u>(117,810)</u>	<u>(185,784)</u>
Profit after taxation		123,492	275,283	416,118
Minority interests		<u>(61,492)</u>	<u>(12,441)</u>	<u>(20,116)</u>
Profit for the year		<u><u>62,000</u></u>	<u><u>262,842</u></u>	<u><u>396,002</u></u>

During the Track Record Period, none of the legal entities now comprising the Target Group had declared/paid dividends to their shareholders/investors.

No earnings per share information is presented as its inclusion, for the purpose of this report, is not considered meaningful due to the reorganisation and the preparation of results for the Track Record Period on a combined basis as disclosed in note 1 of section II.

(b) Combined balance sheets

The following is a summary of the combined balance sheets of the Target Group as at 31 December 2002, 2003 and 2004, prepared on the basis as set out in note 1 of section II below, after making adjustments as are appropriate:

	<i>Section II Note</i>	As at 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Fixed assets	10	1,402	1,261	1,559
Interest in associated company	11	–	1,093	4,089
Investment securities	12	33,258	32,204	32,196
Goodwill	13	–	–	7,253
Long-term receivables		–	9,816	7,863
Upfront payment for alumina purchasing rights	14	1,622,284	1,555,920	1,489,637
		<u>1,656,944</u>	<u>1,600,294</u>	<u>1,542,597</u>
Current assets				
Inventories	15	102,667	505,283	697,113
Trade receivables, prepayments, and other receivables	16	57,134	79,166	335,866
Bill receivables		250	650	22,548
Due from related companies	17	11,544	59,179	166,513
Deferred losses	18	–	–	12,282
Pledged bank deposits		37,248	37,245	37,245
Cash and bank balances		148,123	164,000	176,061
		<u>356,966</u>	<u>845,523</u>	<u>1,447,628</u>

		As at 31 December		
	Section II	2002	2003	2004
	Note	RMB'000	RMB'000	RMB'000
Current liabilities				
Trade payables, other payables and accruals	19	78,057	131,521	225,495
Bill payables		–	–	189,267
Advances from customers		125,271	372,367	347,997
Due to related companies	17	6,456	3,372	219,661
Taxation payable		1,464	4,222	839
Deferred income	18	2,359	927	2,351
Derivative financial instruments	20	4,056	4,238	4,193
Short-term bank loans – unsecured		62,430	257,182	501,150
Current portion of long-term loans	21	62,080	49,660	77,799
		<u>342,173</u>	<u>823,489</u>	<u>1,568,752</u>
Net current assets/(liabilities)		<u>14,793</u>	<u>22,034</u>	<u>(121,124)</u>
Total assets less current liabilities		<u>1,671,737</u>	<u>1,622,328</u>	<u>1,421,473</u>
Non-current liabilities				
Deferred income	18	–	9,816	8,442
Derivative financial instruments	20	14,584	8,790	6,665
Long-term loans	21	826,902	731,660	653,844
		<u>841,486</u>	<u>750,266</u>	<u>668,951</u>
Minority interests		<u>434,330</u>	<u>447,595</u>	<u>814</u>
Represented by owner's equity	22	<u>395,921</u>	<u>424,467</u>	<u>751,708</u>

(c) Combined statements of changes in equity

The following is a summary of the combined statements of changes in equity of the Target Group for the Track Record Period, prepared on the basis as set out in note 1 of section II below, after making adjustments as are appropriate:

	Year ended 31 December		
	2002	2003	2004
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Total equity at beginning of the year	384,415	395,921	424,467
Profit for the year	62,000	262,842	396,002
Funding returned to owner	(50,040)	(235,153)	(68,756)
Currency translation differences	(454)	857	(5)
	<u> </u>	<u> </u>	<u> </u>
Total equity at end of the year	<u>395,921</u>	<u>424,467</u>	<u>751,708</u>

(d) Combined cash flow statements

The following is a summary of the combined cash flow statements of the Target Group for the Track Record Period, prepared on the basis as set out in note 1 of section II below, after making adjustments as are appropriate:

	<i>Section II Note</i>	Year ended 31 December		
		2002	2003	2004
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow generated				
from operations	23	286,450	350,360	626,584
Interest paid		(90,862)	(78,808)	(77,312)
PRC and overseas tax paid		(18,826)	(115,052)	(190,731)
		<u> </u>	<u> </u>	<u> </u>
Net cash inflow from				
operating activities		<u>176,762</u>	<u>156,500</u>	<u>358,541</u>
Investing activities				
Interest received		2,649	2,461	4,803
Purchase of fixed assets		(607)	(623)	(876)
Proceeds from disposal				
of fixed assets		–	–	422
Purchase of additional				
interests in a subsidiary		–	–	(474,738)
Investment in an				
associated company		–	(1,093)	(1,217)
Proceeds from disposal				
of an associated company		59,863	–	–
Proceeds from disposal				
of investment securities		–	5,256	–
		<u> </u>	<u> </u>	<u> </u>
Net cash inflow/(outflow)				
from investing activities		<u>61,905</u>	<u>6,001</u>	<u>(471,606)</u>
Net cash inflow/(outflow)				
before financing		<u>238,667</u>	<u>162,501</u>	<u>(113,065)</u>

	<i>Section II Note</i>	Year ended 31 December		
		2002 RMB'000	2003 RMB'000	2004 RMB'000
Financing activities	23			
Proceeds from new loans		62,430	257,183	501,150
Repayment of loans		(189,872)	(170,093)	(306,859)
Funding returned to owner		(50,040)	(235,153)	(68,756)
Contribution from minority investor		100	–	–
		<u> </u>	<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing		<u>(177,382)</u>	<u>(148,063)</u>	<u>125,535</u>
Increase in cash and cash equivalents		61,285	14,438	12,470
Cash and cash equivalents at 1 January		87,732	148,123	164,000
Effect of foreign exchange rate changes		(894)	1,439	(409)
		<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at 31 December		<u>148,123</u>	<u>164,000</u>	<u>176,061</u>
Analysis of balances of cash and cash equivalents				
Cash and bank balances		<u>148,123</u>	<u>164,000</u>	<u>176,061</u>

II. NOTES TO FINANCIAL INFORMATION

1. Group reorganisation and basis of presentation

Reorganisation and operation

Target BVI was incorporated in the British Virgin Islands (the "BVI") on 12 December 2003 with limited liabilities and is a wholly owned subsidiary of Top Create Resources Limited ("Top Create Resources"), which was also incorporated in the BVI with limited liabilities.

China Minmetals Non-ferrous Metals Co., Ltd ("CMN") is a joint stock company with limited liability and incorporated in the People's Republic of China (the "PRC"). Prior to the completion of the reorganisation discussed below, CMN had one trading department (the "Aluminium Trading Department") which was principally engaged in the trading of alumina and other aluminium products. CMN owned a 90% equity interest in Minmetals Non-ferrous Lianyungang Company Limited ("LYG"), a company established in the PRC, and a 51% equity interest in Sino Mining International Ltd ("SMI"), a company incorporated in the Cayman Islands.

SMI holds three subsidiaries, namely Sino Mining Alumina Limited, incorporated in the Cayman Islands, Sino Mining Australia Pty Ltd, incorporated in Australia, and Sino Mining Trading Pty Ltd, also incorporated in Australia. Details of these subsidiaries are set out in note 27.

SMI was originally owned as to 51% by CMN and 49% by China Minmetals Corporation ("China Minmetals"), a PRC state-owned enterprise and the holding company of CMN. On 30 December 2003, China Minmetals entered into a transfer agreement with CMN to transfer its remaining 49% interest in SMI to CMN for a consideration of approximately RMB474,738,000, satisfied by cash. The completion of the transfer took place on 31 March 2004. Since then, SMI has become a wholly owned subsidiary of CMN.

On 22 October 2004, Minmetals Aluminium Company Limited ("Minmetals Aluminium") was established under PRC company law with a registered capital of RMB1,060 million; 95% of which was contributed by CMN by transferring all its interests in SMI and LYG and by the injection of RMB21.8 million cash into Minmetals Aluminium whilst the remaining 5% was contributed by China Minmetals in cash. Minmetals Aluminium, SMI and LYG are hereinafter collectively referred to as the "Relevant Entities".

On 16 February 2005, CMN entered into a non-transferred interest transfer agreement with Minmetals Aluminium by which CMN assigned to Minmetals Aluminium all its interests under all existing alumina and aluminium related contracts save for certain contracts subject to the agreement relating to non-transferred contracts. Following the assignment, all of the alumina and aluminium trading business previously undertaken by the Aluminium Trading Department (other than certain non-transferred contracts referred to above) were transferred to Minmetals Aluminium (the "Aluminium Trading Business").

In furtherance of the reorganisation, Target BVI and Top Create Resources were incorporated on 12 December 2003 and 22 January 2004, respectively in the BVI, each with an authorised capital of US\$50,000 divided into 50,000 shares of US\$1 each. Prior to the share transfers discussed below, Target BVI was wholly owned by Top Create Resources holding one share of US\$1 and Top Create was owned as to 95% by CMN and 5% by China Minmetals, respectively.

On 6 December 2004, China Minmetals and CMN entered into a share transfer agreement with Target BVI and Top Create Resources to transfer all of their respective interests in Minmetals Aluminium to Target BVI for an aggregate consideration of RMB1,060 million. The consideration was satisfied on 20 December 2004 by way of an allotment and issue by Target BVI to Top Create Resources (as directed by CMN and China Minmetals) of one share of US\$1 in capital of Target BVI credited as fully paid up. Top Create Resources in turn allotted and issued 5 shares of US\$1 each in its capital to China Minmetals and 95 shares with the same par value to CMN as

considerations for China Minmetals and CMN procuring Target BVI to allot and issue the aforesaid one share to Top Create Resources. China Minmetals and CMN subsequently entered into another share transfer agreement whereby China Minmetals transferred all its interests in Top Create Resources to CMN such that Top Create Resources was owned as to 100% by CMN. Upon completion of the above share transfers and the approvals from the relevant government authorities on 21 June 2005, Minmetals Aluminum became a wholly owned foreign enterprise and a wholly owned subsidiary of Target BVI, which, in return, became a wholly owned subsidiary of both Top Create Resources and CMN.

On 30 December 2004, CMN entered into an acquisition agreement with Oriental Metals (Holdings) Company Limited ("OMCL") and Top Create Resources for the acquisition of Target BVI by OMCL (the "Acquisition"). The consideration for the acquisition of HK\$2,886 million will be satisfied in full by the allotment and issue of 1,009,090,909 new shares to CMN by OMCL.

The above acquisition is subject to the approvals from the shareholders of both parties and the relevant authorities.

The directors of Target BVI are of opinion that, after the completion of the above reorganisation, the Target Group will conduct its business in the same pattern and size as the Aluminum Trading Business before the reorganisation.

Basis of preparation

The combined financial information in Section I above (the "Financial Information") presents the combined results, financial position and cash flows of the Target Group as if it had been in existence throughout the Track Record Period and as if the Aluminum Trading Business had been transferred to the Target Group at the beginning of the earliest period presented.

Other businesses and subsidiaries of CMN (mainly engaged in the trading of copper, nickel, zinc and other non-ferrous metals) are not included in the Financial Information because (i) such businesses have been mainly managed by management teams different from that of the Aluminum Trading Business; (ii) such businesses are dissimilar from the Aluminum Trading Business in terms of business risks and rewards, customer bases and content; and (iii) such businesses have limited shared facilities and few inter or intra company transactions with the Aluminum Trading Business or the Relevant Entities.

Historically, as the Aluminum Trading Department was a department of CMN, it did not prepare a department-alone audited accounts. Its operating results and assets and liabilities are included in the Financial Information on the following bases:

1. Assets and liabilities that are directly related to the Aluminum Trading Business and can be identified are included in the combined balance sheets. Except for value-added tax refund arising from aluminium ingots exportation which has been recognised as an asset, taxation arising from domestic operation is treated as if it had been paid through CMN head office account and, therefore, are dealt with in the owner's equity.
2. All revenues and related costs, expenses and charges directly generated or incurred by the Aluminium Trading Department are included in the combined profit and loss accounts. For those expenses for which a specific identification method was not practical, the allocation of costs from CMN to the Aluminium Trading Department was mainly based on the percentages best reflected the usage of the corporate resources by the Aluminum Trading Business of the number of staff of the Aluminium Trading Department to the total number of staff of CMN. Such overheads and other general expenses allocated by CMN mainly included staff costs, information processing expenses, legal and professional fees and office expenses.

3. No cash and bank balances have been allocated to the Aluminium Trading Department as there is no fair basis to allocate the cash and bank balances to each individual department.
4. As the current group structure was not in place during the Track Record Period and the Aluminium Trading Department was only one of the departments of CMN, owner's equity is shown in lieu of shareholders' equity in the Financial Information.

The directors are of the opinion that the above bases are reasonable and fair to present the results of operations, financial position and cash flows of the Aluminium Trading Department.

All intercompany transactions and balances have been eliminated upon combination.

The English names of some of the companies referred to in the Financial Information represent unofficial translation of their registered Chinese names by management and these English names have not been legally adopted by these entities.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of the Financial Information, which are in conformity with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants, are set out below.

The Financial Information has been prepared under the historical cost convention.

(a) Group accounting

(i) Consolidation

The combined accounts include the accounts of Target BVI and all its subsidiaries made up to 31 December.

Subsidiaries are those entities in which Target BVI, directly or indirectly, controls more than half the voting power, has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Apart from the reorganisation referred to in note 1 above, the results of subsidiaries acquired or disposed of during the year are included in the profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

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

(ii) Associated companies

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

The profit and loss account include the Target Group's share of the results of associated companies for the year, and the balance sheet include the Target Group's share of the net assets of the associated companies and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

(iii) Translation of foreign currencies

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

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

(b) *Goodwill*

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

Goodwill is amortised using the straight-line method over its estimated useful life of 20 years.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount.

(c) *Fixed assets and depreciation*

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

Leasehold improvements	over the unexpired lease term
Office equipment	5-15 years
Motor vehicles	8-10 years

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

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(d) *Investment securities*

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

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

(e) *Upfront payment for alumina purchasing rights*

Upfront payment for alumina purchasing rights represent costs incurred to obtain the rights to purchase pre-determined quantity of alumina from a third party over a period of thirty years pursuant to an alumina supply agreement. The costs are amortised on a straight-line basis over the period of thirty years during which the Target Group will derive economic benefits.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that upfront payment is impaired. If any such indication exists, the recoverable amount of the upfront payment is estimated and where relevant, an impairment loss is recognised to reduce the upfront payment to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

(f) *Inventories*

Inventories comprise commodities held for sales and are stated at the lower of cost and net realisable value. The cost, mainly comprising purchase costs and custom duty, is calculated on the specific identification basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(g) *Trade receivables*

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

(h) *Cash and cash equivalents*

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

(i) *Provisions*

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

(j) *Deferred taxation*

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

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

(k) *Contingencies*

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

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

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

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

(l) *Revenue recognition*

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

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

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

(m) *Borrowing costs*

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

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

(n) *Operating leases*

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payment made under operating leases and rentals payable net of any incentives received from the leasing company are charged to the profit and loss account evenly over the periods of the respective leases.

(o) *Employee benefits*

(i) *Employee leave entitlements*

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

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

(ii) Retirement benefit obligations

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

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

Overseas subsidiaries of the Target Group participate in a number of defined contribution plans for local employees. Contributions to these defined contribution plans are expensed as incurred.

(p) *Derivative financial instruments*

The Target Group enters into various derivative contracts which include foreign exchange forward contracts, commodity futures contracts and options, and interest rate swaps. The accounting treatment for these derivative financial instruments is dependent upon whether the instruments are entered into for hedging or speculative purposes.

The derivative financial instruments are classified as hedging instruments and speculative instruments based on management's intention upon the inception of the transactions and the actual hedging results.

Where commodity futures contracts are used to hedge the fluctuations in the price of primary aluminium of future commitments or transactions in delivering alumina, and where foreign forward contracts are used to hedge future commitments or transactions in foreign currencies, the realised gains and losses are matched to the hedged items and charged to profit and loss account.

Where these relate to interest rate movements, interest payable and receivable under such instruments is accrued and recorded as an adjustment to the interest income or expense related to the underlying exposure.

The unrealised gains and losses resulting from instruments closed prior to the recognition of the hedged items are deferred and recognised as deferred income or deferred losses in the balance sheet and transferred to the profit and loss account to match the gains and losses on the related hedged items.

Ineffective hedging and speculative instruments are recognised and re-measured at their fair values and any related gains and losses are recognised in the profit and loss account.

Premiums paid or received on options are included in deferred income and charged or credited to the profit and loss account upon the expiry of the options.

- (q) *Impact of adoption of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Statements.*

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Statements ("new HKFRSs") which are effective for accounting periods on or after 1 January 2005. The Target Group has not early adopted these new HKFRSs in the financial information for the Track Record Period. The Target Group is in the process of making an assessment of the impact of these new HKFRSs and has so far concluded that the more significant differences between new HKFRSs and current accounting policies that are expected to affect the Target Group are as follows:

Goodwill

Under HKFRS 3 'Business Combinations', goodwill will no longer be amortised but instead will be subject to rigorous annual impairment testing. This will result in a change to the Target Group's current accounting policy under which goodwill is amortised over its useful life of 20 years and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortisation will no longer be charged, but goodwill will be tested annually for impairment, as well as when there are indications of impairment. This new policy will be applied prospectively from 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the conditions under which impairment will be assessed are not yet known.

Financial instruments

Under HKAS 39 'Financial Instruments: Recognition and Measurement', financial instruments will be carried at either amortised cost or fair value, depending on their classification. Depending on the classification of the financial instruments, movements in fair value will be either charged to net profit or loss or taken to equity in accordance with the standard. In addition, all derivatives, including those embedded in non-derivatives host contracts will be recognised in the balance sheet at fair value.

This will result in a change to the Target Group's current accounting policy in respect of classification, measurement and recognition of certain investments. This new accounting policy will be applied prospectively from 1 January 2005 and requires the available for sales investments (currently shown as investment securities) to be accounted for at fair value through equity. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the fair value of such investments at next balance sheet date is not currently available.

This will also result in a change to the Target Group's current accounting policies in respect of classification, measurement and recognition of derivative financial instruments. This new accounting policy will be applied prospectively from 1 January 2005. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not been completed. However, the requirements to recognise derivatives and certain other financial instruments with changes in fair value being reflected in the profit and loss account or the equity reserve may result in increased volatility in the Target Group's profit and net assets.

Hedge accounting

Under HKAS 39 'Financial Instruments: Recognition and Measurement', foreign exchange forward contracts, commodity futures contracts and interest rate swap contracts held for hedging purposes will be classified as cash flow hedges or fair value hedges, on the basis that the qualifying criteria outlined in the HKAS 39 are satisfied. This will result in the recognition of hedging instruments at their fair value as assets or liabilities, with resulting gains or losses being charged to net profit or loss or taken to equity in accordance with the hedge accounting rules.

Currently, the derivatives designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging and any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

In addition, HKAS 39 set out strict criteria for achieving hedge accounting. Failure to achieve hedge accounting for a significant proportion of the Target Group's foreign exchange, interest rate management and commodity hedging activities could lead to increased volatility of both profit and net assets. This new accounting policy will be applied prospectively from 1 January 2005. As at 31 December 2004, the total fair value of hedging derivative financial instruments not recognised in the accounts was approximately RMB198,256,000 (loss) (see note 20).

Derecognition of financial assets and liabilities

HKAS 39, 'Financial Instruments: Recognition and Measurement', gives a clear guidance on derecognition of financial assets and liabilities. This new accounting policy will be applied prospectively from 1 January 2005.

Functional currency

Under HKAS 21 'The Effects of Changes in Foreign Exchange Rates', the Target Group has re-evaluated the functional currency of each of the consolidated entities based on HKAS 21. All the entities now comprising the Target Group have the same functional currency as their measurement currency in maintaining their company and records. There is no material effect on the Target Group's policy.

On the basis that the adoption of the new HKFRSs in 2005 would not require retrospective application in accordance with transitional provisions in the respective standards, Target BVI's directors consider that the adoption of the new HKFRSs would not have a significant impact on the Target Group's financial position as at 31 December 2004 and the Target Group's results of operation for the year then ended.

3. Turnover, revenues and segment information

The Target Group is principally engaged in the trading of alumina and other aluminium products. Revenues recognised during the Track Record Period are as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Turnover			
Sales of alumina and others	1,689,677	4,455,111	6,399,969
Sales of aluminium ingots	45,391	695,991	922,763
Commission income	8,822	9,952	12,523
Logistics agency fees	1,338	986	617
Total	<u>1,745,228</u>	<u>5,162,040</u>	<u>7,335,872</u>
Other revenues			
Interest income on bank deposits	2,649	2,461	4,803
Sales of scrapped materials	–	–	614
Sundries	1	501	1,651
Total	<u>2,650</u>	<u>2,962</u>	<u>7,068</u>
	<u>1,747,878</u>	<u>5,165,002</u>	<u>7,342,940</u>

The Target Group is principally engaged in one business segment only and the majority of customers are located in the PRC. The assets and capital expenditure analysed by geographical locations are as follows:

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Total assets			
PRC	151,097	646,535	1,002,753
Australia	1,862,813	1,798,189	1,983,383
	<u>2,013,910</u>	<u>2,444,724</u>	<u>2,986,136</u>
Interest in associated company	–	1,093	4,089
	<u>2,013,910</u>	<u>2,445,817</u>	<u>2,990,225</u>

Total assets are allocated based on where the assets are located.

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Capital expenditures			
PRC	–	184	222
Australia	607	439	654
	<u>607</u>	<u>623</u>	<u>876</u>

4. Other operating income

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Gain on ineffective hedging contracts	952	–	–
Reversal of provision for doubtful debts	–	6	–
	<u>952</u>	<u>6</u>	<u>–</u>

5. Other operating expenses

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Loss on ineffective hedging contracts	–	–	5,768
Provision for doubtful debts	7	–	13
Others	27	568	–
Total	<u>34</u>	<u>568</u>	<u>5,781</u>

6. Profit from operations

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

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Wages and salaries	18,807	19,142	20,978
Retirement benefit contributions (<i>note</i>)	1,103	1,696	2,586
Welfare and other expenses	2,646	2,625	1,873
Total staff costs excluding directors' emoluments	22,556	23,463	25,437
Auditors' remuneration	174	555	976
Depreciation of fixed assets	834	1,003	579
Gain on disposal of fixed assets	–	–	(190)
Amortisation of goodwill	–	–	589
Amortisation of upfront payment for aluminium purchasing rights (included in cost of sales)	66,109	66,364	66,283
Operating lease rentals in respect of land and buildings	2,983	3,432	2,476
Exchange loss/(gain)	102	(97)	(370)

Note: No contributions were forfeited for the year ended 31 December 2004 (2002 and 2003: Nil).

7. Finance costs

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Interest on bank loans			
– wholly repayable within five years	91,841	74,932	68,077
Interest on loans from CMN			
– wholly repayable within five years	1,382	3,917	9,781
Gain on interest rate swap	(22,985)	(5,653)	(8,484)
Amortisation of capitalised syndicated loan arrangement fees	25,169	–	–
Other finance costs	1,301	4,129	549
	96,708	77,325	69,923

8. Taxation

The amounts of taxation charged to the profit and loss accounts represent:

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
PRC income taxes			
– Current	10,764	113,589	183,090
– Over-provision of taxation for prior year	–	–	(1,395)
Overseas income tax			
– Current	9,527	4,221	2,715
– Under-provision of taxation for prior year	–	–	1,374
	<u>20,291</u>	<u>117,810</u>	<u>185,784</u>

The provision for PRC current income taxes for the Aluminium Trading Department of CMN is mainly calculated based on the statutory income tax rate of 33% of the assessable income of the Aluminium Trading Department of CMN, as if it had been a separate legal entity throughout the Track Record Period. The Aluminium Trading Department of CMN has, however, never filed its own tax return on a standalone basis during the Track Record Period.

The provision of PRC current income taxes for other subsidiaries in the PRC is calculated based on the statutory income tax rate of 33% of the assessable income of the subsidiary.

The provision for overseas income tax is calculated based on the statutory tax rate of the country of operation of each overseas entity.

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

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Profit before taxation	143,783	393,093	601,902
Calculated at a tax rate of 33%	47,448	129,721	198,628
Effect of different tax rates in other countries	(4,046)	(874)	(1,392)
Income not subject to taxation	(21,745)	(11,037)	(11,431)
Utilisation of previously unrecognised tax losses	(1,366)	–	–
Over-provision of taxation for prior year	–	–	(21)
	<u>20,291</u>	<u>117,810</u>	<u>185,784</u>

9. Directors' and senior management's emoluments

(a) Directors' emoluments

During the Track Record Period, no emoluments were paid or payable by the Target Group to any of the directors of Target BVI.

(b) Five highest paid individuals

The five individuals, none of them is a director of Target BVI, whose emoluments were the highest in the Target Group during the Track Record Period are as follows:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Salaries and allowances	4,453	6,489	6,282
Retirement benefit contributions	273	439	455
	<u>4,726</u>	<u>6,928</u>	<u>6,737</u>

The remuneration fell within the following bands:

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Nil to RMB1,060,000	4	1	2
RMB1,060,000 to RMB1,590,000	1	3	1
RMB1,590,000 to RMB2,120,000	<u>–</u>	<u>1</u>	<u>2</u>

During the Track Record Period, no emoluments were paid or payable by the Target Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Target Group or as compensation for loss of office.

10. Fixed assets

	Leasehold improvements <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
At 1 January 2002	1,556	2,122	–	3,678
Additions	–	327	280	607
At 31 December 2002	1,556	2,449	280	4,285
Additions	66	557	–	623
Foreign exchange translation difference	712	885	–	1,597
At 31 December 2003	2,334	3,891	280	6,505
Additions	8	695	173	876
Disposals	(2,375)	(1,688)	–	(4,063)
Foreign exchange translation difference	91	24	–	115
At 31 December 2004	58	2,922	453	3,433
Accumulated depreciation				
At 1 January 2002	927	1,122	–	2,049
Charge for the year	314	502	18	834
At 31 December 2002	1,241	1,624	18	2,883
Charge for the year	397	552	54	1,003
Foreign exchange translation difference	621	737	–	1,358
At 31 December 2003	2,259	2,913	72	5,244
Charge for the year	9	528	42	579
Disposals	(2,242)	(1,589)	–	(3,831)
Foreign exchange translation difference	(26)	(92)	–	(118)
At 31 December 2004	–	1,760	114	1,874
Net book value				
At 31 December 2002	315	825	262	1,402
At 31 December 2003	75	978	208	1,261
At 31 December 2004	58	1,162	339	1,559

11. Interest in associated company

	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Share of net assets	<u>–</u>	<u>1,093</u>	<u>4,089</u>

Particulars of the Target Group's associated company as at 31 December 2003 and 2004 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued share capital indirectly held	Interest held
Sino Nickel Pty Ltd	Australia	Nickel trading	AUD1,000,000	40%

During the year ended 31 December 2002, the Target Group disposed of a portion of its interest in an associate company, Sino Gold Limited, a company incorporated in Australia, and recognised a gain on disposal of approximately RMB32,371,000. Consequently, the Target Group's interest in that company reduced from 37% to 16%, which ceased to be an associated company of the Target Group and, since then, has been accounted for as investment securities.

12. Investment securities

	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Listed investment, at cost	<u>33,258</u>	<u>32,204</u>	<u>32,196</u>
Quoted market value of investment securities	<u>100,983</u>	<u>282,376</u>	<u>202,104</u>

13. Goodwill

	Year ended 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
At beginning of the year	–	–	–
Goodwill arising from acquisition of additional interests in a subsidiary, SMI	–	–	7,842
Amortisation charge	<u>–</u>	<u>–</u>	<u>(589)</u>
At end of the year	<u>–</u>	<u>–</u>	<u>7,253</u>

14. Upfront payment for alumina purchasing rights**Cost**

At 31 December 2002, 2003 and 2004	1,987,152
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Accumulated amortisation

At 31 January 2002	298,759
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Amortisation for the year	66,109
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At 31 December 2002	364,868
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Amortisation for the year	66,364
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At 31 December 2003	431,232
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Amortisation for the year	66,283
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At 31 December 2004	497,515
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Net book value

At 31 December 2002	1,622,284
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At 31 December 2003	1,555,920
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At 31 December 2004	1,489,637
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The amount represents upfront payment to a third party pursuant to an alumina supply agreement under which the Target Group has the right to purchase alumina up to 400,000 tonnes per annum for the period from 1997 to 2027 at a price determined by reference to the average global production costs of the third party.

15. Inventories

	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Cost			
Commodities held for sales	78,837	295,135	134,526
Goods-in-transit	23,830	210,148	562,587
	<u>102,667</u>	<u>505,283</u>	<u>697,113</u>

16. Trade receivables, prepayments and other receivables

	As at 31 December		
	2002	2003	2004
	RMB'000	RMB'000	RMB'000
Trade receivables	12,898	17,620	68,682
Prepayments	–	15,933	191,459
Other receivables	44,236	45,613	75,725
	<u>57,134</u>	<u>79,166</u>	<u>335,866</u>

Included in the Target Group's trade receivables, prepayments and other receivables are trade receivables balances, net of provision for doubtful debts, of approximately RMB12,898,000, RMB17,620,000 and RMB68,682,000 as at 31 December 2002, 2003 and 2004, respectively. The majority of the Target Group's sales are on the term of delivery upon payment from customers. The remaining amounts are on letters of credit. Ageing analysis of such trade receivables at the respective balance sheet dates is shown as follows:

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
0 to 180 days	11,818	17,616	68,664
181 to 365 days	–	–	–
1 year to 2 years	93	5	19
2 years to 3 years	994	–	5
Over 3 years	1,203	1,203	1,203
	<u>14,108</u>	<u>18,824</u>	<u>69,891</u>
Provision for doubtful debts	(1,210)	(1,204)	(1,209)
	<u>12,898</u>	<u>17,620</u>	<u>68,682</u>

17. Amounts due from/(to) related companies

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Due from related companies			
– trading	11,544	58,248	92,430
– non-trading	–	931	74,083
	<u>11,544</u>	<u>59,179</u>	<u>166,513</u>
Due to related companies			
– trading	6,100	1,377	216,692
– non-trading	356	1,995	2,969
	<u>6,456</u>	<u>3,372</u>	<u>219,661</u>

The outstanding balances with related companies are unsecured and interest free and, have no fixed terms of repayment.

The Target Group has agreed to settle all non-trade related company balances before the completion of the Acquisition.

18. Deferred income/(losses)

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Deferred losses – unrealised loss on aluminium futures			
– current portion	<u>–</u>	<u>–</u>	<u>12,282</u>
Deferred income – unrealised gain on hedging instruments			
– foreign exchange forward contracts	–	9,816	9,410
– others	<u>2,359</u>	<u>927</u>	<u>1,383</u>
	2,359	10,743	10,793
Less: current portion	<u>(2,359)</u>	<u>(927)</u>	<u>(2,351)</u>
Non-current portion	<u>–</u>	<u>9,816</u>	<u>8,442</u>

19. Trade payables, other payables and accruals

Included in the Target Group's trade payables, other payables and accruals are trade payables balances of approximately RMB43,555,000, RMB38,882,000 and RMB122,641,000 as at 31 December 2002, 2003 and 2004 respectively. Ageing analysis of such trade payables at the respective balance sheet dates is shown as follows:

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
0 to 90 days	<u>43,555</u>	<u>38,882</u>	<u>122,641</u>

20. Derivative financial instruments

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Fair value of derivative financial instruments recognised as liabilities (ineffective hedge)			
– aluminium options	–	–	5,768
– interest rate swap	<u>18,640</u>	<u>13,028</u>	<u>5,090</u>
	18,640	13,028	10,858
Less: current portion	<u>(4,056)</u>	<u>(4,238)</u>	<u>(4,193)</u>
Non-current portion	<u>14,584</u>	<u>8,790</u>	<u>6,665</u>

As at 31 December 2004, the total fair value of hedging derivative financial instruments not recognised in the accounts was approximately RMB198,256,000 (loss) (31 December 2002: RMB108,273,000 (loss); 31 December 2003: RMB105,693,000 (loss)).

21. Long-term loans

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Secured loans (<i>note (a)</i>)			
Repayable within one year	62,080	49,660	49,659
Repayable in the second year	49,664	49,659	49,659
Repayable in the third to fifth year	703,570	653,860	604,185
	<u>815,314</u>	<u>753,179</u>	<u>703,503</u>
Unsecured loans from CMN (<i>note (b)</i>)			
Repayable within one year	–	–	28,140
Repayable in the second year	–	28,141	–
Repayable in the third to fifth year	73,668	–	–
	<u>888,982</u>	<u>781,320</u>	<u>731,643</u>
Repayable within one year included under current liabilities	<u>(62,080)</u>	<u>(49,660)</u>	<u>(77,799)</u>
	<u>826,902</u>	<u>731,660</u>	<u>653,844</u>

Notes:

- (a) As at 31 December 2001, the Target Group had a loan from a syndicate of banks ("Syndicated Loan"). During the year ended 31 December 2002, the Target Group obtained a new loan from another bank for repayment of the Syndicated Loan. The new loan is secured by: (i) all the equity interests of Sino Mining Alumina Ltd ("SMAL"), a subsidiary of the Target Group; (ii) all the assets of SMAL; (iii) the Target Group's upfront payment for alumina purchasing rights (see note 14); and (iv) certain bank deposits of the Target Group.
- (b) The unsecured loans from CMN were interest free and with no fixed repayment terms. It was fully repaid in February 2005.

22. Owner's equity

	Owner's fund RMB'000 (Note a)	Merger reserve RMB'000	Statutory reserves RMB'000 (Note b)	Translation reserve RMB'000	Retained earnings RMB'000	Total RMB'000
At 31 January 2002	1,067,330	(596,779)	–	1,351	(87,487)	384,415
Profit for the year	–	–	–	–	62,000	62,000
Appropriation to statutory reserves	–	–	93	–	(93)	–
Funding returned to owner	(50,040)	–	–	–	–	(50,040)
Currency translation differences	–	–	–	(454)	–	(454)
At 31 December 2002	1,017,290	(596,779)	93	897	(25,580)	395,921
Profit for the year	–	–	–	–	262,842	262,842
Appropriation to statutory reserves	–	–	309	–	(309)	–
Funding returned to owner	(235,153)	–	–	–	–	(235,153)
Currency translation differences	–	–	–	857	–	857
At 31 December 2003	782,137	(596,779)	402	1,754	236,953	424,467
Profit for the year	–	–	–	–	396,002	396,002
Appropriation to statutory reserves	–	–	562	–	(562)	–
Funding returned to owner	(68,756)	–	–	–	–	(68,756)
Currency translation differences	–	–	–	(5)	–	(5)
Movement of Merger reserve	(573,669)	573,669	–	–	–	–
At 31 December 2004	<u>139,712</u>	<u>(23,110)</u>	<u>964</u>	<u>1,749</u>	<u>632,393</u>	<u>751,708</u>

Notes:

- (a) The owner's fund represented the combined amounts of share capital of Minmetals Aluminium and the funds provided to Aluminium Trading Department.
- (b) According to the Articles of Association of the PRC subsidiaries of the Target Group, they are required to transfer 5% of their net profits as stated in the accounts prepared under PRC accounting regulations to the statutory public welfare fund and 10% to the statutory surplus reserve until the reserve reaches 50% of the registered capital. The transfer to these reserves must be made before the distribution of dividend to the investors.

According to the relevant PRC regulations, the use of statutory public welfare fund is restricted to capital expenditure for employees' collective welfare facilities. Staff welfare facilities are owned by the Target Group. The statutory public welfare fund is not normally available for distribution to investors except for liquidation. Once the capital expenditure on staff welfare facilities has been made, an equivalent amount must be transferred from the statutory public welfare fund to discretionary surplus reserve.

According to the relevant PRC regulations, statutory surplus reserve can be used to make up losses or to increase capital. Except for the reduction of losses incurred, any other usage should not result in the statutory surplus reserve falling below 25% of the registered capital.

23. Notes to combined cash flow statement

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

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Profit before taxation	143,783	393,093	601,902
Share of result of associated company	(12,771)	–	(1,597)
Interest income	(2,649)	(2,461)	(4,803)
Interest expense (including gain/loss on interest rate swap)	70,238	73,196	69,374
Depreciation of fixed assets	834	1,003	579
Gain on disposal of fixed assets	–	–	(190)
Gain on disposal of an associated company	(32,371)	–	–
Gain on disposal of investment securities	–	(4,196)	–
Amortisation of goodwill	–	–	589
Amortisation of upfront payment for aluminium purchasing rights	66,109	66,364	66,283
Provision/(reversal of provision) for doubtful debts	7	(6)	13
Amortisation of capitalised syndicated loan arrangement fees	25,169	–	–
Loss recognised for ineffective aluminium option	–	–	5,768
Operating profit before working capital changes	258,349	526,993	737,918
(Increase)/decrease in long term receivables	–	(9,816)	1,953
Increase in inventories	(20,227)	(402,616)	(191,830)
Increase in trade receivables, prepayments and other receivables	(24,953)	(22,026)	(255,153)
Decrease/(increase) in bills receivable	2,750	(400)	(21,898)
Decrease/(increase) in due from related companies	11,457	(47,635)	(107,334)
Increase in deferred losses	–	–	(12,282)
(Decrease)/increase in trade payables, other payables and accruals	(15,468)	53,464	93,974
Increase in bills payable	–	–	189,267
Increase/(decrease) in advances from customers	103,915	247,096	(24,370)
Increase/(decrease) in due to related companies	6,456	(3,084)	216,289
(Decrease)/increase in deferred income	(35,829)	8,384	50
Net cash inflow generated from operations	<u>286,450</u>	<u>350,360</u>	<u>626,584</u>

(b) *Analysis of financing activities*

	Short-term bank loans RMB'000	Long-term loans RMB'000	Minority interests RMB'000	Owner's funds RMB'000	Total RMB'000
At 1 January 2002	51,562	1,027,292	373,174	1,067,330	2,519,358
Share of profits by minority investors	–	–	61,492	–	61,492
Currency translation difference	–	–	(436)	–	(436)
Proceeds from new loans	62,430	–	–	–	62,430
Repayment of loans	(51,562)	(138,310)	–	–	(189,872)
Funding returned to owner	–	–	–	(50,040)	(50,040)
Contribution from minority shareholder	–	–	100	–	100
At 31 December 2002	62,430	888,982	434,330	1,017,290	2,403,032
Share of profits by minority investors	–	–	12,441	–	12,441
Currency translation difference	–	–	824	–	824
Proceeds from new loans	257,183	–	–	–	257,183
Repayment of loans	(62,431)	(107,662)	–	–	(170,093)
Funding returned to owner	–	–	–	(235,153)	(235,153)
At 31 December 2003	257,182	781,320	447,595	782,137	2,268,234
Share of profits by minority investors	–	–	20,116	–	20,116
Currency translation difference	–	–	(1)	–	(1)
Purchase of additional interests in a subsidiary	–	–	(466,896)	–	(466,896)
Proceeds from new loans	501,150	–	–	–	501,150
Repayment of loans	(257,182)	(49,677)	–	–	(306,859)
Funding returned to owner	–	–	–	(68,756)	(68,756)
Creation of merger reserve	–	–	–	(573,669)	(573,669)
As 31 December 2004	<u>501,150</u>	<u>731,643</u>	<u>814</u>	<u>139,712</u>	<u>1,373,319</u>

24. Contingent liabilities

As at 31 December 2004, the Target Group had contingent liabilities in respect of bank acceptance notes discounted with recourse with a total amount of nil (31 December 2002: Nil; 31 December 2003: RMB7,616,500).

25. Commitments

- (a) Capital commitments in respect of purchase of leasehold improvements and office equipment are as follows:

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Authorised but not contracted for	<u>1,498</u>	<u>3,220</u>	<u>–</u>

(b) Operating lease commitments

The future aggregate minimum lease rental expenses in respect of land and buildings under non-cancellable operating leases are payable as follows:

	As at 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Within one year	2,218	170	1,817
After one year but within five years	–	–	6,514
	<u>2,218</u>	<u>170</u>	<u>8,331</u>

26. Related party transactions

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

During the Track Record Period, the following related party transactions were carried out in the normal course of the Target Group's business.

Discontinuing transactions:

	Year ended 31 December		
	2002 RMB'000	2003 RMB'000	2004 RMB'000
Acquisition of additional interests in a subsidiary from China Minmetals (see note 1 of the Accountants' Report)	<u>–</u>	<u>–</u>	<u>474,738</u>
Purchase commission fees paid to related companies (note b)	<u>1,252</u>	<u>3,978</u>	<u>2,987</u>
Interest charges paid to CMN (note c)	<u>1,382</u>	<u>3,917</u>	<u>9,781</u>

The directors are of the opinion that the following transactions will not be discontinued after the completion of the Acquisition.

Continuing transactions:

Logistics service charges paid to related companies			
– Minmetals Shipping & Forwarding Company Limited (note a)	34,686	38,159	150,947
– Minmetals Shipping & Forwarding Tianjin Company (note b)	420	860	1,275
– Minmetals Shipping & Forwarding Shandong Company (note b)	638	580	571
– Minmetals Shipping & Forwarding Jiangsu Company (note b)	–	–	54
	<u>35,744</u>	<u>39,599</u>	<u>152,847</u>
Rental expenses paid to China Minmetals (note b)	<u>381</u>	<u>292</u>	<u>292</u>
Composite service expenses paid to China Minmetals (note d)	<u>223</u>	<u>216</u>	<u>187</u>
Telecommunication expenses paid to CMN (note d)	<u>35</u>	<u>192</u>	<u>71</u>

Notes:

- (a) The prices of the transactions were determined based on costs incurred plus a mark up.
- (b) In the opinion of the directors, these related party transactions were carried out in the ordinary of course of business at terms comparable to those with third parties mutually agreed by the Target Group and the related parties.
- (c) Interest on loans from CMN are determined based on interest rates promulgated by the People's Bank of China.
- (d) The expenses were determined based on the actual costs incurred.

27. Particulars of subsidiaries

At the date of report, Target BVI had direct and indirect interests in the following subsidiaries, all of which were private companies:

Directly held

Name	Place of incorporation and operation	Principal activities	Particulars of issued capital	Interest held
Minmetals Aluminium Company Limited*	PRC	Trading of alumina and other aluminium products	RMB1,060,000,000	100%

Indirectly held

Name	Place of incorporation and operation	Principal activities	Particulars of issued capital	Interest held
Minmetals Non-ferrous Lianyungang Co Ltd**	PRC	Provide logistics services	RMB1,000,000	90%
Sino Mining International Ltd***	Cayman Islands/ Australia	Investment holding	USD11,500,000	100%
Sino Mining Alumina Ltd***	Cayman Islands/ Australia	Purchase and supply of alumina	USD85,000,000	100%
Sino Mining Trading Pty Ltd****	Australia	Provide logistics services for import and export activities	AUD2,000,000	100%
Sino Mining Australia Pty Ltd****	Australia	Provide management and administrative services for other group companies	AUD2	100%

* The statutory accounts for the year ended 31 December 2004 were audited by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd.

** The statutory accounts were audited by Zhongzhou Guanghua CPA Co., Ltd. for the years ended 31 December 2002 and 2003 and by PricewaterhouseCoopers Zhong Tian CPAs Co., Ltd. for the year ended 31 December 2004.

*** The statutory/annual accounts of these entities were audited by Ernst & Young, Hong Kong for the year ended 31 December 2002, and by PricewaterhouseCoopers for the years ended 31 December 2003 and 2004.

**** *The statutory/annual accounts of these entities were audited by Ernst & Young, Australia for the year ended 31 December 2002, and by PricewaterhouseCoopers, Australia for the years ended 31 December 2003 and 2004.*

28. Net assets of Target BVI

Target BVI was incorporated on 12 December 2003. It has not earned any profit or incurred any loss since incorporation. As at 31 December 2004, Target BVI only had cash and capital balances of both US\$1.

29. Ultimate holding company

Target BVI's directors regard China Minmetals as its ultimate holding company.

III. SUBSEQUENT ACCOUNTS

No audited accounts of the Target Group, Target BVI or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2004 up to the date of this report. No dividend or other distribution has been declared, made or paid by Target BVI or any of its subsidiaries in respect of any period subsequent to 31 December 2004.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

I. SUMMARY OF CONSOLIDATED RESULTS

The following is the audited consolidated profit and loss accounts and consolidated cash flow statements of the Group for the three years ended 31 December 2004 as extracted from the relevant annual reports of the Group.

CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Turnover			
– Continuing operations	1,258,477	1,283,370	812,199
– Discontinuing operations	30,008	79,702	63,477
	<u>1,288,485</u>	<u>1,363,072</u>	<u>875,676</u>
Cost of sales	<u>(1,095,538)</u>	<u>(1,130,287)</u>	<u>(767,196)</u>
Gross profit	192,947	232,785	108,480
Other revenues	5,539	4,973	3,009
Other income, net	<u>–</u>	<u>–</u>	<u>1,400</u>
	198,486	237,758	112,889
Selling expenses	(41,779)	(37,977)	(31,047)
Administrative expenses	(66,429)	(76,383)	(61,220)
Reversal of consolidated losses upon deconsolidation of subsidiaries	97,350	–	–
Other operating income/(expenses)	<u>64,611</u>	<u>(4,957)</u>	<u>53,115</u>
Profit from operations			
– Continuing operations	175,393	112,358	69,432
– Discontinuing operations	76,846	6,083	4,305
	<u>252,239</u>	<u>118,441</u>	<u>73,737</u>
Finance costs	(16,403)	(38,195)	(52,084)
Share of profits less losses of associated companies	<u>10,272</u>	<u>11,321</u>	<u>5,851</u>
Profit before taxation			
– Continuing operations	171,541	89,729	28,378
– Discontinuing operations	74,567	1,838	(874)
	<u>246,108</u>	<u>91,567</u>	<u>27,504</u>
Taxation (charge)/credit	<u>(11,688)</u>	<u>6,470</u>	<u>(2,487)</u>
Profit after taxation	234,420	98,037	25,017
Minority interests	<u>(16,694)</u>	<u>(8,835)</u>	<u>(5,341)</u>
Profit attributable to shareholders	<u>217,726</u>	<u>89,202</u>	<u>19,676</u>
Dividends	<u>–</u>	<u>–</u>	<u>–</u>
Basic earnings per share	<u>HK\$0.37</u>	<u>HK\$0.68</u>	<u>HK\$0.15</u>
Profit for the year is retained as follows:			
– By the Company and its subsidiaries	208,591	79,959	14,133
– By associated companies	9,135	9,243	5,543
	<u>217,726</u>	<u>89,202</u>	<u>19,676</u>

CONSOLIDATED CASH FLOW STATEMENTS

	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
Net cash inflow generated from operations	146,128	230,657	70,095
Interest paid	(22,776)	(27,824)	(32,556)
Tax paid	(354)	(5,700)	(2,341)
Net cash inflow from operating activities	<u>122,998</u>	<u>197,133</u>	<u>35,198</u>
Investing activities			
Purchase of fixed assets	(10,860)	(3,373)	(2,822)
Proceeds from disposal of fixed assets	2,619	447	223
Additions to construction in progress	(45,240)	(112,117)	(59,651)
Proceeds from disposal of investment securities	377	–	–
Deconsolidation of subsidiaries, net cash disposed	(310)	–	(27)
Proceeds from disposal of an associated company	5,873	–	–
Dividends received from associated companies	2,696	1,642	6,952
Interest received	1,620	690	391
Increase in pledged bank deposits	(4,756)	(6,836)	(3,056)
Net cash used in investing activities	<u>(47,981)</u>	<u>(119,547)</u>	<u>(57,990)</u>
Net cash inflow/(outflow) before financing	<u>75,017</u>	<u>77,586</u>	<u>(22,792)</u>
Financing activities			
Proceeds from new bank loans	–	31,073	87,292
Repayment of bank loans	(30,448)	(63,733)	(39,740)
Decrease in amounts due to related companies	–	(166)	(1,349)
Increase/(decrease) in amount due to a shareholder	–	452	(2,838)
Dividends paid to minority shareholders	(2,888)	(1,686)	(3,236)
(Decrease)/increase in amounts due to minority investors	(6,324)	1,543	(6,248)
Proceeds from government grant	–	–	28,302
Net cash (used in)/from financing	<u>(39,660)</u>	<u>(32,517)</u>	<u>62,183</u>
Increase in cash and cash equivalents	35,357	45,069	39,391
Cash and cash equivalents at 1 January	140,879	95,810	56,417
Effect of foreign exchange adjustments	–	–	2
Cash and cash equivalents at 31 December	<u>176,236</u>	<u>140,879</u>	<u>95,810</u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances	<u>176,236</u>	<u>140,879</u>	<u>95,810</u>

The accounts for the three years ended 31 December 2004 have been audited by PricewaterhouseCoopers and there were no audit qualifications in any of such accounts except for the qualified opinion for the year ended 31 December 2002, such report is reproduced as follows:



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

**TO THE SHAREHOLDERS OF
ORIENTAL METALS (HOLDINGS) COMPANY LIMITED**

(incorporated in Hong Kong with limited liability)

We have audited the accounts on pages • to • (note) which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

BASIS OF OPINION

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

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

FUNDAMENTAL UNCERTAINTY RELATING TO A GOING CONCERN BASIS OF PRESENTATION

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2(a)(i) to the accounts concerning the Group's default on repayment of its bank borrowings and related interest payable totalling approximately HK\$414 million as at 31 December 2002, whether the Group's debt restructuring work will be accepted by its banks and creditors, and can be successfully implemented, and whether the Group will be able to obtain new financing to meet its financial obligations as they fall due. The accounts have been prepared on the going concern basis, the validity of which depends upon future funding being available and the success of the Group's future operations. The accounts do not include any adjustments relating to the recoverability and classification of the asset carrying amounts or the amounts and classification of liabilities that would result from the failure to obtain such funding and should the Group's future operations not be successful. We consider that appropriate disclosures have been made. However, we consider this fundamental uncertainty to be so extreme that we have disclaimed our opinion in respect of the appropriateness of adopting the going concern basis for the preparation of the accounts.

QUALIFIED OPINION: DISCLAIMER ON VIEW GIVEN BY ACCOUNTS

Because of the fundamental uncertainty relating to the Company's and the Group's ability to continue as a going concern, we are unable to form an opinion as to whether the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2002 and of the profit and cash flows of the Group for the year then ended. In all other aspects, in our opinion the accounts have been prepared in accordance with the Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 April 2003

Note: Reference of page numbers of the Group's audited accounts are not shown above. Please refer to the Group's annual report for the year ended 31 December 2002 for the audited accounts.

II. FINANCIAL INFORMATION FOR THE YEAR ENDED 31 DECEMBER 2004

The following financial information was extracted from the annual report of the Company for the year ended 31 December 2004:



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

AUDITORS' REPORT TO THE SHAREHOLDERS OF ORIENTAL METALS (HOLDINGS) COMPANY LIMITED (incorporated in Hong Kong with limited liability)

We have audited the accounts on pages • to • (note) which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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

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

BASIS OF OPINION

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

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

OPINION

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 11 April 2005

Note: Reference of page numbers of the Group's audited accounts are not shown above. Please refer to the Group's annual report of the year ended 31 December 2004 for the audited accounts.

CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the year ended 31 December 2004*

	Note	2004 HK\$'000	2003 HK\$'000
Turnover			
– Continuing operations		1,258,477	1,283,370
– Discontinuing operations	4	30,008	79,702
	3	1,288,485	1,363,072
Cost of sales		(1,095,538)	(1,130,287)
Gross profit		192,947	232,785
Other revenues	3	5,539	4,973
		198,486	237,758
Selling expenses		(41,779)	(37,977)
Administrative expenses		(66,429)	(76,383)
Reversal of consolidated losses upon deconsolidation of subsidiaries	4 & 33(c)	97,350	–
Other operating income/(expenses)	5	64,611	(4,957)
Profit from operations	6		
– Continuing operations		175,393	112,358
– Discontinuing operations	4	76,846	6,083
		252,239	118,441
Finance costs	7	(16,403)	(38,195)
Share of profits less losses of associated companies		10,272	11,321
Profit before taxation			
– Continuing operations		171,541	89,729
– Discontinuing operations	4	74,567	1,838
		246,108	91,567
Taxation (charge)/credit	8	(11,688)	6,470
Profit after taxation		234,420	98,037
Minority interests		(16,694)	(8,835)
Profit attributable to shareholders			
– Continuing operations		143,159	87,364
– Discontinuing operations	4	74,567	1,838
		217,726	89,202
Dividends	10	–	–
Basic earnings per share	11	HK\$0.37	HK\$0.68
Basic earnings per share from continuing operations	11	HK\$0.24	HK\$0.66
Profit for the year is retained as follows:			
– By the Company and its subsidiaries		208,591	79,959
– By associated companies		9,135	9,243
		217,726	89,202

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Fixed assets	14	308,264	286,337
Construction in progress	15	203,008	202,381
Interests in associated companies	17	43,059	48,121
Investment securities	18	–	2,217
Long-term receivables	19	4,717	5,392
Deferred tax assets	20	7,843	12,916
		<u>566,891</u>	<u>557,364</u>
Current assets			
Inventories	21	224,518	170,620
Trade receivables, prepayments and other receivables	22	266,775	230,962
Amounts due from fellow subsidiaries	23	24,959	–
Pledged bank deposits	27	14,648	9,892
Cash and bank balances		<u>176,236</u>	<u>140,879</u>
		<u>707,136</u>	<u>552,353</u>
Current liabilities			
Trade payables and accrued charges	24	291,920	280,006
Bills payable		18,116	11,321
Amount due to a shareholder		–	4,930
Amounts due to related companies		–	51,630
Amounts due to associated companies	17	–	7,250
Amounts due to minority investors		–	31,730
Taxation payable	25	14,721	8,389
Provision	26	6,792	7,501
Bank loans	27	<u>218,868</u>	<u>638,514</u>
		<u>550,417</u>	<u>1,041,271</u>
Net current assets/(liabilities)		<u>156,719</u>	<u>(488,918)</u>
Total assets less current liabilities		<u>723,610</u>	<u>68,446</u>

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Financed by:			
Share capital	28	30,367	131,973
Reserves	29	<u>391,638</u>	<u>(393,778)</u>
Shareholders' funds/(deficit)		<u>422,005</u>	<u>(261,805)</u>
Minority interests		178,963	165,157
Non-current liabilities			
Bank loans	27	94,340	136,792
Deferred income	30	<u>28,302</u>	<u>28,302</u>
		<u>122,642</u>	<u>165,094</u>
		<u>723,610</u>	<u>68,446</u>

BALANCE SHEET*As at 31 December 2004*

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current assets			
Fixed assets	14	7,573	8,096
Investments in subsidiaries	16	228,131	118,800
Investment securities	18	–	179
Long-term receivables	19	–	–
		<u>235,704</u>	<u>127,075</u>
Current assets			
Prepayments and other receivables		15,786	561
Amounts due from fellow subsidiaries	23	24,959	–
Cash and bank balances		<u>114,511</u>	<u>97,900</u>
		<u>155,256</u>	<u>98,461</u>
Current liabilities			
Accrued charges		16,829	48,747
Amount due to a shareholder		–	4,930
Amounts due to related companies		–	41,316
Taxation payable	25	–	319
Bank loans	27	–	379,013
		<u>16,829</u>	<u>474,325</u>
Net current assets/(liabilities)		<u>138,427</u>	<u>(375,864)</u>
Total assets less current liabilities		<u><u>374,131</u></u>	<u><u>(248,789)</u></u>
Financed by:			
Share capital	28	30,367	131,973
Reserves	29	<u>343,764</u>	<u>(380,762)</u>
		<u><u>374,131</u></u>	<u><u>(248,789)</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	<i>Note</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Total deficit as at 1 January		(261,805)	(351,069)
Issue of new shares	28	418,331	–
Debt waived by immediate holding company	28	48,380	–
Net gain not recognised in the profit and loss account – reversal of provision for impairment loss on land and buildings credited to revaluation reserve		–	62
Profit attributable to shareholders		217,726	89,202
Surplus on revaluation of investment properties		221	–
Exchange translation reserve transferred to profit and loss account upon deconsolidation of subsidiaries		(848)	–
Total equity/(deficit) as at 31 December		<u>422,005</u>	<u>(261,805)</u>

CONSOLIDATED CASH FLOW STATEMENTS

		2004	2003
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow generated from operations	33(a)	146,128	230,657
Interest paid		(22,776)	(27,824)
Tax paid		(354)	(5,700)
Net cash inflow from operating activities		<u>122,998</u>	<u>197,133</u>
Investing activities			
Purchase of fixed assets		(10,860)	(3,373)
Proceeds from disposal of fixed assets		2,619	447
Additions to construction in progress		(45,240)	(112,117)
Proceeds from disposal of investment securities		377	–
Deconsolidation of subsidiaries, net cash disposed	33(c)	(310)	–
Proceeds from disposal of an associated company		5,873	–
Dividends received from associated companies		2,696	1,642
Interest received		1,620	690
Increase in pledged bank deposits		(4,756)	(6,836)
Net cash used in investing activities		<u>(47,981)</u>	<u>(119,547)</u>
Net cash inflow before financing		<u>75,017</u>	<u>77,586</u>
Financing activities	33(b)		
Proceeds from new bank loans		–	31,073
Repayment of bank loans		(30,448)	(63,733)
Decrease in amounts due to related companies		–	(166)
Increase in amount due to a shareholder		–	452
Dividends paid to minority shareholders		(2,888)	(1,686)
(Decrease)/increase in amounts due to minority investors		(6,324)	1,543
Net cash used in financing		<u>(39,660)</u>	<u>(32,517)</u>
Increase in cash and cash equivalents		35,357	45,069
Cash and cash equivalents at 1 January		140,879	95,810
Cash and cash equivalents at 31 December		<u>176,236</u>	<u>140,879</u>
Analysis of balances of cash and cash equivalents			
Cash and bank balances		<u>176,236</u>	<u>140,879</u>

NOTES TO THE ACCOUNTS

1. ORGANISATION AND OPERATIONS

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

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

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

(b) Group accounting

(i) Consolidation

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

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

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

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

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

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

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

(ii) *Associated companies*

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

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

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

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

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

(iii) *Translation of foreign currencies*

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

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

(c) Goodwill

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

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

(d) Fixed assets

(i) *Investment properties*

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

Investment properties are valued annually by independent valuers. The valuations are on an open market value basis related to individual properties and separate values are not attributed to land and buildings. The valuations are incorporated in the annual accounts. Increases in valuation are credited to the investment properties revaluation

reserve. Decreases in valuation are first set off against increases on earlier valuations on a portfolio basis and thereafter are debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

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

(ii) *Land and buildings*

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

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

(iii) *Other fixed assets*

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

(iv) *Construction in progress*

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

(v) *Depreciation*

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

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

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

(vi) Impairment and gain or loss on sale

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

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

(e) Investment securities

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

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

(f) Inventories

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

(g) Trade and other receivables

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

(h) Cash and cash equivalents

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

(i) Provisions

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

(j) Government grants

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

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

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

(k) Deferred taxation

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

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

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

(l) Contingent liabilities and contingent assets

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

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

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

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

(m) Revenue recognition

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

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

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

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

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

(n) Employee benefits*(i) Employee leave entitlements*

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

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

(ii) Pension obligations

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

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

(iii) Equity compensation benefits

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

(o) Borrowing costs

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

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

(p) Operating leases

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

(q) Segment reporting

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

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

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

3. TURNOVER, REVENUE AND SEGMENT INFORMATION

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

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

(a) Primary reporting format – Business segments

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

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

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

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

(b) Geographical segments

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

There are no sales between the geographical segments.

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

4. DISCONTINUING OPERATIONS

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

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

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

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

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

5. OTHER OPERATING INCOME/(EXPENSES)

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

6. PROFIT FROM OPERATIONS

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

	2004 HK\$'000	2003 HK\$'000
Auditors' remuneration	900	1,000
Depreciation	41,748	46,234
Provision for/(reversal of provision for) inventory obsolescence	2,500	(658)
Staff costs (including directors' emoluments)	70,520	48,145
Operating lease rentals on land and buildings	2,359	1,140
Exchange loss, net	121	86
	<u>118,148</u>	<u>96,947</u>

7. FINANCE COSTS

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

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

8. TAXATION

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

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

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

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

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

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

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

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

10. DIVIDENDS

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

11. EARNINGS PER SHARE

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

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

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

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

12. STAFF COSTS

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

13. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

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

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

Emoluments of the directors fell within the following bands:

	Number of directors	
	2004	2003
Nil – HK\$1,000,000	10	6
HK\$1,000,001 – HK\$1,500,000	1	2
HK\$1,500,001 – HK\$2,000,000	–	1
	<u>11</u>	<u>9</u>

Five highest-paid individuals

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

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

The emoluments fell within the following band:

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

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

14. FIXED ASSETS

(a) The Group

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

(b) The Company

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

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

	The Group			2003
	Land and buildings HK\$'000	2004 Investment properties HK\$'000	Total HK\$'000	Land and buildings HK\$'000
Held in Hong Kong on long-term leases (over 50 years)	298	–	298	250
Held in the PRC on				
– short-term leases (less than 10 years)	–	–	–	7,498
– medium-term leases (10 - 50 years)	99,859	7,090	106,949	103,993
	<u>100,157</u>	<u>7,090</u>	<u>107,247</u>	<u>111,741</u>
	The Company			2003
	Land and buildings HK\$'000	2004 Investment properties HK\$'000	Total HK\$'000	Land and buildings HK\$'000
Held in Hong Kong on long-term leases (over 50 years)	298	–	298	250
Held in the PRC on medium-term leases (10 - 50 years)	796	5,990	6,786	7,450
	<u>1,094</u>	<u>5,990</u>	<u>7,084</u>	<u>7,700</u>

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

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

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

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

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

15. CONSTRUCTION IN PROGRESS

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

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

16. INVESTMENTS IN SUBSIDIARIES

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

Note:

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

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

Name of company	Place of incorporation/ operation	Principal activities	Particulars of issued or paid-up capital ¹	Proportion of issued capital held by the Company	
				Directly	Indirectly
Oriental Copper Company Limited	Hong Kong	Nonferrous metals trading	28,800 shares of HK\$100 each	100%	–
Taiway Enterprises Limited	Hong Kong	Property holding	2 shares of HK\$1 each	100%	–
Orienmet Industry Company Limited	Hong Kong	Investment holding	5,000,000 shares of HK\$1 each	100%	–
Orienmet Aluminium Company Limited	Hong Kong	Inactive during the year	28,800 shares of HK\$100 each	100%	–
Orienmet Minerals Company Limited	Hong Kong	Inactive during the year	1,880,000 shares of HK\$1 each	100%	–
North China Aluminium Company Limited ²	PRC	Production and sale of aluminium foils and extrusions	RMB344,800,000	–	51%
Yingkou Orienmet Plica Tube Company Limited ²	PRC	Production and sale of copper plica tubes	US\$4,000,000	–	51%

Notes:

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

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

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

Note:

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

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

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

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

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

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

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

Name of company	Place of incorporation/ operation	Principal activities	Particulars of paid up capital	Proportion of equity capital held by the Company indirectly
Changzhou Jinyuan Copper Company Limited	PRC	Production and sale of copper rods	RMB100,000,000	25%
Huludao Orienmet Copper Company Limited ¹	PRC	Production and sale of copper blisters	US\$46,600,000	30%
Qingdao M.C. Packaging Limited ¹	PRC	Production and sale of aluminium cans	US\$25,000,000	20%
Shanghai Jing Bao Copper Foil Limited ¹	PRC	Production and sale of copper foils	RMB29,450,000	25%
Yantai Penghui Copper Industry Company Limited ¹	PRC	Production and sale of copper cathodes	RMB132,000,000	42%
Yin Fa Transportation Company Limited ¹	PRC	Provision of transportation services	RMB800,000	43%

Notes:

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

18. INVESTMENT SECURITIES

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

19. LONG-TERM RECEIVABLES

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

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

20. DEFERRED TAXATION

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

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

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

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

21. INVENTORIES

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

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

22. TRADE RECEIVABLES, PREPAYMENTS AND OTHER RECEIVABLES

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

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

23. AMOUNTS DUE FROM FELLOW SUBSIDIARIES

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

24. TRADE PAYABLES AND ACCRUED CHARGES

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

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

25. TAXATION PAYABLE

Taxation payable represents:

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

26. PROVISION

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

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

27. BANK LOANS

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

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

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

28. SHARE CAPITAL

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

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

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

29. RESERVES

(a) The Group

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

(b) The Company

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

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

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

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

30. DEFERRED INCOME

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

31. RETIREMENT SCHEMES

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

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

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

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

32. SHARE OPTION SCHEME

(a) Share Option Scheme 1994

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

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

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

Notes:

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

(b) Share Option Scheme 2004

At the annual general meeting of the Company held on 28 May 2004, the Company adopted a new share option scheme (“Share Option Scheme 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. No share options have been granted under the Share Option Scheme 2004 since its adoption.

33. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

(b) Analysis of changes in financing

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

(c) Deconsolidation of subsidiaries

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

(d) Major non-cash transaction

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

34. CONTINGENT LIABILITIES

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

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

35. COMMITMENTS

(a) Operating leases

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

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

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

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

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

36. FUTURE OPERATING LEASE ARRANGEMENTS

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

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

37. RELATED PARTY TRANSACTIONS

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

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

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

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

38. SUBSEQUENT EVENTS

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

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

39. ULTIMATE HOLDING COMPANY

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

40. APPROVAL OF ACCOUNTS

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

I. UNAUDITED PRO FORMA FINANCIAL STATEMENTS OF THE ENLARGED GROUP**(A) UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS ACCOUNT***For the year ended 31 December 2004*

	Group HK\$'000	Pro forma adjustments – Target Group HK\$'000	Aggregated HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma Enlarged Group HK\$'000
Turnover	1,288,485	6,905,650	8,194,135	(164,778)	(d)	8,029,357
Cost of sales	(1,095,538)	(6,155,192)	(7,250,730)	118,250	(c)(i), (d)	(7,132,480)
Gross profit	192,947	750,458	943,405	(46,528)		896,877
Other revenues	5,539	6,653	12,192	–		12,192
Selling expenses	(41,779)	(77,162)	(118,941)	–		(118,941)
Administrative expenses	(66,429)	(43,032)	(109,461)	–		(109,461)
Reversal of consolidated losses upon deconsolidation of subsidiaries	97,350	–	97,350	–		97,350
Other operating income/(expenses)	64,611	(5,443)	59,168	–		59,168
Amortisation of goodwill from the acquisition	–	(554)	(554)	(68,682)	(c)(ii)	(69,236)
Profit from operations	252,239	630,920	883,159	(115,210)		767,949
Finance costs	(16,403)	(65,822)	(82,225)	–		(82,225)
Share of profits less losses of associated companies	10,272	1,503	11,775	–		11,775
Profit before taxation	246,108	566,601	812,709	(115,210)		697,499
Taxation	(11,688)	(174,888)	(186,576)	–		(186,576)
Profit after taxation	234,420	391,713	626,133	(115,210)		510,923
Minority interests	(16,694)	(18,936)	(35,630)	–		(35,630)
Profit for the year	<u>217,726</u>	<u>372,777</u>	<u>590,503</u>	<u>(115,210)</u>		<u>475,293</u>

(B) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET*As at 31 December 2004*

	Group	Pro forma adjustments – Target Group	Aggregated	Pro forma adjustments	Notes	Pro forma Enlarged Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
Non-current assets						
Fixed assets	308,264	1,466	309,730	–		309,730
Construction in progress	203,008	–	203,008	–		203,008
Interests in associated companies	43,059	3,844	46,903	–		46,903
Investment securities	–	30,268	30,268	159,733	(b)(ii)	190,001
Goodwill	–	6,819	6,819	1,373,641	(b)(iii)	1,380,460
Long-term receivables	4,717	7,392	12,109	–		12,109
Upfront payment for alumina purchasing rights	–	1,400,430	1,400,430	377,970	(b)(ii)	1,778,400
Deferred tax assets	7,843	–	7,843	–		7,843
	<u>566,891</u>	<u>1,450,219</u>	<u>2,017,110</u>	<u>1,911,344</u>		<u>3,928,454</u>
Current assets						
Inventories	224,518	655,366	879,884	–		879,884
Trade receivables, prepayments and other receivables	266,775	315,753	582,528	–		582,528
Bills receivables	–	21,198	21,198	–		21,198
Amounts due from related companies	24,959	156,541	181,500	–		181,500
Deferred losses	–	11,546	11,546	–		11,546
Pledged bank deposits	14,648	35,015	49,663	–		49,663
Cash and bank balances	176,236	165,518	341,754	267,962	(a)	609,716
	<u>707,136</u>	<u>1,360,937</u>	<u>2,068,073</u>	<u>267,962</u>		<u>2,336,035</u>

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

		Pro forma adjustments – Target		Pro forma adjustments	Notes	Pro forma Enlarged
	Group	Group	Aggregated			Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000
Current liabilities						
Trade payables and accrued charges	291,920	211,991	503,911	–		503,911
Bills payable	18,116	177,933	196,049	–		196,049
Advance from customers	–	327,157	327,157	–		327,157
Amounts due to related companies	–	206,507	206,507	–		206,507
Taxation payable	14,721	789	15,510	–		15,510
Provision	6,792	–	6,792	–		6,792
Deferred income	–	2,210	2,210	–		2,210
Derivative financial instruments	–	3,942	3,942	–		3,942
Bank loans	218,868	471,138	690,006	–		690,006
Current portion of long-term loans	–	73,140	73,140	–		73,140
	<u>550,417</u>	<u>1,474,807</u>	<u>2,025,224</u>	<u>–</u>		<u>2,025,224</u>
Net current assets/(liabilities)	<u>156,719</u>	<u>(113,870)</u>	<u>42,849</u>	<u>267,962</u>		<u>310,811</u>
Total assets less current liabilities	<u>723,610</u>	<u>1,336,349</u>	<u>2,059,959</u>	<u>2,179,306</u>		<u>4,239,265</u>
Non-current liabilities						
Deferred income	28,302	7,936	36,238	–		36,238
Derivative financial instruments	–	6,266	6,266	–		6,266
Long-term loans	94,340	614,688	709,028	–		709,028
	<u>122,642</u>	<u>628,890</u>	<u>751,532</u>	<u>–</u>		<u>751,532</u>
Minority interests	<u>178,963</u>	<u>765</u>	<u>179,728</u>	<u>–</u>		<u>179,728</u>
Financed by owner's equity	<u>422,005</u>	<u>706,694</u>	<u>1,128,699</u>	<u>2,179,306</u>		<u>3,308,005</u>

(C) UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT*For the year ended 31 December 2004*

	Group HK\$'000	Pro forma adjustments – Target Group HK\$'000	Aggregated HK\$'000	Pro forma adjustments HK\$'000	Notes	Pro forma Enlarged Group HK\$'000
Net cash inflow generated						
from operations	146,128	589,837	735,965	–		735,965
Interest paid	(22,776)	(72,778)	(95,554)	–		(95,554)
PRC and overseas taxes paid	(354)	(179,545)	(179,899)	–		(179,899)
Net cash inflow from operating activities	122,998	337,514	460,512	–		460,512
Investing activities						
Interest received	1,620	4,521	6,141	–		6,141
Purchase of fixed assets	(10,860)	(825)	(11,685)	–		(11,685)
Proceeds from disposal of fixed assets	2,619	397	3,016	–		3,016
Additions to construction in progress	(45,240)	–	(45,240)	–		(45,240)
Purchase of additional interests in a subsidiary	–	(446,896)	(446,896)	–		(446,896)
Deconsolidation of subsidiaries, net cash disposed	(310)	–	(310)	–		(310)
Investment in an associated company	–	(1,146)	(1,146)	–		(1,146)
Proceeds from disposal of an associated company	5,873	–	5,873	–		5,873
Dividends received from an associated company	2,696	–	2,696	–		2,696
Proceeds from disposal of investment securities	377	–	377	–		377
Increase in pledged bank deposits	(4,756)	–	(4,756)	–		(4,756)
Net cash outflow from investing activities	(47,981)	(443,949)	(491,930)	–		(491,930)
Net cash inflow/(outflow) before financing activities	75,017	(106,435)	(31,418)	–		(31,418)

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

		Pro forma adjustments – Target	Pro forma adjustments	Notes	Pro forma Enlarged
	Group	Group	Aggregated		Group
	HK\$'000	HK\$'000	HK\$'000		HK\$'000
Financing activities					
Proceeds from new loans	–	471,759	471,759	–	471,759
Repayment of loans	(30,448)	(288,863)	(319,311)	–	(319,311)
Dividends paid to minority investors	(2,888)	–	(2,888)	–	(2,888)
Decrease in amounts due to minority investors	(6,324)	–	(6,324)	–	(6,324)
Funding (refund to)/ provided by owner	–	(64,724)	(64,724)	267,962 (a)	203,238
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing	(39,660)	118,172	78,512	267,962	346,474
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Increase in cash and cash equivalents	35,357	11,737	47,094	267,962	315,056
Cash and cash equivalents at 1 January	140,879	153,889	294,768	–	294,768
Effect of foreign exchange rate changes	–	(108)	(108)	–	(108)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Cash and cash equivalents at 31 December	<u>176,236</u>	<u>165,518</u>	<u>341,754</u>	<u>267,962</u>	<u>609,716</u>
Analysis of balances of cash and cash equivalents					
Cash and bank balances	<u>176,236</u>	<u>165,518</u>	<u>341,754</u>	<u>267,962</u> (a)	<u>609,716</u>

(D) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION**1. Introduction**

It was announced by the Company's directors on 30 December 2004 that the Company has entered into an acquisition agreement with China Minmetals Non-ferrous Metals Company Limited ("CMN") and Top Create Resources Limited ("Top Create Resources") for the acquisition of the entire issued share capital of Peak Strategic Industries Limited (collectively with its subsidiaries is referred to as the "Target Group") at the consideration of HK\$2,886 million (the "Acquisition"). The consideration will be satisfied by the allotment and issue of 1,009,090,909 shares of the Company at HK\$2.86 per share, the price decided on the basis discussed in Letter from the Board, Consideration section set out in this Circular.

The unaudited pro forma consolidated profit and loss account and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2004 and the unaudited pro forma consolidated balance sheet as at 31 December 2004 of the Enlarged Group is prepared based on the audited consolidated accounts of the Company and its subsidiaries (the "Group") as set out in Appendix II and the audited combined accounts of the Target Group as set out in the Accountants' report in Appendix I, after making pro forma adjustments as set out in note 2 below. For the purpose of the unaudited pro forma financial information, the combined balance sheet of the Target Group as at 31 December 2004 is translated from Chinese Renminbi to Hong Kong dollars at the exchange rate ruling at 31 December 2004 of HK\$1 = RMB1.0637 whilst the combined profit and loss account and the combined cash flow statement are translated at the average rates for the year ended 31 December 2004 of HK\$1 = RMB1.0623.

The unaudited pro forma consolidated profit and loss account and the unaudited pro forma consolidated cash flow statement for the year ended 31 December 2004 of the Enlarged Group are prepared for illustrative purpose as if the Acquisition had been completed on 1 January 2004.

The unaudited pro forma consolidated balance sheet as at 31 December 2004 of the Enlarged Group is prepared for illustrative purpose as if the Acquisition had been completed on 31 December 2004.

The unaudited pro forma consolidated financial information has been prepared to provide the information on the Enlarged Group as a result of the completion of the Acquisition (the "Completion"). As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 31 December 2004 and at any future dates. Also, it may not give a true picture of the results and the cash flows of the Enlarged Group for the year ended 31 December 2004 and for any future financial periods.

2. Pro forma adjustments

- (a) The adjustment reflects net cash balance receivable from CMN upon the incorporation and transfer of the aluminium trading business to Minmetals Aluminium Company Limited.
- (b) Under accounting principles generally accepted in Hong Kong, the Group will apply the purchase method to account for the acquisition of the Target Group in the consolidated accounts of the Enlarged Group. In applying the purchase method, the identifiable assets and liabilities of the Target Group will be recorded on the balance sheet of the Enlarged Group at their fair values at the date of the Completion. Any goodwill or negative goodwill arising on the Acquisition will be determined as the excess or deficit of the purchase consideration deemed to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets and liabilities of the Target Group at the date of the Completion.

For the purpose of preparing the unaudited pro forma consolidated balance sheet of the Enlarged Group after the Completion, the net fair value of the identifiable assets and liabilities of the Target Group as at 31 December 2004 and the fair value of the consideration shares based on the closing market price of the Company's shares as at 31 December 2004 are applied in the calculation of the estimated goodwill arising from the Acquisition. Since the fair values of the assets and liabilities of the Target Group and the fair value of the consideration shares at the date of the Acquisition may be substantially different from their fair values used in the preparation of the unaudited pro forma consolidated balance sheet presented above, the actual goodwill arising from the Acquisition may be different from the estimated goodwill shown in this Appendix.

The adjustments reflect the following:

- (i) the issuance of the 1,009,090,909 consideration shares of the Company of HK\$2.86 each decided on the basis discussed in note 1, to Top Create Resources upon the Completion;
 - (ii) the fair value adjustments in the assets of the Target Group as at 31 December 2004 (these include an upward fair value adjustment in respect of the upfront payment for alumina purchasing rights of approximately HK\$378 million which was primarily resulted from the increase in market price of alumina as compared to the market price at contract date of the Alcoa Contract); and
 - (iii) goodwill arising from the acquisition of the Target Group by the Company.
- (c) The adjustments reflect the following:
- (i) additional amortisation arising from the fair value adjustment of the upfront payment for alumina purchasing rights of the Target Group; and
 - (ii) amortisation of estimated goodwill arising from the Acquisition in accordance with Hong Kong Statement of Standard Accounting Practice No. 30 "Business Combinations" ("HK SSAP 30") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). For illustrative purposes, the estimated goodwill of approximately HK\$1,374 million is amortised over 20 years on a straight-line basis.
- Please refer to note 3 below for further discussion on the impact from the adoption of new accounting standards.
- (d) The adjustments reflect the elimination of inter-company transactions and unrealised profit on inventories at year end between the Group and the Target Group through a third party trading company.

The pro forma adjustment (c)(i) will have continuing profit and loss effect on the Enlarged Group, while the pro forma adjustments (c)(ii) and (d) will not have such effect.

3. The adoption of New Hong Kong Financial Reporting Standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. These new HKFRSs have not been early adopted in the preparation of the unaudited pro forma financial information for the year ended 31 December 2004. The directors are in the process of making an assessment of the impact of these new HKFRSs and have so far concluded that the more significant differences between new HKFRSs and current accounting policies that are expected to affect the Enlarged Group are as follows:

Goodwill

Under HKFRS 3 'Business Combinations', goodwill will no longer be amortised but instead will be subject to rigorous annual impairment testing. This will result in a change to the Enlarged Group's current accounting policy under which goodwill is

amortised over its useful life of 20 years and assessed for an indication of impairment at each balance sheet date. Under the new policy, amortisation will no longer be charged, but goodwill will be tested annually for impairment, as well as when there are indications of impairment. This new policy will be applied prospectively from 1 January 2005. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the conditions under which impairment will be assessed are not yet known.

Investment property

Under HKAS 40 'Investment Property', the change in fair value of the investment properties will be recognised in the profit and loss account. This treatment will increase the volatility of the Enlarged Group's results as revaluation surplus on a portfolio basis has been accounted for in the equity under the current accounting policy. The retrospective adoption of this accounting policy will not have material impact on the pro forma accounts of Enlarged Group. Reliable estimation of the future financial effects of this change in accounting policy is not practical as the details of future change in fair value of the investment properties are not yet known.

Financial instruments and investment securities

Under HKAS 39 'Financial Instruments: Recognition and Measurement', financial instruments will be carried at either amortised cost or fair value, depending on their classification. Depending on the classification of the financial instruments, movements in fair value will be either charged to net profit or loss or taken to equity in accordance with the standard. In addition, all derivatives, including those embedded in non-derivatives host contracts will be recognised in the balance sheet at fair value.

This will result in a change to the Enlarged Group's current accounting policy in respect of classification, measurement and recognition of certain investments. This new accounting policy will be applied prospectively from 1 January 2005 and requires the available for sales investments (currently shown as investment securities) to be accounted for at fair value through equity. Reliable estimation of the future financial effects of this change in accounting policy is not practical because the fair value of such investments at next balance sheet date is not currently available.

This new accounting standards will also result in a change to the Group's current accounting policies in respect of classification, measurement and recognition of derivative financial instruments. This will be applied prospectively from 1 January 2005. The future financial effect of this change in accounting policy is not yet known as the classification and measurement process has not been completed. However, the requirements to recognise derivatives and certain other financial instruments with changes in fair value being reflected in the profit and loss account or the equity reserve may result in increased volatility in the Enlarged Group's profit and net assets.

Hedge accounting

Under HKAS 39 'Financial Instruments: Recognition and Measurement', foreign exchange forward contracts, commodity futures contracts and interest rate swap contracts held for hedging purposes will be classified as cash flow hedges or fair value hedges, on the basis that the qualifying criteria outlined in the HKAS 39 are satisfied. This will result in the recognition of hedging instruments at their fair value as assets or liabilities, with resulting gains or losses being charged to net profit or loss or taken to equity in accordance with the hedge accounting rules.

Currently, the derivatives designated as hedges are valued on an equivalent basis to the assets, liabilities or net positions that they are hedging and any profit or loss is recognised in the profit and loss account on the same basis as that arising from the related assets, liabilities or net positions.

In addition, HKAS 39 set out strict criteria for achieving hedge accounting. Failure to achieve hedge accounting for a significant proportion of the Enlarged Group's foreign exchange, interest rate management and commodity hedging activities could lead to increased volatility of both profit and net assets. This new accounting policy will be applied prospectively from 1 January 2005. The Enlarged Group is in the process of determining the impact of these requirements on its hedging activities.

Derecognition of financial assets and liabilities

HKAS 39 'Financial Instruments: Recognition and Measurement' gives a clear guidance on derecognition of financial assets and liabilities. This new accounting policy will be applied prospectively from 1 January 2005.

Functional currency

Under HKAS 21 'The Effects of Changes in Foreign Exchange Rates', the directors have re-evaluated the functional currency of each of the consolidated entities based on HKAS 21. All the entities now comprising the Enlarged Group have the same functional currency as their measurement currency. There is no material effect on the Enlarged Group's policy.

The Enlarged Group will be continuing with the assessment of the impact of the other new HKFRSs and other significant changes may be identified as a result.

II. UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS STATEMENT

The following is the unaudited pro forma consolidated net tangible assets statement of the Enlarged Group as at 31 December 2004 which is based on the unaudited pro forma consolidated balance sheet as at 31 December 2004 as set out in this Appendix:

The statement is prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

Unaudited pro forma consolidated net assets of the Enlarged Group as at 31 December 2004 HK\$'000 (Note 1)	Less: Goodwill of the Target Group HK\$'000 (Note 1)	Less: Estimated goodwill arising from the Acquisition HK\$'000 (Note 1)	Unaudited pro forma consolidated net tangible assets of the Enlarged Group as at 31 December 2004 HK\$'000 (Note 2)	Unaudited pro forma consolidated net tangible assets per share of the Enlarged Group as at 31 December 2004 HK\$ (Note 3)
3,308,005	(6,819)	(1,373,641)	1,927,545	1.19

Notes:

1. The balance is extracted from Section I(B) headed "Unaudited pro forma consolidated balance sheet" as set out in this Appendix.
2. The upfront payment for alumina purchasing rights with fair value of approximately HK\$1,778,400,000 as at 31 December 2004, which is similar to prepayments, has been included in the computation of the net tangible assets.
3. The number of Shares used for the calculation of this figure is 1,616,440,521 Shares, comprising 607,349,612 existing Shares in issue as at 31 December 2004 and the Consideration Shares of 1,009,090,909 new Shares to be allocated and issued by the Company to satisfy the consideration for the Acquisition.

III. UNAUDITED PRO FORMA EARNINGS PER SHARE

The following unaudited pro forma earnings per Share has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Acquisition as if the Completion had taken place on 1 January 2004. The pro forma earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group following the Completion of the Acquisition.

	HK\$'000
Pro forma profit for the year (Note 1)	475,293
Pro forma basic earnings per share (Note 2)	HK\$0.29

Notes:

- (1) The pro forma profit for the year is extracted from the pro forma profit and loss account as set out in section I of this Appendix.
- (2) The calculation of the "Pro forma basic earnings per Share" is based on the pro forma profit for the year assuming that the Acquisition had been completed on 1 January 2004 and a total of 1,616,440,521 Shares in issue during the entire year, which comprising 607,349,612 existing Shares in issue as at 31 December 2004 and the Consideration Shares of 1,009,090,909 new Shares to be allocated and issued by the Company to satisfy the consideration for the Acquisition.

IV. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's auditors, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom.

PRICEWATERHOUSECOOPERS 

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor Prince's Building
Central Hong Kong

30 June 2005

The Directors
Oriental Metals (Holdings) Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Oriental Metals (Holdings) Company Limited (the "Company") and its subsidiaries (collectively the "Group") and Peak Strategic Industries Limited and its subsidiaries (hereinafter referred to as the "Enlarged Group"), set out on pages 284 to 293 under the headings of "Unaudited Pro Forma Financial Statements of the Enlarged Group", "Unaudited Pro Forma Consolidated Net Tangible Assets Statement" and "Unaudited Pro Forma Earnings per Share" set out in section I, II and III respectively of Appendix III to the company's circular date 30 June 2005, in connection with the proposed acquisition of the entire issued share capital of Peak Strategic Industries Limited by the Company (the "Acquisition") pursuant to the acquisition agreement dated 30 December 2004 between the Company, China Minmetals Non-ferrous Metals Company Limited and Top Create Resources Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the Acquisition might have affected the relevant financial information of the Enlarged Group as at 31 December 2004, and for the year then ended.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 and paragraph 13 of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out on pages 284 to 293 of Appendix III for illustrative purpose only and, because of its nature, it may not be indicative of:

- (a) the financial position of the Enlarged Group at any future date;
- (b) the results and cash flows of the Enlarged Group for any future periods; or
- (c) the earnings per share of the Enlarged Group for any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this circular received from CB Richard Ellis Limited as independent valuer, in connection with their valuations as at 31 March 2005 of the property interests of the Target Group.

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Estate Agent's Licence (Co.) No. C-004065

30 June 2005

Oriental Metals (Holdings) Co., Ltd.
9th Floor, China Minmetals Tower
79 Chatham Road South
Tsim Sha Tsui, Kowloon

N M Rothschild & Sons (Hong Kong) Limited
16th Floor, Alexandra House
16-20 Chater Road
Central, Hong Kong

Dear Sirs,

Re: Portfolio of Properties in the PRC and Australia

We refer to the recent instruction from 東方鑫源（集團）有限公司 (**Oriental Metals (Holdings) Company Limited**) (the “Company”) for us to carry out a valuation of the property interests held by Target BVI and its subsidiaries (hereinafter together referred to as the “Target Group”) in the People’s Republic of China (the “PRC”) and Australia. The properties are described in more detail in the attached valuation certificates.

We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of Market Value of the individual property interest as at 31 March 2005 (the “date of valuation”).

In valuing the property interests of the Group, we have complied with all the requirements contained in the Practice Notes 12, 16 and Chapter 5 of the Rules Governing the Listing of Securities (the “Exchange Listing Rules”) issued by the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors (“HKIS”).

Our valuation is our opinion of Market Value which is defined to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Our valuations of the property interests have been made on the assumption that the owner sells the properties in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties.

Our valuation has been made on the assumption that each of the properties, unless otherwise stated, has a good title and is freely transferable. The design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant government authorities.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting the sales. It is assumed that the property interests are free from encumbrances, restriction and outgoing of an onerous nature which could affect their values.

We have been provided with copies of certain title documents relating to some of the properties in the PRC, however due to the nature of the local land registration system, we cannot cause searches to be made on the titles of the properties nor have we scrutinised all the original documents to verify ownership and encumbrances or to ascertain the subsequent amendments, if any, which may not appear on the copies handed to us.

We have inspected the exterior, and where possible the interior of representative units of the properties, which we consider necessary for the purpose of this valuation. During our inspection, we did not notice any serious defects. However, we have not carried out any structural survey and we are therefore unable to report whether the properties are or are not free from rot, infestation or any other defects. No tests have been carried out on any of the building services.

We have relied to a considerable extent on information given by you, in particular in respect of matters such as details of tenure, easement, floor plans, floor areas, tenancy details, particulars of occupancy and all other relevant matters. No on-site measurements have been taken. Dimensions, measurements and areas included in the certificate are based on the information contained in copies of documents provided to us and are therefore only approximations for reference purposes only.

While we have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries, we have not scrutinised the original documents to verify the correctness of the information or to ascertain subsequent amendments, if any, which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information. Should it be established subsequently that the details relating to the property interests are incorrect, we reserve the right to adjust the values reported herein.

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' industrial or commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded.

Our valuation is expressed in Hong Kong Dollars ("HK\$"). Where necessary, we have converted Renminbi ("RMB") into HK\$ at the exchange rate of HK\$1 = RMB1.06, and Australian Dollars ("AUD\$") into HK\$ at the exchange rate of HK\$1 = AUD\$0.165 being the approximate rates prevailing at the date of valuation.

Our summary of valuation and certificates incorporating our valuations are attached hereto.

Yours faithfully,

For and on behalf of

CB Richard Ellis Limited

Harry Chan MBA MHKIS MRICS RPS(GP) MCIREA

Director

Valuation & Advisory Services

Note: Mr. Harry Chan is a Registered Professional Surveyor (General Practice), a member of Royal Institution of Chartered Surveyors, a member of the Hong Kong Institute of Surveyors and a member of China Institute of Real Estate Appraisers. He is a Director of the Valuation & Advisory Services Department of CB Richard Ellis Limited and has over 13 years valuation experience in both Hong Kong and the PRC.

SUMMARY OF VALUATION

Property	Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
1. Suite 16.01 on Level 16 60 Carrington Street Sydney NSW 2000 Australia	No commercial value	100%	No commercial value
2. Units No. A101, A103-109, A111, A113 and A115 (total five units) on Level 1 Block A No. 5 Sanlihe Road Haidian District, Beijing, the PRC	No commercial value	100%	No commercial value
3. Four guest rooms and three office units on Level 3, Jinqiao Hotel No. 4 Dongyuan Road Xugou Town, Lianyu District, Lianyungang Jiangsu Province the PRC	No commercial value	90%	No commercial value
GRAND TOTAL:	No commercial value		No commercial value

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
1. Suite 16.01, Level 16, 60 Carrington Street, Sydney NSW 2000, Australia	<p>The property comprises an office unit in a 17-storey commercial building completed in 1971 and refurbished in 1985/86, 1992 and 1996.</p> <p>The building occupies a site with site area of about 1,420.30 square metres.</p> <p>The net floor area of the property is about 419.31 square metres.</p> <p>The property is leased to Sino Mining Australia Pty Limited, a wholly owned subsidiary of the Target Group for a term of 6 years commencing from 1 January 2004 to 31 December 2009 at a monthly rent of AUD\$17,995.39 plus GST, subject to annual review of fixed 3.75% increase inclusive of all outgoings but exclusive of cleaning contribution.</p>	<p>The property is occupied by the Target Group as an office.</p>	<p>No commercial value</p> <p>(100% interest attributable to the Target Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Tackelly No. 8 Pty Limited.
- (b) We are advised that the registered owner of the property is an independent third party of the Target Group.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
2. Units No. A101, A103-109, A111, A113 and A115 (total five units) on Level 1, Block A, No.5 Sanlihe Road, Haidian District, Beijing, The People's Republic of China	<p>The property comprises five office units on Level 1 of a 6-storey commercial building completed in 1956 and renovated in 2000.</p> <p>The total gross floor area of the property is 159.85 square metres.</p> <p>The property is let to 五礦鋁業有限公司 (Minmetals Aluminium Company Limited) for a term of about 2 years commencing from 22 October 2004 to 31 December 2006 at a rent of RMB5 per day per square metre inclusive of management fee and charges. The term is renewal for another 3 years unless terminated by both party in writing.</p>	<p>The land is occupied by the Target Group as an office.</p>	<p>No commercial value</p> <p>(100% interest attributable to the Target Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 對外經濟貿易合作部直屬企業第一行政處 (Ministry of Foreign Trade and Economic Cooperation, the First Administration Division).
- (b) According to a Notice [1998] 外經貿行發第 422 號 dated 9 June 1998 issued by 對外經濟貿易合作部直屬企業第一行政處 (Ministry of Foreign Economic and Trade Cooperation), 對外經濟貿易合作部直屬企業第一行政處 (Ministry of Foreign Trade and Economic Cooperation, the First Administration Division) was assigned to and under control of 中國五金礦產進出口總公司 (China National Metals and Minerals Import and Export Corporation). On 18 January 2004, 中國五金礦產進出口總公司 (China National Metals and Minerals Import and Export Corporation) was renamed as 中國五礦集團公司 (China Minmetals Corporation), the ultimate controlling shareholder of the Company.
- (c) We are advised that 五礦鋁業有限公司 (Minmetals Aluminium Company Limited), the tenant of the property is a wholly owned subsidiary of the Target Group.
- (d) The opinion of the Target Group's legal advisers on PRC law states that:
- (i) 中國五礦集團公司 (China Minmetals Corporation) has the right to assign the property interest originally owned by 對外經濟貿易合作部直屬企業第一行政處 (Ministry of Foreign Trade and Economic Cooperation, the First Administration Division).
 - (ii) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations though the tenancy agreement has not been registered through tenancy registration procedures.
 - (iii) 中國五礦集團公司 (China Minmetals Corporation) has the right to lease out the property.
 - (iv) The property is free from encumbrances.
- (e) We are of the opinion that the monthly rental charged by 中國五礦集團公司 (China Minmetals Corporation) is on normal commercial terms and is fair and reasonable.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
3. Four guest rooms and three office units on Level 3, Jinqiao Hotel, No. 4 Dongyuan Road, Xugou Town, Lianyu District, Lianyungang, Jiangsu Province, The People's Republic of China	<p>The property comprises four guest rooms and three office units on Level 3 of a 4-storey hotel. The building was completed in 1999.</p> <p>The total gross floor area of the office units is 120 square metres.</p> <p>The property is let to the 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited) for a term of one year from 1 January 2005 at a monthly rent of RMB17,000 inclusive of management fee and charges.</p>	<p>The property is occupied by the Target Group as staff quarters and offices.</p>	<p>No commercial value</p> <p>(90% interest attributable to the Target Group: No commercial value)</p>

Notes:

- (a) According to the《關於承包經營合同的補充協議》(Supplemental Agreement to the Operating and Management Agreement), the registered owner of the property is 連雲港市金利碼保齡球有限公司 (Lianyungang Jinlima Bowling Ltd).
- (b) We are advised that 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited) is a 90% owned subsidiary of the Target Group.
- (c) The opinion of the Target Group's legal advisers on the PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided and no tenancy registration procedures is followed.
 - (ii) The rights of 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited) is not protected by law.
 - (iii) According to a 《承諾函》 (consent letter) dated 22 March 2005 from 連雲港市金利碼保齡球有限公司 (Lianyungang Jinlima Bowling Ltd) to 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited), 連雲港市金利碼保齡球有限公司 (Lianyungang Jinlima Bowling Ltd) will compensate for the loss suffered by 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited) in using the property if it is caused by a third party.

The following is the text of a letter, summary of values and valuation certificate, prepared for the purpose of incorporation in this circular received from CB Richard Ellis Limited as independent valuer, in connection with their valuations as at 31 March 2005 of the property interests of the Group.

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地產代理（公司）牌照號碼

Estate Agent's Licence (Co.) No. C-004065

30 June 2005

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9th Floor, China Minmetals Tower
79 Chatham Road South
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N M Rothschild & Sons (Hong Kong) Limited
16th Floor, Alexandra House
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Dear Sirs,

Re: Portfolio of Properties in the PRC and Hong Kong

We refer to the recent instruction from 東方鑫源（集團）有限公司 (Oriental Metals (Holdings) Company Limited) (the “Company”) for us to carry out a valuation of the property interests held by the Company and its subsidiaries or associated companies (hereinafter together referred to as the “Group”) in the People’s Republic of China (the “PRC”) and Hong Kong. The properties are described in more detail in the attached valuation certificates.

We confirm that we have carried out an inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of Market Value of the individual property interest as at 31 March 2005 (the “date of valuation”).

In valuing the property interests of the Group, we have complied with all the requirements contained in the Practice Notes 12, 16 and Chapter 5 of the Rules Governing the Listing of Securities (the “Exchange Listing Rules”) issued by the Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (1st Edition) published by the Hong Kong Institute of Surveyors (“HKIS”).

Our valuation is our opinion of Market Value which is defined to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

Where due to the nature of the buildings and structures constructed on those industrial property interests in the PRC, there are no market sales comparables, the property interests have been valued on the basis of their depreciated replacement cost. Depreciated replacement cost is defined as “the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization”. This opinion of value does not necessarily represent the amount that might be realized from the disposal of the subject assets in the open market, and this basis has been used due to the lack of an established market upon which to base comparable transaction. However, this approach generally furnishes the most reliable indication of value for a property without a known used market.

Our valuations of the property interests have been made on the assumption that the owner sells the properties in the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the values of the properties.

Our valuation has been made on the assumption that each of the properties, unless otherwise stated, has a good title and is freely transferable. The design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant government authorities.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interests nor for any expenses or taxation which may be incurred in effecting the sales. It is assumed that the property interests are free from encumbrances, restriction and outgoing of an onerous nature which could affect their values.

We have been provided with copies of certain title documents relating to some of the properties in the PRC, however due to the nature of the local land registration system, we cannot cause searches to be made on the titles of the properties nor have we scrutinised all the original documents to verify ownership and encumbrances or to ascertain the subsequent amendments, if any, which may not appear on the copies handed to us.

We have inspected the exterior, and where possible the interior of representative units of the properties, which we consider necessary for the purpose of this valuation. During our inspection, we did not notice any serious defects. However, we have not carried out any structural survey and we are therefore unable to report whether the properties are or are not free from rot, infestation or any other defects. No tests have been carried out on any of the building services.

We have relied to a considerable extent on information given by you, in particular in respect of matters such as details of tenure, easement, floor plans, floor areas, tenancy details, particulars of occupancy and all other relevant matters. No on-site measurements have been taken. Dimensions, measurements and areas included in the certificate are based on the information contained in copies of documents provided to us and are therefore only approximations for reference purposes only.

While we have taken every reasonable care both during inspecting the information provided to us and in making relevant enquiries, we have not scrutinised the original documents to verify the correctness of the information or to ascertain subsequent amendments, if any, which may not appear on the copies handed to us. We have no reason to doubt the truth and accuracy of the information. Should it be established subsequently that the details relating to the property interests are incorrect, we reserve the right to adjust the values reported herein.

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' industrial or commercial processes, together with furniture and furnishings, tenants' fixtures and fittings are excluded.

Our valuation is expressed in Hong Kong Dollars ("HK\$"). Where necessary, we have converted Renminbi ("RMB") into HK\$ at the exchange rate of HK\$1 = RMB1.06, being the approximate rate prevailing at the date of valuation.

Our summary of valuation and certificates incorporating our valuations are attached hereto.

Yours faithfully,

For and on behalf of

CB Richard Ellis Limited

Harry Chan BSc MBA MHKIS MRICS RPS(GP) MCIREA

Director

Valuation & Advisory Services

Note: Mr. Harry Chan is a Registered Professional Surveyor (General Practice), a member of Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors and a member of China Institute of Real Estate Appraisers. He is a Director of the Valuation & Advisory Services Department of CB Richard Ellis Limited and has over 13 years valuation experience in both Hong Kong and the PRC.

SUMMARY OF VALUATION

Property	Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
Group I – Property interests held and occupied by the Group			
1. Room No. 2101 on 21st Level Shenzhen Development Centre Renmin Road South Luohu District, Shenzhen Guangdong Province, the PRC	1,580,000	100%	1,580,000
2. Room No. 2102 on 21st Level Shenzhen Development Centre Renmin Road South Luohu District, Shenzhen Guangdong Province, the PRC	1,640,000	100%	1,640,000
3. Room No. 1601 on 16th Level of Block 6, Qiaoyi Court No. 380 Tianhe Road North Tianhe District, Guangzhou Guangdong Province, the PRC	No commercial value	100%	No commercial value
4. Room No. 1705 on 17th Level of Block 6, Qiaoyi Court No. 380 Tianhe Road North Tianhe District, Guangzhou Guangdong Province, the PRC	No commercial value	100%	No commercial value
5. Room No. 1706 on 17th Level of Block 6, Qiaoyi Court No. 380 Tianhe Road North Tianhe District, Guangzhou Guangdong Province, the PRC	No commercial value	100%	No commercial value

APPENDIX V
PROPERTY VALUATION OF THE GROUP

Property		Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
6.	Room No. 2804 on 28th Level of North Tower Guangzhou World Trade Centre Nos. 371-375 Huanshi Road East Dongshan District, Guangzhou Guangdong Province, the PRC	1,300,000	100%	1,300,000
7.	Room Nos. 2003 and 2004 on 20th Level of South Tower Guangzhou World Trade Centre Nos. 371-375 Huanshi Road East Dongshan District, Guangzhou Guangdong Province, the PRC	1,100,000	100%	1,100,000
8.	Unit No. A1701 on 17th Level of Tower A Vantone New World Plaza Fuchengmenwai Avenue Xicheng District, Beijing, the PRC	1,480,000	100%	1,480,000
9.	Flat 708, Block J Hui Yuan Apartment Asia Game Village Chaoyang District Beijing, the PRC	800,000	100%	800,000
10.	Car Parking No. 85 on Car Park Floor P4 at Section B, Kornhill No.10 Hong Yue Street Quarry Bay, Hong Kong	350,000	100%	350,000
11.	Industrial Complex, East of Changcheng Bridge Zhuozhou, Hebei Province The PRC	190,800,000	See Certificate	95,400,000

Property	Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
12. Various Properties in a Living District at Renhe Road, Zhuozhou Hebei Province The PRC	No commercial value	51%	No commercial value
13. Industrial Complex No. 50 Liaohe Avenue and Unit 2, Level 2, Block 24 San Ping Li, Xishi District, Yingkou Liaoning Province, the PRC	No commercial value	51%	No commercial value
14. Industrial Complex Changzhou Jinyuan Copper Co. Ltd. No. 38 East Changzi Road Changzhou Southeast Economic Development Zone, Changzhou, Jiangsu Province, the PRC	44,200,000	25%	11,050,000
15. Qingdao M. C. Packaging Factory No. 262 Siliu Central Road Licang District, Qingdao Shandong Province, the PRC	No commercial value	20%	No commercial value
16. Unit 502, Level 5, Section 2 of Block 1 Unit 301, Level 3, Section 4 of Block 3 Unit 303, Level 3, Section 1 of Block 4 Unit 301, Level 3, Section 2 of Block 4 and Unit 502, Level 5, Block 7 Taiwan Garden, No. 7 Taiwan Road Shinan District, Shandong Province the PRC	3,100,000	20%	620,000

Property		Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
17.	Units 1, 2 and 3, Level 6, Block 15 (also known as Block T5-1), Eldo Garden, No. 1 Zhanghua Road Shinan District, Qingdao Shandong Province, the PRC	2,100,000	20%	420,000
18.	Yantai Penghui Copper Old Industrial Complex No. 45 Huagong Road and Worker Quarter, Beigao Zhizhong District, Yantai Shandong Province, the PRC	No commercial value	42%	No commercial value
19.	Yantai Penghui Copper New Industrial Complex No. 47 Huagong Road Zhizhong District, Yantai Shandong Province, the PRC	48,400,000	42%	20,328,000
20.	Unit 10 on Level 5, Section 2 of Block 3 and Units 11 and 12 on Level 6, Section 3 of Block 13 Yinzhi Living Area, Fushan District Yantai, Shandong Province the PRC	600,000	42%	252,000
Group I subtotal:		297,450,000		136,320,000

Property	Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
Group II – Property interests rented by the Group			
21. Huludao OrienMet Copper Industrial Complex, Mazhangfang Longgang District, Huludao Liaoning Province, the PRC	No commercial value	30%	No commercial value
22. Portion of Warehouse Liaoning Guo Chu 239 No. 8 Wanchuen Street Dongning District, Shenyang Liaoning Province, the PRC	No commercial value	51%	No commercial value
23. Units 2-4-1, Level 4, Block 14-5 Baihua Estate, No. 14-5 Baihua Shan Road Huanggu District, Shenyang Liaoning Province, the PRC	No commercial value	51%	No commercial value
24. Various Portion of Industrial Space in an Industrial Complex No. 50 Liaohe Avenue Xishi District, Yingkou Liaoning Province, the PRC	No commercial value	51%	No commercial value
25. West Block in an Industrial Complex No. 50 Liaohe Avenue, Xishi District Yingkou, Liaoning Province, the PRC	No commercial value	51%	No commercial value
26. Substation in an Industrial Complex No. 50 Liaohe Avenue, Xishi District Yingkou, Liaoning Province, the PRC	No commercial value	51%	No commercial value
27. Portion of Warehouse Jintangge Warehouse Tangge, Jianggao Baiyun District, Guangzhou Guangdong Province, the PRC	No commercial value	51%	No commercial value
28. Unit 2301, Level 23, Lijing Building Nos. 123 and 125 Guangzhou Avenue Dongshan District, Guangzhou Guangdong Province, the PRC	No commercial value	51%	No commercial value

Property		Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
29.	Portion of Warehouse Space of China Electronic Material Suzhe Company Warehouse No. 37 Jianning Road Xiaguan District, Nanjing Jiangsu Province, the PRC	No commercial value	51%	No commercial value
30.	Unit 102, Level 1, Block 7-2 Staff Quarters of No. 808 Warehouse No. 18 Jianning Road Xiaguan District, Nanjing Jiangsu Province, the PRC	No commercial value	51%	No commercial value
31.	Portion of Warehouse Space of Block E, No. 1 Longshan Road High and Advance Technology Development District, Wuxi Jiangsu Province, the PRC	No commercial value	51%	No commercial value
32.	Unit 303, Block 8 Lixiang, Beitang District, Wuxi Jiangsu Province, the PRC	No commercial value	51%	No commercial value
33.	Portion of Block No. 7 Henan Zhongwaiyun Jiuling Chuyun Warehouse No. 28 Shakou Road Jinshui District, Zhengzhou Henan Province, the PRC	No commercial value	51%	No commercial value
34.	Unit 9, Level 5, Block 4-1 Court No. 10 East Section of Dongfeng Road Jinshui District, Zhengzhou Henan Province, the PRC	No commercial value	51%	No commercial value

APPENDIX V
PROPERTY VALUATION OF THE GROUP

Property		Capital value in existing state as at 31 March 2005 (HK\$)	Interest attributable to the Group (%)	Capital value in existing state attributable to the Group as at 31 March 2005 (HK\$)
35.	Unit 31, Level 2, Block 4-3 Court No. 10 East Section of Dongfeng Road Jinshui District, Zhengzhou Henan Province, the PRC	No commercial value	51%	No commercial value
36.	Portion of Warehouse of Block No. 6, Kunming Transit Section of China Waiyun Yunnan Warehouse Liang Ting Zhong Road, Hei Tu Au Dong Jian, Kunming Yunnan Province, the PRC	No commercial value	51%	No commercial value
37.	Unit 401, 4th Level Block 149-1, Group 10, Xinying Area, Guandu District Kunming Yunnan Province, the PRC	No commercial value	51%	No commercial value
38.	Portion of Warehouse Shenxianshu Warehouse No. 38 Chuangye Road High and Advance Technology Industry Development District Chengdu, Sichuan Province the PRC	No commercial value	51%	No commercial value
39.	Whole of 9th Floor China Minmetals Tower No. 79 Chatham Road South Tsimshatsui, Kowloon Hong Kong	No commercial value	51%	No commercial value
Group II subtotal:		No commercial value		No commercial value
GRAND TOTAL:		297,450,000		136,320,000

VALUATION CERTIFICATE

Group I – Property interests held and occupied by the Group

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
1. Room No. 2101 on 21st Level, Shenzhen Development Centre, Renmin Road South, Luohu District, Shenzhen, Guangdong Province, The People's Republic of China	<p>The property comprises an office unit on Level 21 in a 43-storey (including a basement) commercial building of which retail space is on ground floor, car parking and amenity facilities on Levels 2 and 7 and offices on the upper floors. The building was completed in 1992.</p> <p>The gross floor area of the property is 243.0 sq.m. (2,616 sq.ft.).</p> <p>The land use right of the property is held for a term of 50 years from 16 January 1992 to 15 January 2042.</p>	The property is occupied by the Group as an office.	<p>HK\$1,580,000</p> <p>(100% interest attributable to the Group: HK\$1,580,000)</p>

Notes:

- (a) According to the Realty Title Certificate No. 深房地字2000050696 dated 10 August 2000 issued by The People's Government of Shenzhen, the property is held by 東方鑫源(集團)有限公司(Oriental Metals (Holdings) Company Limited).
- (b) The property is zoned for commercial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (c) The opinion of the Group's legal advisers on PRC law states that:
 - (i) 東方鑫源(集團)有限公司(Oriental Metals (Holdings) Company Limited) has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) There is no encumbrance attached to the property.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
2. Room No. 2102 on 21st Level, Shenzhen Development Centre, Renmin Road South, Luohu District, Shenzhen, Guangdong Province, The People's Republic of China	<p>The property comprises an office unit on Level 21 of a 43-storey (including a basement) commercial building of which retail space is on ground floor, car parking and amenity facilities on Levels 2 to 7 and offices on the upper floors. The building was completed in 1992.</p> <p>The gross floor area of the property is 251.3 sq.m. (2,705 sq.ft.).</p> <p>The land use right of the property is held for a term of 50 years from 16 January 1992 to 15 January 2042.</p>	<p>The property is occupied by the Group as an office.</p>	<p>HK\$1,640,000</p> <p>(100% interest attributable to the Group: HK\$1,640,000)</p>

Notes:

- (a) According to the Realty Title Certificate No. 深房地字2000050695 dated 10 August 2000 issued by The People's Government of Shenzhen, the property is held by 東方鑫源(集團)有限公司(Oriental Metals (Holdings) Company Limited).
- (b) The property is zoned for commercial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (c) The opinion of the Group's legal advisers on PRC law states that:
 - (i) 東方鑫源(集團)有限公司(Oriental Metals (Holdings) Company Limited) has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) There is no encumbrance attached to the property.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
3. Room No. 1601 on 16th Level of Block 6, Qiaoyi Court, No. 380 Tianhe Road North, Tianhe District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises a residential unit on Level 16 of a 21-storey residential block completed in 1991.</p> <p>The property accommodates a living/dining area, 2 bedrooms, a bathroom, a kitchen and a balcony.</p> <p>The gross floor area of the property is 74.87 sq.m. (806 sq.ft.).</p> <p>The land use right of the property is held for a term of 70 years from 27 September 1995.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(100% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) According to a Notarial Certificate No. (91)穗証外經字1451, a sale and purchase contract was entered into between 廣州市華僑房屋開發公司 (Guangzhou Overseas Chinese Development Company) (the "Vendor") and Madam 周萍 (Zhou Ping) (the "Purchaser") dated 25 June 1990, the Purchaser agreed to purchase the property at a consideration of HK\$302,492.
- (b) According to a Notarial Certificate No. (93)粵公証外字07067, a gift certificate was signed by Mr. 李亞九 (Lee Ah Kow)/Madam 周萍 (Zhou Ping) (the "owner") and Madam 薛培新 (Xue Pei Xin) (the "receiver") dated 19 March 1993, the owner agreed to give away the property to the receiver as a gift.
- (c) According to a Notarial Certificate No. (95)粵公証外字36585, a gift certificate was signed by Madam 薛培新 (Xue Pei Xin) (the "owner") and 東方鑫源 (集團) 有限公司 (Oriental Metals (Holdings) Company Limited) (the "receiver") dated 26 December 1995, the owner agreed to give away the property to the receiver as a gift.
- (d) The status of title and grant of major approvals and licences according to the information provided by the Group are as follows:
- | | |
|----------------------------------|-----|
| – Land Use Right Certificate | No |
| – Building Ownership Certificate | No |
| – Realty Title Certificate | No |
| – Sale and Purchase Contract | Yes |
- (e) In view of the provisions under Practice Note No. 12 s5.2(b) of the Listing Rules issued by the Stock Exchange of Hong Kong Limited, no value has been ascribed to this property. However, there have been precedent cases in the market where similar prospective titles were transferred for valuable consideration notwithstanding express prohibitions against transfer and/or absence of legal title.
- (f) The current use of the property is in compliance with the current town planning zoning.
- (g) The opinion of the Group's legal advisers on PRC law states that:
- (i) The relevant parties of the above mentioned gift certificates are legally bound by the said gift certificates.
- (ii) The Group faces the risk of not able to use the property.
- (iii) Application for the Realty Title Certificate is pending.
- (h) According to the search record from Guangzhou Real Estate Archives, the registered owner of the property is Ms. 周萍 (Zhou Ping).

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
4. Room No. 1705 on 17th Level of Block 6, Qiaoyi Court, No. 380 Tianhe Road North, Tianhe District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises a residential unit on Level 17 of a 21-storey residential block completed in 1991.</p> <p>The property accommodates a living/dining area, 2 bedrooms, a bathroom, a kitchen and a balcony.</p> <p>The gross floor area of the property is 70.71 sq.m. (761 sq.ft.).</p> <p>The land use right of the property is held for a term of 70 years from 27 September 1995.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(100% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) According to a Notarial Certificate No. (90)穗証內經字909, a sale and purchase contract was entered into between 廣州市華僑房屋開發公司 (Guangzhou Overseas Chinese Development Company) (the "Vendor") and Mr. 李亞九 (Lee Ah Kow) and Madam 周萍 (Zhou Ping) (the "Purchaser") dated 27 April 1990, the Purchaser agreed to purchase the property at a consideration of HK\$258,382.
- (b) According to a Notarial Certificate No. (92)粵公証外字24025, a gift certificate was signed by Mr. 李亞九 (Lee Ah Kow)/Madam 周萍 (Zhou Ping) (the "owner") and Mr. 關天池 (Guan Tian Chi) (the "receiver") dated 1 August 1992, the owner agreed to give away the property to the receiver as a gift.
- (c) According to a Notarial Certificate No. (96)粵公証外字01696, a gift certificate was signed by Mr. 關天池 (Guan Tian Chi) (the "owner") and 東方鑫源 (集團) 有限公司 (Oriental Metals (Holdings) Company Limited) (the "receiver") dated 16 January 1996, the owner agreed to give away the property to the receiver as a gift.
- (d) The status of title and grant of major approvals and licences according to the information provided by the Group are as follows:
- | | |
|----------------------------------|-----|
| – Land Use Right Certificate | No |
| – Building Ownership Certificate | No |
| – Realty Title Certificate | No |
| – Sale and Purchase Contract | Yes |
- (e) In view of the provisions under Practice Note No. 12 s5.2(b) of the Listing Rules issued by the Stock Exchange of Hong Kong Limited, no value has been ascribed to this property. However, there have been precedent cases in the market where similar prospective titles were transferred for valuable consideration notwithstanding express prohibitions against transfer and/or absence of legal title.
- (f) The current use of the property is in compliance with the current town planning zoning.
- (g) The opinion of the Group's legal advisers on PRC law states that:
- (i) The relevant parties of the above mentioned gift certificates are legally bound by the said gift certificates.
- (ii) The Group faces the risk of not able to use the property.
- (iii) Application for the Realty Title Certificate is pending.
- (h) According to the search record from Guangzhou Real Estate Archives, the registered owner of the property is Mr. 李亞九 (Lee Ah Kow).

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
5. Room No. 1706 on 17th Level of Block 6, Qiaoyi Court, No. 380 Tianhe Road North, Tianhe District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises a residential unit on Level 17 of a 21-storey residential block completed in 1991.</p> <p>The property accommodates a living/dining area, 2 bedrooms, a bathroom, a kitchen and a balcony.</p> <p>The gross floor area of the property is 58.49 sq.m. (630 sq.ft.).</p> <p>The land use right of the property is held for a term of 70 years from 27 September 1995.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(100% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) According to a Notarial Certificate No. (90)穗証內經字919, a sale and purchase contract was entered into between 廣州市華僑房屋開發公司 (Guangzhou Overseas Chinese Development Company) (the "Vendor") and Mr. 李亞九 (Lee Ah Kow) (the "Purchaser") dated 27 April 1990, the Purchaser agreed to purchase the property at a consideration of HK\$214,056.
- (b) According to a Notarial Certificate No. (93)粵公証外字07068, a gift certificate was signed by Mr. 李亞九 (Lee Ah Kow)/Madam 周萍 (Zhou Ping) (the "owner") and Madam 薛培新 (Xue Pei Xin) (the "receiver") dated 9 March 1993, the owner agreed to give away the property to the receiver as a gift.
- (c) According to a Notarial Certificate No. (95)粵公証外字36586, a gift certificate was signed by Madam 薛培新 (Xue Pei Xin) (the "owner") and 東方鑫源 (集團) 有限公司 (Oriental Metals (Holdings) Company Limited) (the "receiver") dated 26 December 1995, the owner agreed to give away the property to the receiver as a gift.
- (d) The status of title and grant of major approvals and licences according to the information provided by the Group are as follows:
- | | |
|----------------------------------|-----|
| – Land Use Right Certificate | No |
| – Building Ownership Certificate | No |
| – Realty Title Certificate | No |
| – Sale and Purchase Contract | Yes |
- (e) In view of the provisions under Practice Note No. 12 s5.2(b) of the Listing Rules issued by the Stock Exchange of Hong Kong Limited, no value has been ascribed to this property. However, there have been precedent cases in the market where similar prospective titles were transferred for valuable consideration notwithstanding express prohibitions against transfer and/or absence of legal title.
- (f) The current use of the property is in compliance with the current town planning zoning.
- (g) The opinion of the Group's legal advisers on PRC law states that:
- (i) The relevant parties of the above mentioned gift certificates are legally bound by the said gift certificates.
- (ii) The Group faces the risk of not able to use the property.
- (iii) Application for the Realty Title Certificate is pending.
- (h) According to the search record from Guangzhou Real Estate Archives, the registered owner of the property is Mr. 李亞九 (Lee Ah Kow).

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
6. Room No. 2804 on 28th Level of North Tower, Guangzhou World Trade Centre, Nos. 371-375 Huanshi Road East, Dongshan District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises an office unit on Level 28 of a 34-storey office tower constructed over a 7-storey retail podium with car parking facilities. The building was completed in 1991.</p> <p>The gross floor area of the property is 150.61 sq.m. (1,621 sq.ft.).</p> <p>The property is held for a term of 50 years from 21 July 1991 to 21 July 2040.</p>	The property is occupied by the Group as an office.	<p>HK\$1,300,000</p> <p>(100% interest attributable to the Group: HK\$1,300,000)</p>

Notes:

- (a) According to the Land Use Right Certificate No. 177514 dated 6 January 1993 issued by Guangzhou Municipal Real Estate Administration Bureau, the property is held by 東方鑫源（集團）有限公司 (Oriental Metals (Holdings) Company Limited).
- (b) According to the Building Ownership Certificate No. 177514 dated 6 January 1993, the property is held by 東方鑫源（集團）有限公司 (Oriental Metals (Holdings) Company Limited).
- (c) According to the Pre-sale Contract entered into between 東方鑫源（集團）有限公司 (Oriental Metals (Holdings) Company Limited) (Party A) and 廣州世界貿易中心大廈有限公司 (Guangzhou World Trade Centre Complex Company Limited) (Party B) dated 31 May 1991, Party B has agreed to sell the property to Party A at a consideration of HK\$1,947,270.
- (d) The property is zoned for commercial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) 東方鑫源（集團）有限公司 (Oriental Metals (Holdings) Company Limited) has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
7. Room Nos. 2003 and 2004 on 20th Level of South Tower, Guangzhou World Trade Centre, Nos. 371-375 Huanshi Road East, Dongshan District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises two office units on Level 20 of a 29-storey office tower constructed over a 7-storey retail podium with car parking facilities. The building was completed in 1991.</p> <p>The gross floor area of the property is 123.94 sq.m. (1,334 sq.ft.).</p> <p>The property is held for a term of 50 years from 21 July 1991 to 21 June 2040.</p>	<p>The property is occupied by the Group as an office.</p>	<p>HK\$1,100,000</p> <p>(100% interest attributable to the Group: HK\$1,100,000)</p>

Notes:

- (a) According to Realty Title Certificate Nos. 穗房地証字第62438號 and 穗房地証字第62439號 both dated 23 September 1993 issued by Guangzhou Municipal Real Estate Administration Bureau, the property is held by 大偉企業有限公司 (Taiway Enterprises Limited).
- (b) The property is zoned for commercial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (c) The opinion of the Group's legal advisers on the PRC law states that:
 - (i) 大偉企業有限公司 (Taiway Enterprises Limited) has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrance.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
8. Unit No. A1701 on 17th Level of Tower A, Vantone New World Plaza, Fuchengmenwai Avenue, Xicheng District, Beijing, The People's Republic of China	<p>The property comprises a commercial unit on the 17th level of one of the 20-storey commercial twin towers constructed above 3 levels of basement. The building was completed in 1996.</p> <p>The gross floor area of the property is 130.92 sq.m. (1,409 sq.ft.).</p> <p>The property is held for a land use term from 4 June 2003 to 2 November 2043.</p>	<p>The property is currently occupied by the Group as an office.</p>	<p>HK\$1,480,000</p> <p>(100% interest attributable to the Group: HK\$1,480,000)</p>

Notes:

- (a) According to the State-owned Land Use Certificate No. 京市西港澳台國用(2003出)字第1770083號 dated 22 July 2003, the land has been granted to the Company for a term to be expired on 2 November 2043.
- (b) According to the Realty Title Certificate No.京房權証市西港澳台字第1770083號 dated 22 July 2003, the property is held by the Company.
- (c) The property is zoned for commercial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (d) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The Company has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrance.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
9. Flat 708, Block J Hui Yuan Apartment, Asia Game Village, Chaoyang District, Beijing, The People's Republic of China	<p>The property comprises a domestic flat in a 16-storey residential block within a private residential development of 16 high-rise blocks. The development was completed in around 1990 and was built initially as domestic quarters for the athletics participating in the Asia Games 1990 held in Beijing.</p> <p>The gross floor are of the property is 131.16 sq.m. (1,412 sq.ft.).</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>HK\$800,000</p> <p>(100% interest attributable to the Group: HK\$800,000)</p>

Notes:

- (a) According to the sale and purchase contract entered into between 北京北辰房地產經營公司(Beijing North Star Real Estate Corporation) (Party A) and 東方鑫源(集團)有限公司(Oriental Metals (Holdings) Company Limited) (Party B) dated 26 January 1994, Party A has agreed to sell the property to Party B at a consideration of US\$163,405.
- (b) The property is zoned for residential use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (c) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The Company's rights may not be protected by PRC law since Realty Title Certificate has not be granted.
 - (ii) Application for the Realty Title Certificate is pending.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
10. Car Parking No. 85 on Car Park Floor P4 at Section B, Kornhill, No. 10 Hong Yue Street, Quarry Bay, Hong Kong 1/700000 undivided share of and in the Remaining Portion of Inland Lot No. 8566.	The property comprises a car parking space on the Car Park Level P4 in a large-scale private residential estate completed in 1986. The property is held under Conditions of Exchange No. 11728 for a term of 75 years from 27 April 1984 renewable for another 75 years.	The property is occupied by the Group for car parking purposes.	HK\$350,000 (100% interest attributable to the Group: HK\$350,000)

Notes:

- (a) The registered owner of the property is the 東方鑫源（集團）有限公司 (Oriental Metals (Holdings) Company Limited).
- (b) The property lies within an area zoned for Government, Institution or Community use under Draft Quarry Bay Outline Zoning Plan No. S/H21/20 dated 11 June 2004. The current use of the property is in compliance with the current town planning zoning.
- (c) The property was assigned to the Company for a consideration of HK\$73,000 by an assignment vide Memorial No. 3918684 dated 15 November 1988.
- (d) The property is subject to a Deed of Mutual Covenant and a Sub-Deed of Mutual Covenant registered in the Land Registry respectively via memorial nos. 2980874 and 2980877 both dated 28 January 1986.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
11. Industrial Complex, East of Changcheng Bridge, Zhuozhou, Hebei Province, The People's Republic of China	<p>The property comprises an industrial complex erected with 74 industrial blocks, an office building and some ancillary buildings. The subject land area is approximately 346,988 sq.m. (520.48 mu).</p> <p>The buildings were completed from 1980 to 2003 with a total gross floor area of approximately 143,215 sq.m. of which some of these structures with a total area 113,999.32 sq.m. have been granted with a Building Ownership Certificate. The area breakdown of all structures, according to the occupant, is as follows:</p>	The buildings are occupied by the Group for production purpose.	<p>HK\$190,800,000</p> <p>(Interest attributable to the Group: HK\$95,400,000)</p>
	Occupant	No. of Structures	Gross Floor Area (sq.m.)
	A 華北鋁業有限公司 (North China Aluminium Co., Ltd.) ("NCA")	61	124,875.07
	B 涿神有色金屬加工專用設備有限公司 (Zhuoshen Nonferrous Metals Plant & Equipment Co. Ltd.)	5	12,893.00
	C 涿州市華北鋁銀達實業公司 (Zhuozhou City Yin Da Industry Company)	8	5,446.75
			Ownership
			51% owned by the Group
			38.25% owned by the Group
			51% owned by the Group

Notes:

- (a) According to a Land Use Rights Certificate No. 涿國用 (2001) 010036 dated 27 April 2001 issued by the Municipal Government of Zhuozhou City, a land with area of 368.95 mu (245,964.9 sq.m.) has been allocated to 華北鋁業有限公司 (North China Aluminium Co., Ltd.) for industrial purpose.
- (b) According to a State-owned Land Use Rights Certificate No. 涿國用 (1996) 06-0041 dated July 1996 issued by the Municipal Government of Zhuozhou City, a land with area of 150.21 mu (100,140.5 sq.m.) has been granted to 華北鋁業有限公司 (North China Aluminium Co., Ltd.) for industrial purpose for a term until 16 July 2046.
- (c) According to a State-owned Land Use Rights Certificate No. 涿國用 (2002更) 06-0032 dated 25 April 2002 issued by the Municipal Government of Zhuozhou City, a land with area of 880 sq.m. has been granted to 華北鋁業有限公司 (North China Aluminium Co., Ltd.) for the purpose of placing electric and telecommunication lines for a term until 26 April 2052.

- (d) According to a Building Ownership Certificate No. 涿房中 042 dated 23 April 2001 issued by the Municipal Real Estate Title Management Bureau of Zhuozhou City, forty-six 1 to 3-storey structures with a total gross floor area of 113,999.32 sq.m. has been issued to 華北鋁業有限公司 (North China Aluminium Co., Ltd.) The area breakdown of these structures according to the occupants is follows:

Occupant	No. of Structures Covered by Certificate	Gross Floor Area (sq.m.)
華北鋁業有限公司 (North China Aluminium Co., Ltd.)	37	96,562.57
涿神有色金屬加工專用設備有限公司 (Zhuoshen Nonferrous Metals Plant & Equipment Co. Ltd.)	3	12,452.00
涿州市華北鋁銀達實業公司 華北鋁業有限公司 (Zhuozhou City Yin Da Industry Company North China Aluminium Co. Ltd.)	6	4,984.75

- (e) The industrial land with an area of 368.95 mu (245,964.9 sq.m.) is an allocated land and does not have a specific land use lease term (Note (a)). The Group has applied to the local government for the conversion of the allocated land into grant land. The Group has agreed with local government on the land premium being an amount of RMB3,500,000 for the conversion of the land use to grant land. This land premium has been taken into account in our valuation.
- (f) The property is zoned for industrial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (g) The opinion of the Group's legal advisers on PRC law states that:
- (i) The Group has proper legal title to the property, other than those mentioned in Note (a) above and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The sale of the allocated land is subject to the payment of a land premium to the government.
 - (iii) There is no mortgage attached to the property.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005	
12. Various Properties in a Living District at Renhe Road, Zhuozhou, Hebei Province, The People's Republic of China	The properties are accommodated in various buildings of 2 to 6 storeys and were completed between 1983 and 1993. The total gross floor area of the properties is approximately 10,918.77 square metres. The area breakdown of the properties is as follows:	Staff hospital, bathhouse and composite service building are occupied by 華北鋁業有限公司 (North China Aluminium Co., Ltd.) Yinhe Hotel is held for lease. 銀城賓館(Yin Cheng Hotel) is leased out for hotel operation and office uses. Level 1 of the service building is currently vacant whereas Level 2 is occupied by 銀河公司(Yinhe Company) for office use.	No commercial value (51% interest attributable to the Group: no commercial value)	
Occupant		Properties/ Buildings	Gross Floor Area (sq.m.)	Ownership
A	華北鋁業有限公司 (North China Aluminium Co., Ltd.) ("NCA")	Staff hospital	3,883.05	51% owned by the Group
		Staff bathhouse	854.00	
		Yinhe Restaurant	881.72	
		Composite service building	1,039.00	
		Subtotal:	6,657.77	
B	華鋁涿州銀城賓館 (Zhuozhou Yin Cheng Hotel) (100% owned by NCA)	銀城賓館 (Yin Cheng Hotel)	3,757.00	51% owned by the Group
C	華鋁涿州銀河實業公司 (Zhuozhou City Yin He Industry Company) (100% owned by NCA)	Service building 8	504.00	51% owned by the Group
		Total	10,918.77	

Notes:

- (a) No relevant legal title document of the property is available.
- (b) The property is zoned for residential use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (c) The opinion of the Group's legal advisers on PRC law states that the Company's right may not be protected by PRC law since no proper legal title document is available.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005										
13. Industrial Complex, No. 50 Liaohe Avenue and Unit 2, Level 2, Block 24, San Ping Li, Xishi District, Yingkou, Liaoning Province, The People's Republic of China	<p>The property comprises a single storey industrial building, a warehouse and a residential unit of a 6-storey residential block.</p> <p>As advised, the industrial building, warehouse and the residential building were completed in 1994.</p> <p>The property has a total gross floor area of approximately 888 square metres with breakdown of area as follows:</p>	<p>The industrial building and warehouse are currently occupied by the Group as production workshop and storage respectively. The residential unit is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>										
	<table><tr><th>Use</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Industrial building</td><td>708</td></tr><tr><td>Warehouse</td><td>70</td></tr><tr><td>Residential unit</td><td>110</td></tr><tr><td>Total:</td><td>888</td></tr></table>	Use	Gross Floor Area (sq.m.)	Industrial building	708	Warehouse	70	Residential unit	110	Total:	888		
Use	Gross Floor Area (sq.m.)												
Industrial building	708												
Warehouse	70												
Residential unit	110												
Total:	888												

Notes:

- (a) 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd.) is a Sino-foreign equity joint venture company owned by 東方鑫源實業投資有限公司 (Oriental Metal Industrial Investment Company Limited) and 中國電子進出口總公司 (China National Electronics Import & Export Corp.) with profit sharing in proportion to 51% and 49% respectively. The joint venture is for a term of 20 years commencing on the date of issue of business licence.
- (b) According to the Business Licence No.000437 dated 26 September 2001, 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd) (YOPT) has been incorporated as a joint venture enterprise with a registered capital of US\$4,000,000 for a valid operating period from 31 December 1993 to 30 December 2013.
- (c) The industrial complex and the residential unit of the property are zoned for industrial use and residential use respectively under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (d) The opinion of the Group's legal advisers on PRC law states that:
- (i) Realty Title Certificate has not been granted.
- (ii) The rights of 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd) may not be protected by PRC law.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005												
14. Industrial Complex, Changzhou Jinyuan Copper Co. Ltd., No.38 East Changzi Road, Changzhou Southeast Economic Development Zone, Changzhou, Jiangsu Province, The People's Republic of China	<p>The property comprises various low-rise factory buildings, dormitories and an office building erected on 2 parcels of adjoining land having total site area of about 120,704.1 sq.m..</p> <p>The buildings were completed between 1997 and 2003.</p> <p>The total gross floor area of the completed buildings is approximately 19,998 sq.m. The area breakdown is as follows:</p> <table><thead><tr><th>Uses</th><th>Gross Floor Area (sq.m.)</th></tr></thead><tbody><tr><td>Industrial</td><td>11,930</td></tr><tr><td>Office</td><td>1,602</td></tr><tr><td>Dormitory</td><td>4,245</td></tr><tr><td>Ancillary facilities</td><td>2,221</td></tr><tr><td>Total:</td><td>19,998</td></tr></tbody></table> <p>The land use rights of two parcels of land have been granted for a term to be expired on 24 November 2044 and 20 February 2051 respectively.</p>	Uses	Gross Floor Area (sq.m.)	Industrial	11,930	Office	1,602	Dormitory	4,245	Ancillary facilities	2,221	Total:	19,998	<p>The property is currently occupied by the Group as a manufacturing centre and ancillary office, storage and staff quarters.</p>	<p>HK44,200,000</p> <p>(25% interest attributable to the Group: HK\$11,050,000)</p>
Uses	Gross Floor Area (sq.m.)														
Industrial	11,930														
Office	1,602														
Dormitory	4,245														
Ancillary facilities	2,221														
Total:	19,998														

Notes:

- (a) According to the State-owned Land Use Certificate No. 常國用(2001)字第0028號, the land use right of the land having a site area of 34,044.1 sq.m. for a term due to expire on 20 February 2051 is held under 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd).
- (b) According to the State-owned Land Use Certificate No. 常國用(2003變)字第00055號, the land use right of the land having a site area of 86,660 sq.m. for a term due to expire on 24 November 2044 is held under 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd).
- (c) According to the Realty Title Certificate No. 常房發字第112713號 dated 17 August 1998, the property with total gross floor area of about 19,998 sq.m. is held under 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd).
- (d) Pursuant to a joint venture contract dated 26 April 2002 entered into among 常州機電國有資產經營有限公司 (Changzhou Machinery and Electric State-owned Company Limited) (Party A), 與隆達 (香港) 有限公司 (Lontic (H.K.) Limited) (Party B), 日礦金屬株式會社 (Nippon Mining & Metals Co., Ltd.) (Party C), 三井物產株式會社 (Mitsui & Co., Ltd.) (Party D), 大自達電綫株式會社 (Dazhida Electrical Wiring Company Limited) (Party E) and 三井物產 (中國) 有限公司 (Mitsui (China) Co., Ltd.) (Party F), 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd) is a joint venture company formed by the said six parties with an operating period of 30 years commencing from 31 March 1994. The profit sharing proportion for Parties A, B, C, D, E and F is 3%, 25%, 40%, 19%, 3% and 10% respectively.

- (e) According to a Business Licence No. 0432069 dated 21 May 2002, 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd) is a Sino-foreign joint venture company with an operating period of 30 years from 31 March 1994 to 30 March 2024.
- (f) The property is zoned for industrial use under prevailing zoning plan. The current use of the property is in compliance with the current town planning zoning.
- (g) Portion of the buildings with gross floor area of about 17,398.12 sq.m. is mortgaged to 中國工商銀行常州市鍾樓支行 (Industrial and Commercial Bank of China Changzhou Zhonglou Branch) for a consideration of RMB20,000,000 in favour of 中國工商銀行常州市鍾樓支行 (Industrial and Commercial Bank of China Changzhou Zhonglou Branch) for the period from 20 November 2003 to 19 October 2008.
- (h) The Land is mortgaged to 中國工商銀行常州市鍾樓支行 (Industrial and Commercial Bank of China Changzhou Zhonglou Branch) for a consideration of RMB34,000,000 in favour of 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd.) for the period from 24 March 2003 to 23 March 2005.
- (i) The opinion of the Group's legal advisers on PRC law states that:
 - (i) 常州金源銅業有限公司 (Changzhou Jinyuan Copper Co., Ltd.) has proper legal title to the property.
 - (ii) The property is subject to the said mortgage.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005												
15. Qingdao M. C. Packaging Ltd Factory, No. 262 Siliu Central Road, Licang District, Qingdao, Shandong Province, The People’s Republic of China	<p>The property comprises a single-storey production building (partially 3-storey for ancillary office), canteen, pump house, water treatment plant and ancillary facilities erected on three parcels of land within a large industrial premises.</p> <p>The three parcels of land have a total site area of about 50,000 square metres. All buildings and ancillary facilities were completed in 1986 and the office portion was refurbished in 1996.</p> <p>Total gross floor area of the property is approximately 12,781.42 square metres and the area breakdown is as follows:</p> <table><tr><th colspan="2">Gross Floor Area (sq.m.)</th></tr><tr><th>Components</th><th></th></tr><tr><td>Production</td><td>7,213.20</td></tr><tr><td>Office portion</td><td>3,200.00</td></tr><tr><td>Ancillary facilities</td><td>2,368.33</td></tr><tr><td>Grand Total:</td><td>12,781.42</td></tr></table> <p>Land use right of the property is administratively allocated land for a term of 30 years to be expired on 15 August 2023.</p>	Gross Floor Area (sq.m.)		Components		Production	7,213.20	Office portion	3,200.00	Ancillary facilities	2,368.33	Grand Total:	12,781.42	The property is occupied by the Group as factory and ancillary office.	No commercial value (20% interest attributable to the Group: No commercial value)
Gross Floor Area (sq.m.)															
Components															
Production	7,213.20														
Office portion	3,200.00														
Ancillary facilities	2,368.33														
Grand Total:	12,781.42														

Notes:

- (a) According to three Realty Title Certificates No. 55265, 55266 and 55268 dated 27 December 2002 and 2 December 2002 respectively, the registered owner of the property is 青島美特容器有限公司 (Qingdao M. C. Packaging Limited).
- (b) In accordance with the said Certificates, the land use right of the property is administrative allocated land for industrial uses for a term to be expired on 15 August 2023.
- (c) Pursuant to a Business Licence No. 0181486 dated 21 April 2001, 青島美特容器有限公司 (Qingdao M. C. Packaging Limited) is a Sino-foreign joint venture company with an operating period of 30 years from 16 August 1993 to 15 August 2023.
- (d) According to a joint venture contract entered into among 山東鋁廠 (Shandong Aluminium Company) (Party A), M. C. (Hong Kong) Company Limited (Party B) and 東方鑫源 (集團) 有限公司 (Oriental Metals (Holdings) Company Limited) (Party C) dated 30 April 1993, 青島美特容器有限公司 (Qingdao M. C. Packaging Limited) is a joint venture company formed by the said three parties with an operating period of 30 years commencing from the issue of business licence. The profit sharing proportion for Parties A, B and C is 50%, 40% and 10% and changes to 40%, 40% and 20% for Parties A, B and C respectively in 1995.

- (e) The property is zoned for industrial use under Qingdao Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (f) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The land where the property is erected on is allocated land.
 - (ii) The Group has the right to use the property.
 - (iii) Transfer of the property is subject to the consent of the PRC Government and land premium payable to the PRC Government.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
16. Unit 502, Level 5, Section 2 of Block 1, Unit 301, Level 3, Section 4 of Block 3, Unit 303, Level 3, Section 1 of Block 4, Unit 301, Level 3, Section 2 of Block 4 and Unit 502, Level 5, Block 7, Taiwan Garden, No. 7 Taiwan Road, Shinan District, Qingdao, Shandong Province, The People's Republic of China	<p>The property comprises five residential units in four 5 to 6-storey residential buildings in a residential estate known as Taiwan Garden completed in 1995.</p> <p>The residential units of the property are two to three bedrooms accommodation. Total gross floor area of the property is approximately 509.05 square metres with unit size ranging from 91.63 square metres to 111.38 square metres.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>HK\$3,100,000</p> <p>(20% interest attributable to the Group: HK\$620,000)</p>

Notes:

- (a) According to a Building Ownership Certificate No. 1444 dated 29 February 2000, the registered owner of the property is 青島美特容器有限公司 (Qingdao M. C. Packaging Ltd).
- (b) In accordance with the said Certificate, the land use right of the property is for an unspecified term.
- (c) The property is zoned for residential use under Qingdao Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (d) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The Group has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
17. Units 1, 2 and 3, Level 6, Block 15 (also known as Block T5-1), Eldo Garden, No. 1 Zhanghua Road, Shinan District, Qingdao, Shandong Province, The People's Republic of China	<p>The property comprises three residential units in a 6-storey residential building within a residential estate known as Eldo Garden. All three units are 3-bedroom type with unit size ranging from 101.23 square metres to 108.7 square metres and were completed in 1994.</p> <p>Total gross floor area of the property is approximately 315.98 square metres.</p>	The property is occupied by the Group as staff quarters.	<p>HK\$2,100,000</p> <p>(20% interest attributable to the Group: HK\$420,000)</p>

Notes:

- (a) According to a Building Ownership Certificate No. 00235 dated 6 January 2002, the registered owner of the property is 青島美特容器有限公司(Qingdao M. C. Packaging Limited).
- (b) In accordance with the said Certificate, the land use right of the property is for unspecified term.
- (c) The property is zoned for residential use under Qingdao Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (d) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The Group has proper legal title of the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005														
18. Yantai Penghui Copper Old Industrial Complex, No. 45 Huagong Road and Worker Quarter, Beigao, Zhizhong District, Yantai, Shandong Province, The People’s Republic of China	<p>The property comprises six single-storey production buildings, a 4-storey administration building, various single to 5-storey warehouses, canteen, ancillary facilities and two 3-storey worker quarters completed in the period between 1972 and 1997.</p> <p>The property is erected on a parcel of land with a site area of about 134,766 square metres.</p> <p>Total gross floor area of the property is approximately 36,749 square metres with area breakdown as follows:</p> <table><tr><th>Components</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production buildings</td><td>5,400.7</td></tr><tr><td>Administration building</td><td>1,936.0</td></tr><tr><td>Warehouses</td><td>5,676.0</td></tr><tr><td>Ancillary facilities</td><td>23,736.3</td></tr><tr><td>Worker quarter</td><td>2,680.0</td></tr><tr><td>Grand Total:</td><td>39,429</td></tr></table> <p>Land use right of the property is granted for industrial use for a term to be expired on 28 August 2051.</p>	Components	Gross Floor Area (sq.m.)	Production buildings	5,400.7	Administration building	1,936.0	Warehouses	5,676.0	Ancillary facilities	23,736.3	Worker quarter	2,680.0	Grand Total:	39,429	<p>The property is occupied by the Group as factory, ancillary office and worker quarters.</p>	<p>No commercial value</p> <p>(42% interest attributable to the Group: No commercial value)</p>
Components	Gross Floor Area (sq.m.)																
Production buildings	5,400.7																
Administration building	1,936.0																
Warehouses	5,676.0																
Ancillary facilities	23,736.3																
Worker quarter	2,680.0																
Grand Total:	39,429																

Notes:

- (a) According to a Land Use Certificate No. (2002) 208 dated 2002, the registered owner of the property is 煙台有色金屬股份有限公司.
- (b) In accordance with the said Certificate, the land use right of the property is for industrial uses for a term to be expired on 28 April 2051.
- (c) Pursuant to a Business Licence No. 001384, 煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Co. Ltd.) is a Sino-foreign joint venture company with an operating period of 25 years from 15 March 1993 to 15 March 2018.

- (d) According to a joint venture contract dated 24 December 2003 and supplementary contract dated July 2004 entered into among 煙台有色金屬股份有限公司(Yantai Metal Company Limited) (Party A), 金暉香港有限公司(Goldfair Hong Kong Ltd) (Party B) and 中國有色新金屬公司(China Metal Company) (Party C), 煙台鵬暉銅業有限公司(Yantai Penghui Copper Trade Company Limited) is a joint venture company formed by the said three parties with an operating period of 30 years commencing from the date of issue of business licence. The profit sharing proportion for Parties A, B and C is 49.8%, 42% and 8.2% respectively.
- (e) The property is zoned for industrial use under Yantai Urban Land Use Planning Map. The current use of the property is in compliance with the current town planning zoning.
- (f) The opinion of the Group's legal advisers on PRC law states that:
- (i) The Group does not have proper legal title to the property.
 - (ii) The rights of 煙台鵬暉銅業有限公司(Yantai Penghui Copper Industry Company Limited) may not be protected by PRC law.
 - (iii) The property is subject to a mortgage from 2004 to 2006.
 - (iv) According to 《關於有色股份土地使用權的說明》 dated 23 May 2005, 煙台有色金屬股份有限公司 promised that 煙台鵬暉銅業有限公司(Yantai Penghui Copper Industry Company Limited) can use the property throughout its occupation period.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005												
19. Yantai Penghui Copper New Industrial Complex, No. 47 Huagong Road, Zhizhong District, Yantai, Shandong Province, The People’s Republic of China	<p>The property comprises two single-storey production buildings, a 2-storey administration building, a 3-storey laboratory building, various warehouses, ancillary facilities and a five-storey worker quarter completed in 1994.</p> <p>The property is erected on a parcel of land with a site area of approximately 202,348.7 square metres.</p> <p>Total gross floor area of the property is approximately 30,277 square metres with area breakdown as follows:</p> <table><tr><th>Components</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production buildings</td><td>2,181.0</td></tr><tr><td>Warehouse</td><td>5,379.2</td></tr><tr><td>Ancillary facilities</td><td>16,947.8</td></tr><tr><td>Worker quarter</td><td>5,769.0</td></tr><tr><td>Grand Total:</td><td>30,277.0</td></tr></table> <p>Land use right of the property is granted for industrial use for a term to be expired on August 2018.</p>	Components	Gross Floor Area (sq.m.)	Production buildings	2,181.0	Warehouse	5,379.2	Ancillary facilities	16,947.8	Worker quarter	5,769.0	Grand Total:	30,277.0	<p>The property is occupied by the Group as factory, ancillary office and worker quarters.</p>	<p>HK\$48,400,000</p> <p>(42% interest attributable to the Group: HK\$20,328,000)</p>
Components	Gross Floor Area (sq.m.)														
Production buildings	2,181.0														
Warehouse	5,379.2														
Ancillary facilities	16,947.8														
Worker quarter	5,769.0														
Grand Total:	30,277.0														

Notes:

- According to a Land Use Certificate No. (98)288 dated 17 December 1998, the registered owner of the property is 煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Co., Ltd).
- In accordance with the said Certificates, the land use right of the property is granted for industrial uses for a term to be expired on August 2018.
- Pursuant to a Business Licence No. 001384, 煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Co. Ltd.) is a Sino-foreign joint venture company with an operating period of 25 years from 15 March 1993 to 15 March 2018.
- According to a joint venture contract dated 24 December 2003 and supplementary contract dated July 2004 entered into among 煙台有色金屬股份有限公司 (Yantai Metal Company Limited) (Party A), 金暉香港有限公司 (Goldfair Hong Kong Limited) (Party B) and 中國有色新金屬公司 (China Metal Company) (Party C), 煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Company Limited) is a joint venture company formed by the said three parties with an operating period of 30 years commencing from the date of issue of business licence. The profit sharing proportion for Parties A, B and C is 49.8%, 42% and 8.2% respectively.

- (e) The property is zoned for industrial use under Yantai Urban Land Use Planning Map. The current use of the property is in compliance with the current town planning zoning.
- (f) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The Group has a proper legal title to the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrance.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
20. Unit 10 on Level 5, Section 2 of Block 3 and Units 11 and 12 on Level 6, Section 3 of Block 13, Yinzhi Living Area, Fushan District, Yantai, Shandong Province, The People's Republic of China	<p>The property comprises three residential units in three 6-storey residential buildings within a residential area known as Yinzhi Living Area. One unit of the property is 2-bedroom type and the remaining two units are 3-bedroom type with unit size ranging from 76 square metres to 95.83 square metres. The subject buildings were completed in 1990's.</p> <p>Total gross floor area of the property is approximately 267.7 square metres.</p> <p>The land use rights of the property have been granted for a term to be expired on 28 February 2039.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>HK\$600,000</p> <p>(42% interest attributable to the Group: HK\$252,000)</p>

Notes:

- (a) According to three Realty Title Certificates Nos. 100204, 100207, 100209 dated 20 January 2000, the registered owner of the property is 煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Co Ltd).
- (b) In accordance with the said Certificates, the property is for residential use with land use rights for a term to be expired on 28 February 2039.
- (c) The property is zoned for residential use under Yantai Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (d) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The Group has a proper legal title to the property and has the right to use, transfer, lease and mortgage of the property.
 - (ii) The property is free from encumbrance.

Group II – Property interests rented by the Group

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005														
21. Huludao OrienMet Copper Industrial Complex, Mazhangfang, Longgang District, Huludao, Liaoning Province, The People’s Republic of China	<p>The property comprises a purpose built production building, 5-storey administration building, 5-storey laboratory building, various warehouses and single to 3-storey ancillary facilities completed in the period between 1993 and 1995.</p> <p>The property occupies a parcel of land having a site area of approximately 217,858 square metres.</p> <p>Total gross floor of the property is about 59,707.3 square metres with area breakdown as follows:</p> <table><tr><th>Components</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production building</td><td>15,114.7</td></tr><tr><td>Administration building</td><td>1,316.0</td></tr><tr><td>Warehouses</td><td>5,040.0</td></tr><tr><td>Laboratory building</td><td>2,646.5</td></tr><tr><td>Ancillary facilities</td><td>35,590.1</td></tr><tr><td>Grand Total:</td><td>59,707.3</td></tr></table> <p>The property is leased to 葫蘆島東方銅業有限公司 (Huludao OrienMet Copper Co Ltd) by 葫蘆島鋅廠 (Huludao Zinc Factory) at nil rental.</p>	Components	Gross Floor Area (sq.m.)	Production building	15,114.7	Administration building	1,316.0	Warehouses	5,040.0	Laboratory building	2,646.5	Ancillary facilities	35,590.1	Grand Total:	59,707.3	The property is occupied by the Group as factory and ancillary office.	No commercial value (30% interest attributable to the Group: No commercial value)
Components	Gross Floor Area (sq.m.)																
Production building	15,114.7																
Administration building	1,316.0																
Warehouses	5,040.0																
Laboratory building	2,646.5																
Ancillary facilities	35,590.1																
Grand Total:	59,707.3																

Notes:

- (a) According to a Land Use Certificate No. 01849 dated December 1996, the land use right of the subject land having a site area of 217,858 square metres is granted to 葫蘆島鋅廠 (Huludao Zinc Factory) for a term of 40 years commencing from 9 June 1993 for industrial purposes.
- (b) Pursuant to a Business Licence No. 0044041 dated 22 June 2003, 葫蘆島東方銅業有限公司 (Huludao Orienmet Copper Co Ltd) is a joint venture company with an operating period from 7 May 1993 to 7 May 2013.
- (c) According to a joint venture contract dated 16 February 1994 and entered into between 中國有色金屬工業總公司 葫蘆島鋅廠 (China Metal Industrial Corporation Huludao Zinc Factory) (Party A) and 香港東方鑫源實業投資有限公司 (Orienmet Industry Company Limited) (Party B), 葫蘆島東方銅業有限公司 (Huludao Orienmet Copper Co Ltd) is a joint venture company formed by the said two parties with an operating period of 20 years commencing from the issue of business licence. The profit sharing proportion for Parties A and B is 70% and 30% respectively.

- (d) The property is zoned for industrial use under Huludao Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on the PRC law states that:
 - (i) 葫蘆島鋅廠(Huludao Zinc Factory) could not provide valid title certificate, there would have a risk of the right of property interests to be claimed by third party.
 - (ii) There is no tenancy agreement between葫蘆島東方銅業有限公司(Huludao OrienMet Copper Co. Ltd.) and 葫蘆島鋅廠(Huludao Zinc Factory) and therefore, the land and buildings can be repossessed by 葫蘆島鋅廠(Huludao Zinc Factory) at anytime.
 - (iii) 葫蘆島鋅廠(Huludao Zinc Factory) has not collected land rents from 葫蘆島東方銅業有限公司(Huludao OrienMet Copper Co. Ltd.).
 - (iv) The rights of 葫蘆島東方銅業有限公司(Huludao OrienMet Copper Co. Ltd.) is not protected by law. The reasons are (i) 葫蘆島鋅廠 (Huludao Zinc Factory) has not obtained proof of ownership in relation to the building structures on the said property, hence it may be subject to third parties' claims, if any; and (ii) 葫蘆島東方銅業有限公司 (Huludao OrientMet Copper Co. Ltd.) has not paid any rent to 葫蘆島鋅廠 (Huludao Zinc Factory) in respect of its use of the property, hence it may be subject to repossession by 葫蘆島鋅廠 (Huludao Zinc Factory) at any time.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
22. Portion of Warehouse, Liaoning Guo Chu 239, No. 8 Wanchuen Street, Dongning District, Shenyang, Liaoning Province, The People's Republic of China	<p>The property comprises a portion of warehouse space in a single-storey warehouse building completed in 1987.</p> <p>The net floor area of the property is about 400 square metres.</p> <p>The property is leased by North China Aluminium Co Ltd for a term of one year commencing from 1 January 2005 at a rent of RMB10 per square metre per month exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 遼寧儲備物資管理局二三九處 (239 Office of Liaoning Storage Wuzi Administration Bureau).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) 華北鋁業有限公司 (North China Aluminium Co Ltd) is a 51% owned subsidiary of the Group.
- (d) The property is zoned for industrial use under Shenyang Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided and no tenancy registration procedures is followed.
 - (ii) The rights of 華北鋁業有限公司 (North China Aluminium Company Ltd) are not protected by law.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
23. Units 2-4-1, Level 4, Block 14-5, Baihua Estate, No. 14-5 Baihua Shan Road, Huanggu District, Shenyang, Liaoning Province, The People's Republic of China	<p>The property comprises a residential unit in a 5-storey residential building within a large residential estate known as Baihua Estate completed in 2002. Gross floor area of the property is approximately 72.5 square metres.</p> <p>The property is let to Mr. 鄧偉華 (Deng Wai Hua) and Mr. 閔國鋒 (Min Guo Feng) for a term of 3 years commencing from 16 March 2003 at a monthly rent of RMB1,600 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr. 黃城 (Huang Cheng).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) Mr. 鄧偉華 (Deng Wai Hua) and Mr. 閔國鋒 (Min Guo Feng) are the Group's staff.
- (d) The property is zoned for residential purposes under Shenyang Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations though the tenancy agreement has not been registered through tenancy registration procedures.
 - (ii) Mr. 黃城 (Huang Cheng) has the right to lease out the property.
 - (iii) The property is subject to a mortgage from 13 May 2003 to 12 May 2006.
 - (iv) According to the 《授權委託書》 dated 30 June 2004, Mr. 鄧偉華 (Deng Wai Hua) and Mr. 閔國鋒 (Min Guo Feng) signed the tenancy agreement on behalf of 華北鋁業有限公司 (North China Aluminium Co. Ltd.) and enjoys the rights and undertakes the responsibilities of the aforesaid tenancy agreement.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005												
24. Various Portions of Industrial Space in An Industrial Complex, No. 50 Liaohe Avenue, Xishi District, Yingkou, Liaoning Province, The People's Republic of China	<p>The property comprises various portions of industrial space in a 2-storey and a 3-storey industrial buildings, ancillary office space in a 4-storey administration building and a single-storey warehouse completed in 1980's.</p> <p>Total gross floor area of the property is approximately 1,759.9 square metres with area breakdown as follows:</p> <table><tr><th>Components/ Use</th><th>Gross Floor Area (sq.m.)</th></tr><tr><td>Production</td><td>726.25</td></tr><tr><td>Administration</td><td>384.80</td></tr><tr><td>Warehouses</td><td>418.00</td></tr><tr><td>Ancillary facilities</td><td>230.85</td></tr><tr><td>Grand Total:</td><td><u>1,759.9</u></td></tr></table> <p>The property is leased by 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd) for a term of one year commencing on 19 January 2005 at a rent of RMB11 per square metre per month of which 70 square metre is at a rent of RMB5 per square metre per month exclusive of management fee and charges.</p>	Components/ Use	Gross Floor Area (sq.m.)	Production	726.25	Administration	384.80	Warehouses	418.00	Ancillary facilities	230.85	Grand Total:	<u>1,759.9</u>	<p>The property is occupied by the Group for industrial use and as an ancillary office.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>
Components/ Use	Gross Floor Area (sq.m.)														
Production	726.25														
Administration	384.80														
Warehouses	418.00														
Ancillary facilities	230.85														
Grand Total:	<u>1,759.9</u>														

Notes:

- (a) The registered owner of the property is 遼寧無線電三廠 (Liaoning Wireless Third Factory).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd.) is a 51% owned subsidiary of the Group.
- (d) The property is zoned for industrial use under Yingkou Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided.
 - (ii) The rights of 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd) are not protected by law.
 - (iii) According to a 《承諾函》 (consent letter) dated 6 May 2005 from 遼寧無線電三廠 (Liaoning Wireless Third Factory) to 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd), Liaoning Wireless Third Factory will compensate for the loss suffered by 營口鑫源金屬套管有限公司 (Yingkou OrienMet Plica Tube Co. Ltd) in using the property if it is caused by a third party.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
25. West Block in an Industrial Complex, No. 50 Liaohe Avenue, Xishi District, Yingkou, Liaoning Province, The People's Republic of China	<p>The property comprises a 2-storey industrial building within an industrial complex completed in 1980's.</p> <p>Total gross floor area of the property is approximately 1,792.6 square metres.</p> <p>The property is leased by 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.) for a term of one year from 1 September 2004 to 31 August 2005 at a monthly rent of RMB14,340.8 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as a factory.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr. 任志禮(Ren Zhi Li).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.) is a 51% owned subsidiary of the Group.
- (d) The property is zoned for industrial use under Yingkou Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations.
 - (ii) Mr. 任志禮(Ren Zhi Li) has the right to lease out the property.
 - (iii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
26. Substation in an Industrial Complex, No. 50 Liaohu Avenue, Xishi District, Yingkou, Liaoning Province, The People's Republic of China	<p>The property comprises a single-storey substation building within an industrial complex completed in 1980's.</p> <p>Total gross floor area of the property is approximately 350 square metres.</p> <p>The property is leased by 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.) for a term of five years from December 2003 to December 2008 at a monthly rent of RMB 25,000 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as a substation for industrial purposes.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 遼寧中電國際貿易有限公司 (Liaoning Zhongdian International Trading Company Limited).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.) is a 51% owned subsidiary of the Group.
- (d) The property is zoned for industrial use under Yingkou Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided.
 - (ii) The rights of 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.) are not protected by law.
 - (iii) According to a 《承諾函》(consent letter) dated 23 May 2005 from 遼寧中電國際貿易有限公司 to 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.), 遼寧中電國際貿易有限公司 will compensate for the loss suffered by 營口鑫源金屬套管有限公司(Yingkou OrienMet Plica Tube Co. Ltd.) in using the property if it is caused by a third party.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
27. Portion of Warehouse, Jintangge Warehouse, Tangge, Jianggao, Baiyun District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises a portion of warehouse space in a 2-storey warehouse building completed in 1970's.</p> <p>The net floor area of the property is about 800 square metres.</p> <p>The property is leased by 華北鋁業有限公司(North China Aluminium Company Ltd) for a term of one year commencing from 1 May 2004 at a rent of RMB10 per square metre per month exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 廣東暢安運輸有限公司(Guangdong Changan Transport Company Limited).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) 華北鋁業有限公司(North China Aluminium Company Limited) is a 51%-owned subsidiary of the Group.
- (d) The property is zoned for industrial use under Guangzhou Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided and no tenancy registration procedures is followed.
 - (ii) The rights of 華北鋁業有限公司(North China Aluminium Company Limited) are not protected by law.
 - (iii) According to a 《承諾函》(consent letter) dated 29 April 2005 from 廣東暢安運輸有限公司 to 華北鋁業有限公司(North China Aluminium Company Limited), 廣東暢安運輸有限公司 will compensate for the loss suffered by 華北鋁業有限公司(North China Aluminium Company Limited) in using the property if it is caused by a third party.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
28. Unit 2301, Level 23, Lijing Building, Nos. 123 and 125 Guangzhou Avenue, Dongshan District, Guangzhou, Guangdong Province, The People's Republic of China	<p>The property comprises a residential unit in a 26-storey residential/commercial building completed in 1991. Gross floor area of the property is approximately 107.96 square metres.</p> <p>The property is let to Mr. 張長坤 (Zhang Chang Kun) for a term of one year commencing from 1 June 2004 at a monthly rent of RMB2,200 exclusive of management fee and charges.</p>	The property is occupied by the Group as staff quarters.	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr. 歐錫鵬 (Ou Xi Peng).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) Mr. 張長坤 (Zhang Chang Kun) is the Group's staff.
- (d) The property is zoned for residential purposes under Guangzhou Master Zoning Plan. The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations though the tenancy agreement has not been registered through tenancy registration procedures.
 - (ii) Mr. 歐錫鵬 (Ou Xi Peng) has the right to lease out the property.
 - (iii) The property is free from encumbrance.
 - (iv) According to the 《授權委託書》 dated 30 June 2004, Mr. 張長坤 (Zhang Chang Kun) signed the tenancy agreement on behalf of 華北鋁業有限公司 (North China Aluminium Co. Ltd.) and enjoys the rights and undertakes the responsibilities of the aforesaid tenancy agreement.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
29. Portion of Warehouse Space of China Electronic Material Suzhe Company Warehouse, No. 37 Jianning Road, Xiaguan District, Nanjing, Jiangsu Province, The People's Republic of China	<p>The property comprises portion of warehouses in a single-storey warehouse block in a warehouse development completed in 1974.</p> <p>The net floor area of the property is about 600 square metres.</p> <p>The property is leased by 華北鋁業有限公司(North China Aluminium Company Limited) for a term of one year commencing from 1 January 2005 at a rent of RMB13.5 per square metre per month exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 中國電子物資蘇浙公司(China Electronic Material Suzhe Company).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) 華北鋁業有限公司(North China Aluminium Company Limited) is a 51% owned subsidiary of the Group.
- (d) The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations.
 - (ii) Transport Section of 中國電子物資蘇浙公司(China Electronic Material Suzhe Company) has the right to lease out the property.
 - (iii) The property is subject to a mortgage.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
30. Unit 102, Level 1 Block 7-2, Staff Quarters of No. 808 Warehouse, No. 18 Jianning Road, Xiaguan District, Nanjing, Jiangsu Province, The People's Republic of China	<p>The property comprises a residential unit in a 7-storey residential building within a large residential estate known as Staff Quarters of No. 808 Warehouse of 中國電子物資蘇浙公司 (China Electronic Material Suzhe Company). The property was completed in 2000. Gross floor area of the property is approximately 92.45 square metres.</p> <p>The property is let to Mr 希國光 (Xi Guo Guang) for a term of one year commencing from 27 December 2004 at a monthly rent of RMB1,600 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr 鄭國偉 (Zheng Guowei).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) We are advised that Mr 希國光 (Xi Guo Guang) is the Group's staff.
- (d) The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations though the tenancy agreement has not been registered through tenancy registration procedures.
 - (ii) Mr 鄭國偉 (Zheng Guowei) has the right to lease out the property.
 - (iii) The property is free from encumbrance.
 - (iv) According to the 《授權委託書》 dated 30 June 2004, Mr 希國光 (Xi Guo Guang) signed the tenancy agreement on behalf of 華北鋁業有限公司 (North China Aluminium Co. Ltd.) and enjoys the rights and undertakes the responsibilities of the aforesaid tenancy agreement.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
31. Portion of Warehouse of Block E, No. 1 Longshan Road, High and Advance Technology Development District, Wuxi, Jiangsu Province, The People's Republic of China	<p>The property comprises portion of warehouse space in a single-storey warehouse block in a warehouse development completed in 2000.</p> <p>The net floor area of the property is about 200 square metres.</p> <p>The property is leased by 華北鋁業有限公司(North China Aluminium Company Limited) for a term of one year commencing from 11 June 2004 at a rent of RMB0.45 per day per square metre exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>
Lot No. 27			

Notes:

- (a) The registered owner of the property is 無錫市新區旺莊工業發展中心有限公司(Wuxi Xingu Wangzhuang Industrial Center Company Limited), according to a registered tenancy agreement entered into between the head tenant 大通國際運輸有限公司無錫分公司(Datong International Transportation Company Limited Wuxi Branch) and the Landlord, 無錫市新區旺莊工業發展中心有限公司(Wuxi Xinqu Wangzhuang Industrial Center Company Limited).
- (b) We are advised that the registered owner and the head tenant of the property is an independent third party of the Group.
- (c) We are advised that the registered owner of the property is a local Government Body.
- (d) 華北鋁業有限公司(North China Aluminium Company Limited) is a 51% owned subsidiary of the Group.
- (e) The current use of the property is in compliance with the current town planning zoning.
- (f) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided and no tenancy registration procedures is followed.
 - (ii) The rights of 華北鋁業有限公司(North China Aluminium Company Limited) are not protected by law.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
32. Unit 303, Block 8 Lixiang, Beitang District, Wuxi Jiangsu Province, The People's Republic of China	<p>The property comprises a residential unit within a 8-storey residential block completed in around 1990.</p> <p>The gross floor area of the property is 71.3 sq.m.</p> <p>The property is let to Mr. 毛曉明 (Mao Xiao Ming) for a term of one year commencing from 20 January 2005 at a monthly rent of RMB1,600 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr. 吳榮福 (Wu Rong Fu).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) We are advised that Mr. 毛曉明 (Mao Xiao Ming) is the Group's staff.
- (d) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations.
 - (ii) Mr. 吳榮福 (Wu Rong Fu) has the right to lease out the property.
 - (iii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
33. Portion of Block No. 7, Henan Zhongwaiyun Jiuling Chuyun Warehouse, No. 28 Shakou Road, Jinshui District, Zhengzhou, Henan Province, The People's Republic of China	<p>The property comprises a portion of warehouse space in a single-storey warehouse building within a warehouse development completed in 1970.</p> <p>The net floor area of the property is about 600 square metres.</p> <p>The property is leased by 華北鋁業有限公司(North China Aluminium Company Limited) for a term of one year commencing from 1 January 2005 at a rent of RMB0.25 per sq.m. per day exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 河南中外運久凌儲運公司(Henan Zhongwaiyun Chuyun Corporation).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) 華北鋁業有限公司(North China Aluminium Company Limited) is a 51% owned subsidiary of the Group.
- (d) According to a Land Use Right Certificate No. (1999)568 dated 10 December 1999, the land use rights has been administratively allocated to 河南中外運久凌儲運公司(Henan Zhongwaiyun Chuyun Corporation) and the land cannot be transferred, leased and mortgaged without prior government approval.
- (e) The current use of the property is in compliance with the current town planning zoning.
- (f) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided and no tenancy registration procedures is followed.
 - (ii) The rights of 華北鋁業有限公司(North China Aluminium Company Limited) is not protected by law.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
34. Unit 9, Level 5 Block 4-1, Court No. 10, East Section of Dongfeng Road, Jinshui District, Zhengzhou, Henan Province, The People's Republic of China	<p>The property comprises a residential unit in a 7-storey residential building within a large residential estate known as Staff Quarters of China Waiyun Henan Corporation completed in 1997. Gross floor area of the property is approximately 99.38 square metres.</p> <p>The property is let to 華北鋁業有限公司 (North China Aluminium Company Limited) for a term of one year commencing from 1 January 2005 at a monthly rent of RMB1,500 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as staff quarters.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr 張晉豫 (Zhang Jinyu).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) 華北鋁業有限公司 (North China Aluminium Company Limited) is a 51% owned subsidiary of the Group.
- (d) The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations.
 - (ii) Mr 張晉豫 (Zhang Jinyu) has the right to lease out the property.
 - (iii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
35. Unit 31, Level 2 Block 4-3, Court No. 10, East Section of Dongfeng Road, Jinshui District, Zhengzhou, Henan Province, The People's Republic of China	<p>The property comprises a residential unit in a 7-storey residential building within a large residential estate known as Staff Quarter of China Waiyun Henan Corporation completed in 1997. Gross floor area of the property is approximately 114.74 square metres.</p> <p>The property is let to 華北鋁業有限公司 (North China Aluminium Company Limited) for a term of one year commencing from 1 January 2005 at a monthly rent of RMB1,500 exclusive of management fee and charges.</p>	The property is occupied by the Group as staff quarter.	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr 任四寶 (Ren Sibao).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) 華北鋁業有限公司 (North China Aluminium Company Limited) is a 51% owned subsidiary of the Group.
- (d) The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations.
 - (ii) Mr 任四寶 (Ren Sibao) has the right to lease out the property.
 - (iii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
36. Portion of Block No. 6, China Waiyun Yunnan Warehouse, Liang Ting Zhong Road, Hei Tu Au, Dong Jiao, Kunming, Yunnan Province, The People's Republic of China	<p>The property comprises a portion of warehouse space in a single-storey warehouse block in a warehouse development completed in 1993.</p> <p>The gross floor area of the property is about 150 square metres.</p> <p>The property is leased by 華北鋁業有限公司(North China Aluminium Company Limited) for a term of one year commencing from 1 January 2005 at a rent of RMB8.5 per square metre per month exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 中國外運雲南公司(China Waiyun Yunnan Company).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) According to a Land Use Rights Certificate dated 15 September 1995, the land use right of a parcel of land having site area of about 54,321.4 square metres in which the property is situated is administratively allocated to the registered owner.
- (d) The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement may not be protected by PRC law since no documents proofing the legal title of the lessor are provided and no tenancy registration procedures is followed.
 - (ii) The rights of 華北鋁業有限公司(North China Aluminium Company Limited) is not protected by law.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
37. Unit 401, 4th Level Block 149-1, Group 10, Xinying Area, Guandu District, Kunming Yunnan Province, The People's Republic of China	<p>The property comprises a residential unit on Level 4 within a 6-storey residential building completed in mid-1990's.</p> <p>The gross floor area of the property is approximately 119 sq.m.</p> <p>The property is leased by 張濤 (Zheng Tao) for a term of one year commencing from 1 February 2005 at a monthly rent of RMB1,800 exclusive of management fee and charges.</p>	<p>The property is occupied by the Group as staff quarters and offices.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Mr. 保焱 (Bao Yan).
- (b) We are advised that the registered owner of the property is an independent third party of the Group.
- (c) We are advised that Mr. 張濤 (Zheng Tao) is the Group's staff.
- (d) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations though the tenancy agreement has not been registered through tenancy registration procedures.
 - (ii) Mr. 保焱 (Bao Yan) has the right to lease out the property.
 - (iii) The property is free from encumbrances.
 - (iv) According to the 《授權委託書》 dated 30 June 2004, Mr 張濤 (Zheng Tao) signed the tenancy agreement on behalf of 華北鋁業有限公司 (North China Aluminium Co. Ltd.) and enjoys the rights and undertakes the responsibilities of the aforesaid tenancy agreement.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
38. Portion of Warehouse, Shenxianshu Warehouse, No. 38 Chuangye Road, High and Advance Technology Industry Development District, Chengdu, Sichuan Province, The People's Republic of China	<p>The property comprises a portion of warehouse in a single-storey warehouse block in a warehouse development completed in 2004.</p> <p>The property is leased by 華北鋁業有限公司 (North China Aluminium Company Limited) for a term of one year commencing from 1 January 2005 at a rent of RMB12 per tonne per month exclusive of management fee and charges.</p>	<p>The property is occupied by the Group for storage purpose.</p>	<p>No commercial value</p> <p>(51% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is 四川省物資儲運神仙樹倉庫 (Sichuan Province Wuzi Chuyun Shenxianshu Warehouse).
- (b) We are advised that the registered owner is an independent third party of the Group.
- (c) 華北鋁業有限公司 (North China Aluminium Company Limited) is a 51% owned subsidiary of the Group.
- (d) The current use of the property is in compliance with the current town planning zoning.
- (e) The opinion of the Group's legal advisers on PRC law states that:
 - (i) The aforesaid tenancy agreement is legal and binding under the PRC law and regulations.
 - (ii) 四川省物資儲運神仙樹倉庫 (Sichuan Province Wuzi Chuyun Shenxianshu Warehouse) has the right to lease out the property.
 - (iii) The property is free from encumbrances.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2005
39. Whole of 9th Floor, China Minmetals Tower, No. 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong	<p>The property comprises the whole of 9th floor in a 19-storey commercial building (including one level basement) completed in 1991. Gross floor area of the property is approximately 5,793 sq.ft.</p> <p>The property is leased by Eastern Master (HK) Limited for a term of two years commencing from 1 January 2004 at a monthly rent of HKD57,930 exclusive of rates, service, management fee and air-conditioning charges.</p>	The property is occupied by the Company and its subsidiaries as office use.	<p>No commercial value</p> <p>(100% interest attributable to the Group: No commercial value)</p>

Notes:

- (a) The registered owner of the property is Texion Development Limited, an associate of the controlling shareholder of the Company as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.
- (b) Eastern Master (HK) Limited, the tenant, is a wholly owned subsidiary of the Group.
- (c) The property is zoned for commercial purposes under Draft Tsim Sha Tsui Outline Zoning Plan No. S/K1/19 dated 23 July 2004. The current use of the property is in compliance with the current town planning zoning.
- (d) The property is subject to the following encumbrances:
 - (i) A legal charge/mortgage to secure general banking facilities for a consideration of all moneys in favour of Citic Ka Wah Bank Limited registered via memorial no. VB8135002 dated 26 June 2000.
 - (ii) Rent Assignment in favour of Citic Ka Wah Bank Limited registered via memorial no. VB8135003 dated 26 June 2000.
 - (iii) Tenancy Agreement for 2 years from 1 January 2004 to 31 December 2005 at a monthly rent of HKD57,930 in favour of Eastern Master (HK) Limited registered via memorial no. VB9163664 dated 19 February 2004.
- (e) The opinion of the Group's legal advisers on Hong Kong laws states that:
 - (i) The Company is a holding company of the tenant.
 - (ii) The Company and its subsidiaries are now sharing possession of the property with the tenant and no agreement has been entered into with the tenant.
 - (iii) All the rental payment, rates and other service charges are borne by the Company and its subsidiaries other than the tenant.
- (f) We are of the opinion that the monthly rental charged by Texion Development Limited is on normal commercial terms and is fair and reasonable.

ARTICLES OF ASSOCIATION

The articles of association of the Company ("Articles of Association") include provisions, inter alia, to the following effect:

(a) Alterations of capital

The Company may in general meeting from time to time, whether or not all the shares for the time being authorised shall have been issued and whether or not all the shares for the time being issued shall have been fully paid up, by ordinary resolution increase its share capital by the creation of new shares, such new capital to be of such amount and to be divided into shares of such respective amounts as the resolution shall prescribe.

Except so far as otherwise provided by the conditions of issue or by the Articles of Association, any capital raised by the creation of new shares shall be treated as if it formed part of the original capital of the Company and such shares shall be subject to the same provisions contained in these Articles of Association with reference to payment of calls and instalments, transfer and transmission, forfeiture, lien, cancellation, surrender, voting and otherwise.

The Company may from time to time by ordinary resolution:

- (i) consolidate or divide all or any of its share capital into shares of larger or smaller amount than its existing shares; on any consolidation of fully paid shares into shares of larger amount, the Board may settle any difficulty which may arise as it thinks expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Board for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- (ii) divide its shares into several classes and attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions;
- (iii) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled; and

- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the memorandum of association of the Company, subject nevertheless to the provisions of the Companies Ordinance, and so that the resolution whereby any share is sub-divided may determine that, as between the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares.

The Company may by special resolution reduce its authorised or issued share capital, any capital redemption reserve fund, any share premium account or other undistributable reserve in any manner authorised and subject to any conditions prescribed by law.

(b) Modification of rights

If at any time the share capital is divided into different classes of shares, all or any of the special rights attached to any class (unless otherwise provided by the terms of issue of the shares of that class) may be varied, modified or abrogated with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting, the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the necessary quorum shall be not less than two persons holding or representing by proxy one third in nominal value of the issued shares of that class and at an adjourned meeting one person holding shares of that class or his proxy, and that any holder of shares of the class present in person or by proxy may demand a poll.

(c) Votes of members

Subject to any special rights, privileges or restrictions as to voting for the time being applicable to any share, at any general meeting on a show of hands, every member present in person shall have one vote, and on a poll every member present in person or by proxy or by authorised representative shall have one vote for every fully paid share of which he is the holder. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

Where any member is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

(d) Borrowing powers

The Directors may exercise all the powers of the Company to borrow money, and to mortgage or charge all or any part of the undertakings, property, assets (present or future) and uncalled capital of the Company, and to issue debentures or other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Such powers, in common with the provisions of the Articles of Association of the Company in general, maybe varied by special resolution of the Company.

(e) Qualification of directors

The Director shall not be required to hold any qualification shares.

P.S. There is no requirement for a Director to retire on attaining certain age.

(f) Directors' remuneration and other benefits

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Company in general meeting by ordinary resolution, except that in the event a Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only be entitled to a part of such sum in proportion to the time during such period for which he has held office.

The Board may grant special remuneration to any Director who, being called upon, shall perform any special or extra service to the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged.

The Directors shall also be entitled to be repaid all travelling and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in discharge of their duties as Directors.

Notwithstanding the above, the remuneration of a managing director, joint managing director, deputy managing director or other executive director or a director appointed to any other office in the management of the Company shall from time to time be fixed by the Board and may be made by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to his remuneration as a Director.

(g) Directors' interests

No Director or intended Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being such member or so interested be liable to account to the Company for any profit realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall forthwith disclose the nature of his interest in any contract or arrangement in which he is interested as required by and subject to the provisions of the Companies Ordinance.

Notwithstanding that such disclosure is made as aforesaid, a Director shall not be entitled to vote on any resolutions of the Board approving any contract or arrangement in which he or any of his associates is materially interested. If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or his associate(s) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not to be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting or his associate(s), such question shall be decided by a resolution of the Board (for which purpose such chairman shall not be counted in the quorum and shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman or his associate(s) as known to such chairman has not been fairly disclosed to the Board.

Save as otherwise provided by the Articles of Association, a Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement in which he or any of his associates is to his knowledge materially interested, but this prohibition shall not apply to any of the following matters:

- (i) the giving of any security or indemnity either:
 - (aa) to the Director or any of his associate(s) in respect of money lent or obligations incurred or undertaken by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries; or

- (bb) to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (ii) any proposal concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;
- (iii) any proposal concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, whether as an officer or shareholder of which the Director or his associate(s) is/are beneficially interested in shares of that company, provided that the Director and any of his associates are not in aggregate beneficially interested in 5% or more of the issued shares of any class of such company (or of any third company through which his interest or that of his associates is derived) or of the voting rights;
- (iv) any proposal concerning the benefit of employees of the Company or its subsidiaries including:
 - (aa) the adoption, modification or operation of a share option scheme under which the Director or his associates may benefit; or
 - (bb) the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to the Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates; and
- (v) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company.

Without prejudice to the power of the Company in general meeting in pursuance of any of the provisions of the Articles of Association to appoint any person to be a Director, the Board shall have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or as an addition to the Board. Any Director so appointed shall hold office only until the

next following annual general meeting of the Company and shall then be eligible for re-election (but not to be taken into account in determining the Directors or the number of Directors who are to retire by rotation) at that meeting.

The Company may by ordinary resolution remove any Director before the expiration of his period of office and may (subject to the Articles of Association) by ordinary resolution appoint another person in his place. Any person so appointed shall be subject to retirement at the same time as if he had become a Director on the day on which the Director in whose place he is appointed was last elected a Director.

No person other than a Director retiring at the meeting shall, unless recommended by the Board, be eligible for election to the office of Director at any general meeting unless there have been given to the Secretary notice in writing by some member (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected and the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such meeting.

(h) Dividends

The Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists.

The Directors may from time to time pay to the members such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other suitable intervals to be settled by them any dividend which may be payable at a fixed rate if the Directors are of the opinion that the profits justify the payment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment. In addition, the Company may, upon the recommendation of the Directors, by special resolution resolve in respect of any one particular dividend of the Company that a dividend may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend and subject to the terms of issue of any shares providing to the contrary, all dividends shall be declared and paid according to the amounts paid or credited as paid up on the shares in respect whereof the dividend is paid, but no amount paid up or credited as paid up on a share in advance of calls or instalments shall be treated as paid up on the share.

All dividends or bonus unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof for any profit or benefit derived therefrom. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the Directors and shall revert to the Company.

(i) Transfer of shares

All transfers of shares may be effected by transfer in writing in any usual common form or in such other form as may be acceptable as the Directors may accept or may be under hand only. All instruments of transfer must be left at the registered office of the Company or at such other place as the Directors may appoint and may be retained by the Company.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register in respect thereof.

If the Directors shall refuse to register a transfer, they shall, within two months after the date on which the transfer was lodged with the Company, send to the transferee notice of such refusal.

The Directors may, in their absolute discretion, and without assigning any reason, refuse to register a transfer of any share which is not a fully paid up share.

The Directors may also decline to accept any instrument of transfer unless (aa) a fee of HK\$2.50 (or such higher fee as may from time to time be permitted under the rules prescribed by the Stock Exchange) or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof; (bb) the instrument of transfer is accompanied by the certificate for the shares to which it relates, and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer; (cc) the instrument of transfer is in respect of only one class of share; (dd) the shares concerned are free of any lien in favour of the Company; (ee) the instrument of transfer is properly stamped; and (ff) in the case of a transfer to joint holders, the number of joint holders does not exceed four.

Upon every transfer of shares, the certificate held by the transferor shall be given up to be cancelled, and shall forthwith be cancelled accordingly, and a new certificate shall be issued without charge to the transferee in respect of the shares transferred to him, and if any of the shares included in the certificate so given up shall be retained by the transferor, a new certificate in respect thereof shall be issued to him without charge.

The registration of the transfers may be suspended and the register may be closed at such times and for such periods as the Directors may from time to time determine, provided always that the register shall not in any year be closed for more than 30 days (or, if with the approval of the Company in general meeting, 60 days), Sundays and public holidays excepted.

(j) Share certificates

Every certificate for shares or debentures or representing any other form of security of the Company shall be issued under the seal of the Company, which for this purpose may be any official seal as permitted by Section 73A of the Companies Ordinance.

The Board may issue warrants to subscribe for any class of shares or securities of the Company on such terms as it may from time to time determine provided that, to the extent necessary under the Companies Ordinance, prior to issue of such warrants, approval from the Company in general meeting shall have been obtained to issue and allot shares upon exercise of subscription rights attaching to such warrants.

Where a certificate of title relating to any shares or warrants issued to bearer has been lost, no replacement certificate shall be issued unless the Board is satisfied beyond reasonable doubt that the original certificate has been lost and has received an indemnity in satisfactory form with regard to the issue of any new certificate and in the case of wearing out or defacement, after delivery up of the old certificate.

(k) Accounts

Every balance sheet of the Company shall be signed pursuant to the provisions of the Company Ordinance, and a printed copy of every balance sheet (including every document required by law to be annexed thereto) and profit and loss account which is to be laid before the Company in annual general meeting, together with a copy of the Directors' report and a printed copy of the auditors' report, shall not less than 21 days before the date of the meeting, be sent by post to the registered address of every member of the Company.

(l) Notices

Any notice or document to be given or issued shall be in writing, and may be served by the Company on any member either personally or by sending it through the post in prepaid letter, envelope or wrapper addressed to such member at his registered address as appearing in the register or by delivering or leaving it at such registered address as appearing in the register or (in the case of a notice) by publishing the same as a paid advertisement in English in at least one English language newspaper and in Chinese in at least one Chinese language newspaper.

Where the registered address of a member is outside Hong Kong, notice, if given through the post, shall be sent by pre-paid air mail letter. Any member whose registered address is outside Hong Kong may notify the Company in writing of an address in Hong Kong which for the purpose of service of notice shall be deemed to be his registered address.

(m) Proxy

The instrument of appointment of a proxy shall be in writing under the hand of the appointor or of his attorney authorised in writing, or if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.

(n) Disclosure of interests

No powers shall be taken to freeze or otherwise impair any of the rights attaching to any share by reason only that the person or persons who are interested directly or indirectly therein have failed to disclose their interests to the Company.

(o) Untraceable members

Without prejudice to the rights of the Company, the Company may cease sending cheques or warrants in respect of any particular shares if cheques or warrants in respect of the shares in question have been left uncashed on two consecutive occasions. However, the Company may exercise the power to cease sending cheques or warrants in respect of any particular shares after the first occasion on which such a cheque or warrant in respect of the shares in question is returned undelivered.

APPENDIX VI SUMMARY OF ARTICLES OF ASSOCIATION OF THE COMPANY

The Company shall have the power to sell, in such manner as the Board thinks fit, any shares of a member if:

- (i) all cheques or warrants, being not less than three in total numbers, in respect of the shares in question sent during a period of 12 years, have remained uncashed;
- (ii) so far as it is aware at the end of a period of 12 years, the Company has not at any time received any indication of the existence of such member; and
- (iii) the Company has caused advertisements to be inserted in newspapers, giving notice of its intention to sell such shares and has notified the Stock Exchange of such intention and a period of three months has elapsed since the date of the last of such advertisements.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors and the Proposed Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular with regard to the Group and the Target Group respectively and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to the Group and the Target Group, the omission of which would make any statement in this circular misleading.

The directors of CMN jointly and severally accept full responsibility for the accuracy of the information contained in this circular with regard to the Minmetals Group and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts with regard to the Minmetals Group, the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Interests of Directors, the Proposed Directors and chief executives

As at the Latest Practicable Date, the interests and short positions of the Directors, the Proposed Directors and the Company's chief executives in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), the Model Code for Securities Transactions by Directors of Listed Companies and which were required to be entered in the register required to be kept under section 352 of the SFO were as follows:

Personal interests in the Shares

Name of Director	Number of Shares/ underlying Shares		Approximate percentage of total number of issued Shares
	Personal interests (Note 1)	Other interests	
LIN Xizhong	3,000,000	–	0.49%
XU Huizhong	2,000,000	–	0.33%
QIAN Wenchao	1,500,000	–	0.25%
TANG Xiaojin	1,500,000	–	0.25%

Notes:

1. These represent the underlying Shares of the share options granted by the Company to the Directors pursuant to the Share Option Scheme 1994.
2. The calculation is based on the number of underlying Shares as a percentage of the total number of issued Shares (i.e. 607,349,612 Shares) as at the Latest Practicable Date.

(b) Share options of the Company

As at the Latest Practicable Date, the following Directors had interests in right of options granted under the Share Option Scheme 1994:

Name of Director	Date of grant	Subscription price per Share HK\$	Period during which options outstanding are exercisable	Number of Shares subject to the options
LIN Xizhong	15 March 2004 (Note)	3.115	16 March 2004 to 15 March 2007	3,000,000
XU Huizhong	15 March 2004 (Note)	3.115	16 March 2004 to 15 March 2007	2,000,000
QIAN Wenchao	15 March 2004 (Note)	3.115	16 March 2004 to 15 March 2007	1,500,000
TANG Xiaojin	15 March 2004 (Note)	3.115	16 March 2004 to 15 March 2007	1,500,000

Note: In respect of the share options granted on 15 March 2004, the closing price of the Shares immediately before the date on which the options were granted was HK\$3.00 per Share.

As at the Latest Practicable Date, no share options had been granted under the Share Option Scheme 2004.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors, the Proposed Directors or the Company's chief executives, had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

(c) Interests of Shareholders discloseable pursuant to the SFO

Save as disclosed below, the Directors and the Proposed Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of Shares	Approximate percentage of total number of issued Shares
China Minmetals	Interest of controlled corporation (Notes 1 and 2)	1,464,467,826	241.12%
Minmetals HK	Interest of controlled corporation (Note 1)	455,376,917	74.98%
Coppermine	Beneficial owner (Note 1)	455,376,917	74.98%
CMN	Interest of controlled corporation (Note 2)	1,009,090,909	166.15%
Top Create Resources	Beneficial owner (Note 2)	1,009,090,909	166.15%

Notes:

1. 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 455,376,917 Shares held by Coppermine as at the Latest Practicable Date.
2. Top Create Resources is a wholly-owned subsidiary of CMN, which in turn is an 82.23% owned subsidiary of China Minmetals. Accordingly, CMN and China Minmetals were by virtue of the SFO deemed to be interested in the 1,009,090,909 Shares to be issued to Top Create Resources under the Acquisition Agreement.

(d) Substantial shareholding in other members of the Enlarged Group

Save as disclosed below, the Directors and the Proposed Directors are not aware of any other person (other than a Director or chief executive of the Company or his/her respective associate(s)) who, as at the Latest Practicable Date, was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group:

Name of owner of shares or equity interest (as the case may be)	Name of subsidiary	% equity interest held
廣州經濟技術開發區五礦倉儲 有限公司 (Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.) (<i>Note</i>)	LYG	10%
中國鋁業公司 (Aluminium Corporation of China)	NCA	18.89%
中信興業投資有限責任公司 (CITIC Development Co., Ltd.)	NCA	16.31%
河北省人民政府國有資產監督管理 委員會第三後勤服務中心 (The Third Rear-Service Center attached to State-owned Assets Supervision and Administration Commission of the People's Government of Hebei Province)	NCA	13.80%
中國電子進出口總公司 (China National Electronics Import & Export Corporation)	YOPT	49%

Note: 廣州經濟技術開發區五礦倉儲有限公司 (Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.) intends to sell and transfer its 10% equity interest in LYG to Independent Third Parties such that LYG will become an indirect subsidiary of China Minmetals held solely under Minmetals Aluminium. and has openly offered to sell such interest on the 北京產權交易所 (Beijing Equity Exchange).

(e) Material interests

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or the Proposed Directors had any direct or indirect interests in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group in the two years immediately preceding the date of this circular.

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by which was subsisting and was significant in relation to the business of the Enlarged Group.

3. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the audited financial information of the Group were made up.

4. EXPERTS

- (a) The following are the qualifications of the experts who have given their opinions or advices which are contained in this circular:

Name	Qualifications
Allens Arthur Robinson	Qualified Australian lawyers
CB Richard Ellis Limited	Qualified property valuer
Deacons	Qualified Hong Kong lawyers
King and Wood	Qualified PRC lawyers
PwC	Certified Public Accountants, Hong Kong
Rothschild	Licensed under the SFO to advise on securities and corporate finance, and to deal in securities
Somerley	Licensed corporation under the SFO to conduct type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities

- (b) As at the Latest Practicable Date, none of Allens Arthur Robinson, CB Richard Ellis Limited, Deacons, King and Wood, PwC, Rothschild and Somerley had

any shareholding, directly or indirectly, in any member of the Enlarged Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

- (c) Each of Allens Arthur Robinson, CB Richard Ellis Limited, Deacons, King and Wood, PwC, Rothschild and Somerley has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or references to its name in the form and context in which they are included.
- (d) None of Allens Arthur Robinson, CB Richard Ellis Limited, Deacons, King and Wood, PwC, Rothschild and Somerley has any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, nor which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group in the two years immediately preceding the date of this circular or has any material interest in any contract or arrangement subsisting at the date of this circular which is significant to the business of the Enlarged Group as a whole.
- (e) The letter of Somerley set out in the section headed “Letter from Somerley”, the Australian legal opinion prepared by Allens Arthur Robinson referred to in the paragraph “Licences and permits” under the section headed “Information on the Target Group and the Group”, the accountants report prepared by PwC set out in Appendix I, the property valuation reports prepared by CB Richard Ellis Limited set out in Appendices IV and V, the Hong Kong legal opinion prepared by Deacons and referred to in the property valuation report set out in Appendix V, and the PRC legal opinions prepared by King and Wood and referred to in the property valuation reports set out in Appendices IV and V respectively, and other parts of this circular, are prepared for incorporation in this circular.

5. LITIGATION

As at the Latest Practicable Date, neither the Group nor the Target Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors and the Proposed Directors to be pending or threatened against the Group or the Target Group. Save as disclosed under the paragraph headed “Financial information on the Group – Trading record – Turnover – Defaults on repayment of bank loans” in this circular, the Group and the Target Group are not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors and the Proposed Directors to be pending or threatened against the Group and the Target Group during the Track Record Period.

6. SERVICE CONTRACTS

There is no existing or proposed service contract between any of the Directors or Proposed Directors and the Company or any of its subsidiaries respectively, other than contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

Under the current arrangements, the estimated aggregate remuneration which the Directors will receive for the year ending 31 December 2005 amounts to approximately HK\$3 million.

7. AGENCY FEES AND COMMISSIONS PAID

No commission, discounts, brokerages or other special terms have been granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries within the two years immediately preceding the date of this circular.

8. GENERAL MANDATES TO ISSUE AND TO REPURCHASE SHARES

At the annual general meeting of the Company held on 18 May 2005, ordinary resolutions were passed to grant general mandates to the Directors, inter alia, (a) to allot, issue and deal with Shares up to a limit equal to 20% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution and adding to such general mandate so granted to the Directors any Shares representing the aggregate nominal amount of Shares repurchased by the Company under the repurchase mandate referred to in (b) below, and (b) to purchase on the Stock Exchange of Shares not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing the relevant resolution ("Repurchase Mandate").

This section includes the information required by the Listing Rules to be included in this circular concerning the repurchase by the Company of its own Shares pursuant to the Repurchase Mandate.

(a) Shareholders' approval

All repurchases of securities on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, either by way of general mandate or by specific approval in relation to specific transactions.

(b) Share capital

Under the Listing Rules and the Companies Ordinance, the Shares which are proposed to be purchased by the Company must be fully paid up. As at 18 May 2005, the total issued share capital of the Company is 607,349,612 fully paid-up Shares of HK\$0.05 each. The exercise of the Repurchase Mandate up to 10% limit would enable the Company to repurchase 60,734,961 Shares.

(c) Reasons for repurchase mandate

Whilst the Directors do not presently intend to repurchase any Shares, they believe that the flexibility afforded by the repurchase mandate would be beneficial to the Company and its Shareholders. Trading conditions on the Stock Exchange

have sometimes been volatile in recent years and if there are occasions in the future when Shares are being traded at a discount to their underlying value, the ability of the Company to repurchase Shares can be beneficial to those Shareholders who retain their investment in the Company since this may, depending on the circumstances, result in increases to the fully diluted net assets and/or earnings per Share and will only be made when the Directors believe that such a repurchase will benefit the Company and its Shareholders.

(d) Source of funds for repurchases

In repurchasing Shares, the Company may only apply funds entirely from the Company's available cashflow or working capital facilities, which will be funded legally available for such purpose in accordance with its memorandum and articles of association and the Companies Ordinance. Such funds include but are not limited to the Company's profits available for distribution.

Whilst the Repurchase Mandate, if exercised in full, may have a material adverse impact on the working capital or gearing position of the Company, the Directors expect to exercise such mandate if and to such extent only as they are satisfied that the exercise thereof will not have such a material adverse impact.

(e) Disclosure of interests

The Directors have undertaken to the Stock Exchange to exercise the power of the Company to make purchases pursuant to Repurchase Mandate in accordance with the Listing Rules and the Companies Ordinance.

None of the Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their associates, presently intend to sell any Shares to the Company under the Repurchase Mandate.

The Company has not been notified by any connected persons of the Company that they have a present intention to sell any Shares to the Company, or that they have undertaken not to sell any Shares held by them to the Company.

(f) Takeovers code

If as a result of a share repurchase by the Company, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code.

As at the Latest Practicable Date, Coppermine is interested in approximately 74.98% in the issued share capital of the Company. In the event that the Repurchase Mandate is exercised in full, the interest of Coppermine in the Company will be

increased to approximately 83.31% and such increase will not give rise to an obligation to make a mandatory offer under Rule 26 of the Takeovers Code. Assuming that there is no issue of Shares in the Company between the Latest Practicable Date and the date of a repurchase, an exercise of the Repurchase Mandate whether in whole would result in insufficient public float, the Directors have no intention to exercise the Repurchase Mandate to an extent as may result in a public shareholding of less than the minimum public float requirement.

(g) Market price

The highest and lowest traded market prices for Shares recorded on the Stock Exchange during each of previous twelve months before the Latest Practicable Date were as follows:

	Highest HK\$	Lowest HK\$
2004		
June	2.650	1.950
July	2.300	2.050
August	2.500	2.200
September	2.850	2.500
October	3.000	2.500
November	3.150	2.800
December	3.400	2.800
2005		
January	3.325	3.000
February	3.175	3.025
March	3.175	2.950
April	3.100	2.700
May	2.850	2.475


Source: the Stock Exchange website

(h) Shares repurchases made by the Company





No repurchases of Shares (whether on the Stock Exchange or otherwise) have been made by the Company in the six months preceding the Latest Practicable Date.

9. INTELLECTUAL PROPERTY

As at 28 June 2005, Minmetals Aluminium has the right to use the following trademarks under the trademark licensing agreement (set out in item (e) of paragraph 10 below). For details, please also refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular:

Trademark	Country of registration	Registration number	Type of mark	Effective date
	The PRC	1908579	Class 6	14 February 2003 to 13 February 2013
MINMETALS	The PRC	1908581	Class 6	21 May 2003 to 20 May 2013

As at the Latest Practicable Date , the Group had the following trademarks:

Trademark	Country of registration	Registration number	Registered owner	Effective period
	The PRC	854258	NCA	14 July 1996 to 13 July 2006
	The PRC	231219	NCA	15 August 1985 to 14 August 2005
	The PRC	1073464	YOPT	7 August 1997 to 6 August 2007
	The PRC	748382	YOPT	28 May 1995 to 27 May 2015

As at the Latest Practicable Date, the Group also has the following patent rights:

Patent	Patent registration number	Place of registration	Registered owner	Date of application	Date of grant
插裝式鋁合金杆塔專用型材 (Aluminium alloy profile for pole structure)	ZL00238420.5	The PRC	NCA	27 June 2000	9 May 2001
單元插裝式鋁合金杆塔 (Unit inserted pole with aluminium alloy profile)	ZL00238421.3	The PRC	NCA	27 June 2000	16 June 2001
一種撓性管的加工裝置 (Processing apparatus for a type of flexible tube)	ZL02 2 80670.9	The PRC	YOPT	24 October 2002	8 October 2003

The above patent rights are effective for a period of 10 years from their respective application dates.

10. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by members of the Enlarged Group within the two years immediately prior to the date of this circular:

- (a) a subscription agreement dated 15 October 2003 entered into between the Company and Coppermine in relation to the subscription of 475,376,917 Shares;
- (b) a share transfer agreement dated 6 December 2004 between China Minmetals, CMN, Top Create Resources and Target BVI whereby China Minmetals and CMN agreed to transfer all their respective interest, totalling 100% of the equity interest, in Minmetals Aluminium to Target BVI for an aggregate consideration of RMB1,060 million. The consideration was satisfied by way of an allotment and issue of one new share fully paid up in Target BVI to Top Create Resources;

- (c) the Acquisition Agreement;
- (d) the Non-competition Agreement;
- (e) a trademark licensing agreement dated 28 June 2005 between China Minmetals and Minmetals Aluminium whereby China Minmetals has granted Minmetals Aluminium the right to use various registered trademarks of China Minmetals for free (For details, please refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular); and
- (f) the Agreement on Non-transferred Contracts dated 28 June 2005 between CMN and Minmetals Aluminium whereby CMN agreed to sell the alumina received under the non-transferred contracts set out in the agreement to Minmetals Aluminium and Minmetals Aluminium agreed to re-sell such alumina to CMN at such prices set out in the agreement (For details, please refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular).

11. SHARE OPTION SCHEMES

A. Share Option Scheme 2004

The following is a summary of the principal terms of the Share Option Scheme 2004 which was adopted by the Company at its annual general meeting held on 28 May 2004. No options had been granted under the Share Option Scheme 2004 since its adoption.

(a) Purpose of the scheme

The purpose of the Share Option Scheme 2004 is to recognise and acknowledge the contributions that the person who satisfies the eligibility criteria set out in the scheme (“Eligible Person”) had made or may from time to time make to the Group whether in the past or in the future.

The Share Option Scheme 2004 will provide the Eligible Persons with an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the Eligible Persons to optimise their performance and efficiency for the benefit of the Group; and
- (ii) attract and retain or otherwise maintain ongoing business relationship with the Eligible Persons whose contributions are or will be beneficial to the long term growth of the Group.

(b) Who may join

The Eligible Person who can participate in the Share Option Scheme 2004 is 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 considers, in their sole discretion, appropriate. In exercising such discretion, the Board shall have regard to the purpose of the Share Option Scheme 2004 as set out in paragraph (a) and the following factors and such other factors as it may consider appropriate:

- (i) whether such person has any relationship (whether business or otherwise) with any company of the Group and the nature and duration of such relationship; and
- (ii) any contributions which have been made, or may be made, by such persons to the Group (or benefits received by the Group from such persons or persons associated with them) and the nature of any such contributions or benefits; and

- (iii) the views of the independent non-executive Directors of the Company in considering whether a Director, chief executive or substantial shareholder of the Company or any of their respective associates should be approved as an Eligible Person.

In order for a person to satisfy the Board that he is qualified to be (or continues to be qualified to be) an Eligible Person, such person shall provide all such information as the Board may request for the purpose of assessing its eligibility (or continuing eligibility).

(c) *Subscription price of shares*

The price per Share at which any Eligible Person who accepts the offer of an option to subscriber for Shares ("Option") made in accordance with the Share Option Scheme 2004 ("Offer") or (where the context so permits) the legal personal representative(s) entitled to any such Option in consequence of the death of the original grantee ("Grantee") may subscribe for Shares on the exercise of an Option ("Subscription Price") in respect of any particular Option shall be a price as the Board may in its absolute discretion determine at the time of grant of the relevant Option and shall not be less than the highest of (i) the closing price per Share as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant Option; (ii) the amount equivalent to the average closing price per Share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the relevant Option; or (iii) the nominal value of a Share.

(d) *Maximum number of shares*

- (i) The maximum number of Shares to be issued upon exercise of all outstanding Options granted and yet to be exercised under the Share Option Scheme 2004 and any other share option schemes of the Company ("Other Schemes") must not, in aggregate, exceed 30% of the issued share capital of the Company from time to time. No Option may be granted under any schemes of the Company (including the Share Option Scheme 2004) if this will result in the said 30% limit being exceeded.
- (ii) The total number of Shares which may be issued upon exercise of all Options (excluding, for this purpose, Options which have lapsed in accordance with the terms of the Share Option Scheme 2004 and all Other Schemes) to be granted under the Share Option Scheme 2004 and any Other Schemes must not, in aggregate, exceed 10% of the issued share capital of the Company, representing 60,734,961 Shares, at the date of the approval of the Share Option Scheme 2004 by the Shareholders ("Scheme Mandate Limit") unless Shareholders' approval has been obtained pursuant to subparagraph (iv) below.

- (iii) The Scheme Mandate Limit may be refreshed by Shareholders in general meeting from time to time provided that the Scheme Mandate Limit so refreshed must not exceed 10% of the issued share capital of the Company at the date of the approval of the refreshment by the Shareholders. Upon any such refreshment, all Options previously granted under the Share Option Scheme 2004 and Other Schemes including those outstanding, cancelled, lapsed in accordance with the terms of the Share Option Scheme 2004 and all Other Schemes or options which have been exercised shall not be counted for the purpose of calculating whether the refreshed Scheme Mandate Limit has been exceeded. A circular must also be sent to the Shareholders containing such information from time to time required by the Stock Exchange under the Listing Rules.
- (iv) The Board may seek separate Shareholders' approval in general meeting to grant Options beyond the Scheme Mandate Limit provided the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person(s) specified by the Company before such approval is sought and the Company must issue a circular to the Shareholders containing such information from time to time required by the Stock Exchange under the Listing Rules in relation to any such proposed grant to such Eligible Person.
- (v) No Options 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 Share Option Scheme 2004 (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 requirements provided under the Listing Rules.

(e) Grant of options to connected persons or any of their respective associates

Any grant of Options to Directors, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the Grantee of the Option).

Where Options are proposed to be granted to a substantial shareholder of the Company or an independent non-executive Director or any of their respective associates, and the proposed grant of Options would result in the Shares issued and to be issued upon exercise of all Options already granted (including exercised, cancelled and outstanding Options) to such person in

12-month period up to and including the date of the grant of such Options to represent in aggregate over 0.1% of the total issued Shares for the time being and have an aggregate value (based on the closing price of a Share at each date of the grant of these Options) exceeding HK\$5,000,000, the proposed grant shall be subject to the approval of Shareholders in general meeting in accordance with the Listing Rules. The Company must also send a circular containing information as required under the Listing Rules to the Shareholders.

(f) Time of acceptance and exercise of option

An Offer may be accepted by the Grantee within 28 business days (or such shorter period as the Board shall determine) from the date of the Offer. A consideration of HK\$10.00 is payable on acceptance of the Offer.

An Option may be exercised in accordance with the terms of the Share Option Scheme 2004 at any time during a period to be determined and notified by the Directors to each Grantee, which period may commence on the day on which the Offer is made but shall end in any event not later than 10 years from the date of the Board makes an Offer subject to the provisions for early termination thereof.

There is no general requirement on the minimum period for which an Option must be held under the terms of the Share Option Scheme 2004. However, at the time of granting an Option, the Board may, on a case by case basis, make such grant subject to such conditions, restrictions or limitations in relation to the minimum period of the Options to be held as the Board may determine in its absolute discretion.

(g) Performance targets

The Directors may at their absolute discretion specify the performance targets, if any, that must be achieved before the Option can be exercised.

(h) Rights are personal to grantee

An Option shall be personal to the Grantee and shall not be assignable or transferable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any Option.

(i) Rights on ceasing employment

- (i) If the Grantee who is an employee of any company in the Group (including any director of any company in the Group) who is in employment with any company in the Group (whether full-time or part-time) at the time the Option is granted to such employee

("Employee"), ceases to be an Employee for any reason other than his death or the termination of his employment on one or more of the following grounds that:

- (a) he has been guilty of serious misconduct; or
- (b) he becomes insolvent or is unable or has no reasonable prospect of being able to pay debts which are due or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally; or
- (c) he has been convicted of any criminal offence involving his integrity or honesty or any other ground on which an employer would be entitled to terminate his employment at common law or pursuant to any applicable laws or under the Grantee's services contract with any company of the Group,

the Grantee may exercise the Option (to the extent not already exercised) within a period of 3 months following the date of cessation of such employment, failing which the Option will lapse.

- (ii) If the Grantee who is a director, an adviser of, a consultant of or a contractor to any company in the Group, or has any relationship (whether business or otherwise) with the Group but not an Employee, ceasing to be a director, an adviser of, a consultant of or a contractor to any company in the Group, or to have any relationship with the Group (as the case may be) for any reason other than his death (in the case of a Grantee being an individual), the Option (to the extent not already exercised) shall be exercised within 3 months following the date of such cessation, failing which the Option will lapse.

(j) *Rights on death*

If the Grantee dies before exercising the Option in full, provided that none of the events which would be a ground for termination of his employment under paragraph (i)(i) above arises prior to his death, his legal personal representative(s) may exercise the Option up to the Grantee's entitlement (to the extent exercisable as at the date of his death and not already exercised) within a period of 12 months following his death or such longer period as the Board may determine, failing which the Option will lapse.

(k) *Effect of alterations to capital*

In the event of an alteration in the capital structure of the Company, excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in a transaction to which the Company is a party, while an Option is exercisable, such corresponding alterations will be made in the number or nominal amount of Shares subject to unexercised Options, the Subscription Price, the maximum number of Shares subject to the Share Option Scheme 2004 or the method of exercise of the Option. Any such alteration shall be certified by the auditors for the time being of the Company or an independent financial adviser appointed by the Company from time to time ("Auditors") as being fair and reasonable (except of a capitalisation of profits or reserves unless otherwise expressly required by the Board), and as giving Eligible Person the same proportion of equity capital as that to which they were previously entitled and as not requiring any Shares to be issued following such adjustment at less than its nominal value as a result thereof. Alteration shall be made on the basis that the relevant total Subscription Price payable by a Grantee on the full exercise of any Option shall remain as nearly as possible the same as it was before such event.

(l) *Rights on a general offer*

If a general offer is made to all holders of Shares and such offer becomes or is declared unconditional, each Grantee shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional.

(m) *Rights on winding up*

In the event a notice is given by the Company to the Shareholders to convene a general meeting for the purpose of considering and approving a resolution to voluntarily wind up the Company, the Company shall forthwith give notice thereof to the Grantee and the Grantee may by notice in writing to the Company together with a remittance of the Subscription Price in respect of which the notice is given (such notice to be received by the Company not later than 4 business days prior to the proposed Shareholders' meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the day immediately prior to the date of the proposed Shareholders' meeting, allot and issue such number of Shares credited as fully paid to the Grantee which falls to be issued on such exercise and register the Grantee as the holder thereof.

(n) *Rights on a compromise or arrangement*

In the event of a compromise or arrangement between the Company and the Shareholders or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all Grantees on the same day as it gives notice of the meeting to the Shareholders or creditors to consider such scheme and the Grantee may by notice in writing to the Company together with a remittance for the Subscription Price in respect of which the notice is given (such notice to be received by the Company not later than 4 business days prior to the proposed meeting) exercise the Option (to the extent not already exercised) either to its full extent or to the extent specified in such notice and the Company shall, as soon as possible and in any event no later than the day immediately prior to the date of the proposed meeting, allot and issue such number of Shares credited as fully paid to the Grantee which falls to be issued on such exercise and registered the Grantee as the holder thereof.

(o) *Ranking of shares*

Shares allotted on the exercise of Options shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the date on which Shares are allotted and issued to a Grantee pursuant to the exercise of the right attaching to an Option granted and exercised under the Share Option Scheme 2004 ("Allotment Date") and shall entitle the holders to participate in all dividends or other distributions paid or made after the Allotment Date other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be on or before the Allotment Date.

(p) *Period of the scheme*

The Share Option Scheme 2004 will remain in force for a period of 10 years from the date of adoption of such scheme.

(q) *Lapse of option*

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the expiry of the period to be notified by the Board to each Grantee which the Board may in its absolute discretion determine as the period during which such Option may be exercised, save that such period shall not be more than 10 years from the date on which the Option is deemed to have been granted and accepted in accordance with the terms of the Share Option Scheme 2004 ("Option Period");

- (ii) the expiry of any of the periods referred to in paragraphs (i) and (j) above;
- (iii) subject to the High Court of Hong Kong not making an order prohibiting the offeror to acquire the remaining Shares in the offer, the expiry of the period referred to in paragraph (l) above;
- (iv) subject to paragraph (m), the date of the commencement of the winding-up of the Company;
- (v) subject to paragraph (n), the date when the proposed compromise or arrangement becomes effective;
- (vi) the date on which the Grantee who is an Employee ceases to be an Employee by reason of the termination of his employment on any one or more of the grounds as referred to in paragraph (i)(i) above;
- (vii) the happening of any of the following events, unless otherwise waived by the Board:
 - (a) any liquidator, provisional liquidator, receiver or any person carrying out any similar function has been appointed anywhere in the world in respect of the whole or any part of the asset or undertaking of the Grantee (being a body corporate);
 - (b) the Grantee (being a body corporate) has ceased or suspended payment of its debts, become unable to pay its debts (within the meaning of section 178 of the Companies Ordinance) or otherwise become insolvent;
 - (c) there is any unsatisfied judgement, order or award outstanding against the Grantee;
 - (d) there are circumstances which entitle any person to take any action, appoint any person commence proceedings or obtain any order of the type mentioned in sub-paragraphs (a), (b) or (c) above against any Grantee;
 - (e) a bankruptcy order has been made against any director of the Grantee (being a body corporate) in any jurisdiction; or
 - (f) a petition for bankruptcy has been presented against any director of the Grantee (being a body corporate) in any jurisdiction;

- (viii) the date on which the Grantee commits a breach of the term under paragraph (h), if the Board shall exercise the Company's right to cancel the Option;
- (ix) the date on which the Grantee commits a breach of any condition attached to the grant of its Option, if the Board shall exercise the Company's right to cancel the Option; or
- (x) the date on which the Board considers that the Grantee fails to meet the continuing eligibility criteria under the Share Option Scheme 2004, if the Board shall exercise the Company's right to cancel the Option.

(r) *Alteration of the Share Option Scheme 2004*

Those specific provisions of the Share Option Scheme 2004 which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of Eligible Person, and no changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme 2004 shall be made, without the prior approval of Shareholders in general meeting. Any alterations to the terms or conditions of the Share Option Scheme 2004 which are of a material nature must also be approved by the Shareholders in general meeting, except where the alteration takes effect automatically under the existing terms of the Share Option Scheme 2004.

(s) *Cancellation of unexercised option*

The Board shall have the absolute discretion to cancel any Option granted at any time provided that where an Option is cancelled and a new Option is proposed to be issued to the same Grantee, the issue of such new Option may only be made with available unissued Options (excluding, for this purpose, all cancelled Options) within the limits approved by Shareholders referred to in the paragraph (d) above.

(t) *Termination*

The Company by resolution in general meeting or the Board may terminate the operation of the Share Option Scheme 2004 at any time, but Options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of such scheme.

B. Share Option Scheme 1994

The following is a summary of the principal terms of the Share Option Scheme 1994, which expired on 24 November 2004. As at the Latest Practicable Date, the number of outstanding options thereunder is 11,110,000 and the exercise price for all outstanding options is HK\$3.115 per Share. All options were granted pursuant to the Share Option Scheme 1994, in compliance with the applicable Listing Rules from time to time. The table below shows the list of outstanding options under the Share Option Scheme 1994 as at the Latest Practicable Date:

Name of participant	Position	Address of participant	No. of options granted	Approximate % of total number of issued Shares as at the Latest Practicable Date (607,349,612 Shares)
CHAN Mei Yuk	Administration Manager	Flat F, 12th Floor Block 2, Harvest Garden Tuen Mun New Territories Hong Kong	200,000	0.0329%
CHENG Shuk Han, Gillian	Secretary	Flat H, 11th Floor Tower 3A, Tierra Verde 33 Tsing King Road Tsing Yi New Territories Hong Kong	80,000	0.0132%
CHEUNG Yuk Mui	Manager Assistant of Aluminium Department	Flat B, 4th Floor Po Wah Building 300-306 Temple Street Kowloon Hong Kong	200,000	0.0329%
CHU Charn Fai	Financial Controller	Flat E, 17th Floor, Block 4 Lywood Court Kingswood Villas Tin Shui Wai New Territories Hong Kong	800,000	0.1317%
DENG Weihua	Deputy General Manager of Industrial Investment Department	Flat 7, 9th Floor, Block 10 Heng Fa Chuen Hong Kong	500,000	0.0823%
DU Yonggang	General Manager of Finance Department	2B, Tung Hoi Mansion Taikoo Shing Hong Kong	300,000	0.0494%

APPENDIX VII

GENERAL INFORMATION

Name of participant	Position	Address of participant	No. of options granted	Approximate % of total number of issued Shares as at the Latest Practicable Date
				(607,349,612 Shares)
LEUNG Suet Kam, Lucia	Company Secretary	Flat 5, 26th Floor, Block R Sunshine City Ma On Shan New Territories Hong Kong	800,000	0.1317%
LIN Xizhong	Chairman	Flat B, 20th Floor Primrose Mansion Taikoo Shing Hong Kong	3,000,000	0.4939%
LO Bik Chun	Clerk	Room 2818 Tung Yip House Lei Tung Estate Hong Kong	50,000	0.0082%
NG Hau Man	Assistant Manager of Finance Department	Room 306 Shek Kwai House Shek Wai Kok Estate Tsuen Wan New Territories Hong Kong	100,000	0.0165%
QIAN Wenchao	Executive Director	Flat G, 23rd Floor Pak Hoi Mansion Taikoo Shing Hong Kong	1,500,000	0.2470%
SO Cheuk Nga	Company Secretarial Officer	Flat F, 35th Floor, Block 1 La Cite' Noble 1 Ngan O Road Tseung Kwan O New Territories Hong Kong	80,000	0.0132%
TANG Xiaojin	Executive Director & Vice President	Flat F, 9th Floor Tung Hoi Mansion Taikoo Shing Hong Kong	1,500,000	0.2470%
XU Huizhong	Executive Director & President	Flat G, 27th Floor Pak Hoi Mansion Taikoo Shing Hong Kong	2,000,000	0.3293%

(a) *Purpose of the scheme*

The purpose of the Share Option Scheme 1994 was to recognise and acknowledge the contributions that the eligible persons under the scheme had made to the Group.

The Share Option Scheme 1994 provided the eligible persons with an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivate the eligible persons to optimise their performance and efficiency for the benefit of the Group; and
- (ii) attract and retain the eligible persons whose contributions are or will be beneficial to the long term growth of the Group.

(b) *Who may join*

Any person in full time employment of any company of the Group including any director of any company in the Group, was eligible to participate in the Share Option Scheme 1994.

(c) *Subscription price of shares*

The subscription price in respect of any particular option should be a price as the Board may in its discretion determine on the date of offer of the relevant option and should not be less than the higher of (i) 80% of the average official closing price of the Shares as stated in the Stock Exchange's quotations sheet for the 5 business days upon which dealings in Shares are made immediately preceding the date of offer of the relevant option; or (ii) the nominal value of a Share.

(d) *Maximum number of shares*

- (i) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme 1994 when aggregated with the maximum number of Shares in respect of which options may be granted under any other share option scheme established by any member of the Group is that number which is equal to 10 percent of the issued share capital of the Company from time to time (excluding for this purpose any Share which have been duly allotted and issued pursuant to the Share Option Scheme 1994 or another scheme).

- (ii) No option(s) shall be granted to any eligible person if the number of Shares exercisable under such option(s), when aggregated with the number of Shares which have been subscribed on exercise of any options granted to such eligible person under the Share Option Scheme 1994 and the number of Shares for which such eligible person is entitled to subscribe under any outstanding option, would exceed 25% of the maximum number of Shares in respect of which options may be granted under the Share Option Scheme 1994.

(e) Time of acceptance and exercise of option

An offer may be accepted by the grantee within 28 days from the date of the offer. A consideration of HK\$10.00 is payable on acceptance of the offer.

An option may be exercised in whole or in part at any time after such option is deemed to be granted and accepted in accordance with the terms of the Share Option Scheme 1994 but before the date which is 3 years after such date.

(f) Rights are personal to grantee

An option shall be personal to the grantee and shall not be assignable or transferable and no grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any third party over or in relation to any option.

(g) Rights on ceasing employment

- (i) If the grantee ceases to be a full-time employee of the Company or of any company of the Group for any reason other than his death or other than the reasons set out in sub-paragraph (g)(ii) below on any date prior to the date upon which the options held by him will otherwise cease to be exercisable, all the options which have not been exercised by such grantee shall lapse and determine on the date of termination of his employment.
- (ii) If the grantee ceases to be a full-time employee of the Company or of any company of the Group in one of the following circumstances:
 - (a) on the ground of ill-health, injury, disability, redundancy or retirement; or

- (b) upon cessation of his employing company to be a member of the Group and he not thereupon being employed by another member of the Group;

then, subject to other provisions of the Share Option Scheme 1994, all of the options of such grantee may only be exercised in whole or in part before the earlier of the expiration of 3 months after the date he so ceases to be an a full-time employee or the expiration of the relevant option period(s) under the Share Option Scheme 1994. Any option not so exercised shall lapse and determine at the end of the said period, provided that the Board has the absolute discretion to extend the said period but the period of extension shall not exceed 6 months from the date of expiration of the original expiration period.

(h) Rights on death

If the grantee dies or becomes insane after the date upon which any option is deemed to have been granted and accepted in accordance with the Share Option Scheme 1994, then, subject to other provisions of the Share Option Scheme 1994, all of the options of the grantee may only be exercised in whole or in part by his personal representative(s) or receiver before the earlier of (i) the expiration of 12 months after his death or the date of the receiving order; or (b) the expiration of the relevant option periods under the Share Option Scheme 1994. Any option not so exercised shall lapse and determine at the end of the said period, provided that the Board has the absolute discretion to extend the said period but the period of extension shall not exceed 6 months from the date of expiration of the original expiration period.

(i) Effect of alterations to capital

In the event there is a change in the capital structure of the Company through consolidation, subdivision, capitalization of profits or reserves, issue of shares by way of rights or a reduction of share capital, such corresponding changes shall be made in:

- (i) the aggregate number of Shares available for the grant of options;
- (ii) the number of Shares subject to outstanding options and the subscription price per Share of each outstanding option;
- (iii) the securities to which the options relates; and/or
- (iv) the method of exercise of the option,

as the auditors of the Company shall at the request of the Company or any grantee certify in writing generally or as regards a particular grantee to be in their opinion fair and reasonable, provided that any such changes shall be made on the basis that:

- (a) the aggregate percentage of the issued share capital of the Company available for the grant of options shall remain as nearly as possible the same as it was before such change but shall not be greater than the maximum number of Shares mentioned in paragraph (d)(i) above;
- (b) the number of Shares in respect of which any option has already been granted shall be altered so as to represent, as nearly as possible, the same percentage of the issued share capital of the Company as it was before such change; and
- (c) the aggregate subscription price relating to any option shall not be increased.

No alteration shall be made to the Share Option Scheme 1994 as a result of the issue of Shares as consideration in a transaction by any member of the Group.

(j) *Rights on a general offer*

If a general offer is made to all holders of Shares and such offer becomes or is declared unconditional during the option period, each grantee shall be entitled to exercise the option in full (to the extent not already exercised) at any time before the earlier of (i) the expiry of the option period under the Share Option Scheme 1994; and (ii) within one month from the date on which such general offer becomes or is declared unconditional.

(k) *Rights on winding up*

In the event of an effective resolution being passed for the members' voluntary winding up of the Company on any date prior to the date of expiry of the option period under the Share Option Scheme 1994, and if the grantee immediately prior to such event had any subsisting option which had not been fully exercised, the grantee may by notice in writing to the Company within 21 days after the date of such resolution elect to be treated as if the option (to the extent not already exercised) had been exercised in whole or in part immediately before the passing of such resolution and shall accordingly be entitled to receive out of the assets available for distribution in the winding up of the Company *pari passu* with the holders of Shares such sum or other distribution as would have been received had he been allotted and issued on the day prior to the date of such resolution the Shares the subject of such election reduced by an amount equal to the subscription price of such Shares which would otherwise have been payable in respect thereof.

(l) *Rights on a compromise or arrangement*

In the event of a compromise or arrangement between the Company and the Shareholders or creditors being proposed in connection with a scheme for the reconstruction or amalgamation of the Company, the Company shall give notice thereof to all grantees who have options unexercised at the same time as it gives notice of the meeting to the Shareholders or creditors of the Company to consider such scheme and each grantee may exercise the option in whole or in part (to the extent not already exercised) until the expiry of the earliest of (i) the option period under the Share Option Scheme 1994; (ii) the period of 2 months from the date of such notice; or (iii) the date on which such compromise or arrangement is sanctioned by the court. All options outstanding at the expiry of the relevant period mentioned above shall lapse. The Company may thereafter require each grantee to transfer or otherwise deal with the Shares issued on exercise of the option to place the grantee in the same position as would have been the case had such Shares been the subject of such compromise or arrangement.

(m) *Ranking of Shares*

Shares allotted on the exercise of options shall rank *pari passu* in all respects with the existing fully paid Shares in issue on the allotment date and shall entitle the holders to participate in all dividends and other distribution paid or made on or after the allotment date other than any dividend and other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the allotment date.

(n) *Period of the scheme*

The Share Option Scheme 1994 remained in force for a period of 10 years from the date of adoption of such scheme on 25 November 1994.

(o) *Lapse of option*

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (i) the date which is 3 years after the date on which the option is deemed to have been granted and accepted in accordance with the Share Option Scheme 1994;
- (ii) the expiry of any of the periods referred to in paragraphs (g)(ii), (h), (j), (k) or (l) above;
- (iii) the date of commencement of the winding up of the Company;

- (iv) the date on which the grantee ceases to be a full-time employee of the Company or of any company of the Group by reason of his resignation or the proper termination of his employment or his executive directorship for any reason (other than those as set out in paragraphs (g)(ii) or (h));
- (v) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits or permits a breach of the terms mentioned in paragraph (f) above; or
- (vi) if the eligible person ceases to be employed by the Company and/or any of its subsidiaries during the 12 months period following the date on which his particular option is deemed to have been granted and accepted in accordance with Share Option Scheme 1994.

(p) *Alteration of the Share Option Scheme 1994*

Those specific provisions of the Share Option Scheme 1994 which relate to the matters set out in Rule 17.03 of the Listing Rules cannot be altered to the advantage of eligible person, and no changes to the authority of the Board in relation to any alteration of the terms of the Share Option Scheme 1994 shall be made, without the prior approval of the Stock Exchange and the Shareholders in general meeting. Any alterations to the terms or conditions of the Share Option Scheme 1994 which are of a material nature must also be approved by the the Stock Exchange and the Shareholders in general meeting, except where the alteration take effect automatically under the existing terms of the Share Option Scheme 1994.

(q) *Termination*

The Company by resolution in general meeting may terminate the operation of the Share Option Scheme 1994 at any time, but options granted prior to such termination shall continue to be valid and exercisable in accordance with the terms of such scheme.

12. INFORMATION ABOUT PRINCIPAL PRC ENTERPRISES

The Enlarged Group has interests in the following principal PRC enterprises:

(a) 五礦有色金屬連雲港有限公司 (Minmetals Non-ferrous Lianyungang Company Limited)

Nature:	To be transformed into a Sino-foreign joint venture as a result of the Reorganisation
Date and country of establishment:	20 August 2002
Term of operation:	10 years from 20 August 2002 to 19 August 2012
Registered address:	Overseas Chinese Investment Zone (West Wing of Yingzhou South Road, Yingzhou City) Ninghai, Guanyun County 灌雲縣寧海華僑投資園 (市瀛洲南路西側)
Registered capital:	RMB1,000,000
Attributable interest of the Enlarged Group:	90%
Capital contribution:	(1) Minmetals Aluminium RMB900,000 representing 90% of the registered capital (2) 廣州經濟技術開發區五礦倉儲有限公司 (Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.) RMB100,000 representing 10% of the registered capital (<i>Note</i>)
Number of directors:	4 (4 appointed by Minmetals Aluminium)

Note: 廣州經濟技術開發區五礦倉儲有限公司 (Guangzhou Economic and Technological Development District China Minmetals Storage Co., Ltd.) intends to sell and transfer its 10% equity interest in LYG to Independent Third Parties, such that LYG will become an indirect subsidiary of China Minmetals held solely under Minmetals Aluminium and has openly offered to sell such interest on the 北京產權交易所 (Beijing Equity Exchange).

(b) NCA

Nature:	Sino-foreign equity joint venture
Date of establishment:	9 December 1993
Term of joint venture:	20 years commencing from 9 December 1993
Registered capital:	RMB344.8 million
Attributable interest of the Company:	51%
Capital contribution:	<p>(1) Orienmet Industry Company Limited RMB175.84 million representing 51% of the registered capital</p> <p>(2) 中國鋁業公司(Aluminium Corporation of China) RMB65.13 million representing 18.89% of the registered capital</p> <p>(3) 中信興業投資有限責任公司 (CITIC Development Co., Ltd.) RMB56.23 million representing 16.31% of the registered capital</p> <p>(4) 河北省人民政府國有資產監督管理委員會第三後勤服務中心 (The Third Rear-Service Center attached to State-owned Assets Supervision and Administration Commission of the People's Government of Hebei Province) RMB47.58 million representing 13.80% of the registered capital</p>
Number of directors:	13 (7 appointed by Orienmet Industry Company Limited)

(c) YOPT

Nature:	Sino-foreign equity joint venture
Date of establishment:	31 December 1993
Term of joint venture:	20 years commencing from 31 December 1993
Registered capital:	US\$4 million
Attributable interest of the Company:	51%
Capital contribution:	(1) Orienmet Industry Company Limited US\$2.04 million representing 51% of the registered capital (2) 中國電子進出口總公司 (China National Electronics Import & Export Corporation) US\$1.96 million representing 49% of the registered capital
Number of directors:	7 (4 appointed by Orienmet Industry Company Limited)

(d) 常州金源銅業有限公司 (Changzhou Jinyuan Copper Company Limited)

Nature:	Sino-foreign equity joint venture
Date of establishment:	31 March 1994
Term of joint venture:	30 years commencing from 31 March 1994
Registered capital:	RMB100 million
Attributable interest of the Company:	25%
Capital contribution:	(1) Lontic (H.K.) Limited RMB25 million representing 25% of the registered capital (2) 日礦金屬株式會社 (Nippon Mining & Metals Co., Ltd.) RMB40 million representing 40% of the registered capital (3) 三井物產株式會社 (Mitsui & Co., Ltd.) RMB19 million representing 19% of the registered capital (4) 三井物產(中國)有限公司 (Mitsui (China) Co., Ltd.)

	RMB10 million representing 10% of the registered capital
(5)	大自達電線株式會社 (Tatsuta Electric Wire & Cable Co., Ltd.)
	RMB3 million representing 3% of the registered capital
(6)	常州機電國有資產經營 有限公司 (Changzhou Electromechanical State-owned Assets Operation Co., Ltd.)
	RMB3 million representing 3% of the registered capital
Number of directors:	10 (3 appointed by Lontic (H.K.) Ltd.)
(e) 葫蘆島東方銅業有限公司 (Huludao Orienmet Copper Company Limited)	
Nature:	Sino-foreign equity joint venture
Date of establishment:	7 May 1993
Term of joint venture:	20 years commencing from 7 May 1993
Registered capital:	US\$46.6 million
Attributable interest of the Company:	30%
Capital contribution:	(1) Orienmet Industry Company Limited US\$13.98 million representing 30% of the registered capital
	(2) 中國有色金屬工業總公司 葫蘆島鋅廠 (China Non-ferrous Metals Industry Company Huludao Zinc Factory) US\$32.62 million representing 70% of the registered capital
Number of directors:	11 (4 appointed by Orienmet Industry Company Limited)

(f) 青島美特容器有限公司 (Qingdao M.C. Packaging Limited)

Nature:	Sino-foreign equity joint venture
Date of establishment:	16 August 1993
Term of joint venture:	30 years commencing from 16 August 1993
Registered capital:	US\$25 million
Attributable interest of the Company:	20%
Capital contribution:	<p>(1) Orienmet Industry Company Limited US\$5 million representing 20% of the registered capital</p> <p>(2) M.C. Packaging Overseas Co., Ltd. 美特容器海外有限公司 US\$10 million representing 40% of the registered capital</p> <p>(3) 山東鋁業公司 (Shandong Aluminium Industry Corporation) US\$10 million representing 40% of the registered capital</p>
Number of directors:	10 (2 appointed by Orienmet Industry Company Limited)

(g) 煙台鵬輝銅業有限公司 (Yantai Penghui Copper Industry Company Limited)

Nature:	Sino-foreign equity joint venture
Date of establishment:	15 March 1993
Term of joint venture:	25 years commencing from 15 March 1993
Registered capital:	RMB229 million
Attributable interest of the Company:	42%
Capital contribution:	(1) Goldfair Hong Kong Limited RMB55.44 million representing 42% of the registered capital (2) 煙台有色金屬股份有限公司 (Yantai Non-ferrous Metals Group Co., Ltd.) RMB113.98 million representing 49.80% of the registered capital (3) 中國有色新金屬公司 (China Non-ferrous New Metals Company) RMB18.84 million representing 8.20% of the registered capital
Number of directors:	7 (3 appointed by Goldfair Hong Kong Limited)

The capital of each of the Enlarged Group's principal PRC enterprises listed above has been fully paid up in a timely manner and in accordance with the terms of their respective joint venture contracts, except for Yantai Penghui Copper Industry Company Limited whose registered capital is RMB229 million and paid-up capital is RMB214.48 million, the remaining registered capital being represented by the value of that Company's fixed assets and buildings in respect of which the necessary transfer procedures have not yet been completed.

13. ESTATE DUTY

The Directors have been advised by its PRC legal advisers, King and Wood, that no material liability for estate duty is likely to fall on the Group in the PRC.

14. GENERAL

- (a) The secretary of the Company is Leung Suet Kam, Lucia, ACS and ACIS.
- (b) The share registrar and the transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (c) The registered office of the Company is at 9th Floor, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.
- (d) The English text of this circular shall prevail over the Chinese text.
- (e) The estimated amount of the expenses in relation to the issue and of the application for listing is approximately HK\$12 million and shall be borne by the Company.

15. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours up to 5:00 p.m. on 25 July 2005 at 9th Floor, China Minmetals Tower, 79 Chatham Road South Tsimshatsui, Kowloon Hong Kong:

- (a) the memorandum and articles of association of the Company;
- (b) the letter from the Independent Board Committee dated 30 June 2005, the text of which is set out in the section headed "Letter from the Independent Board Committee" in this circular;
- (c) the letter from Somerley dated 30 June 2005, the text of which is set out in the section headed "Letter from Somerley" in this circular;
- (d) the accountants' report of PwC on Target BVI, the text of which is set out in Appendix I to this circular;
- (e) the letter on the unaudited pro forma financial information of the Enlarged Group from PwC, the text of which is set out in paragraph IV of Appendix III to this circular;
- (f) written statement of adjustment signed by PwC dated 30 June 2005, setting out the adjustment and the reasons for the adjustment;
- (g) the annual reports of the Company for the three years ended 31 December 2002, 2003 and 2004 respectively;
- (h) the property valuation reports of CB Richard Ellis Limited, the texts of which are set out in Appendices IV and V to this circular;

- (i) the legal opinions (in Chinese) prepared by King and Wood dated 30 June 2005 in respect of the Enlarged Group referred to in the property valuation reports of CB Richard Ellis Limited set out in Appendices IV and V to, and other parts of, this circular;
- (j) the Australian legal opinion prepared by Allens Arthur Robinson dated 30 June 2005 referred to in the paragraph “Licences and permits” under the section headed “Information on the Target Group and the Group” of this circular;
- (k) the Hong Kong legal opinions prepared by Deacons dated 30 June 2005 in respect of the property interests of the Group referred to in the property valuation report of CB Richard Ellis Limited set out in Appendix V to this circular;
- (l) the material contracts referred to in paragraph 10 of this Appendix;
- (m) the written consents referred to in paragraph 4 of this Appendix;
- (n) the circular issued by the Company dated 27 April 2004 in respect of, among other things, the adoption of the Share Option Scheme 2004;
- (o) a tenancy agreement dated 19 February 2004 between Eastern Master (HK) Limited and Texion Development Limited (please refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular for details);
- (p) a tenancy agreement dated October 2004 between Minmetals Aluminium and China Minmetals (please refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular for details);
- (q) a composite services agreement dated 28 June 2005 between China Minmetals and Minmetals Aluminium (please refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular for details); and
- (r) a logistics services agreement dated 28 June 2005 between Minmetals Shipping and Minmetals Aluminum (please refer to the section headed “Relationship with the Minmetals Group – Connected transactions” in this circular for details).

NOTICE OF EXTRAORDINARY GENERAL MEETING



ORIENTAL METALS (HOLDINGS) COMPANY LIMITED 東方鑫源(集團)有限公司

(Incorporated in Hong Kong with limited liability)

NOTICE IS HEREBY GIVEN that an Extraordinary General Meeting of Oriental Metals (Holdings) Company Limited (the “**Company**”) will be held at Shek O Room, Lower Level I, Kowloon Shangri-La Hotel, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Monday, 25 July 2005 at 10:30 a.m. for the purpose of considering and, if thought fit, passing (with or without amendments) the following resolutions:

ORDINARY RESOLUTION

“THAT:

- (a) the Acquisition Agreement (as defined in the circular to the shareholders of the Company dated 30 June 2005 (the “Circular”) and a copy of which has been produced to this meeting marked “A” and signed by the chairman of this meeting for the purpose of identification) and the Agreement on Non-transferred Contracts and the Logistics Services Agreements (as defined in the Circular and copies of which are produced to this meeting marked “B” and “C” respectively and signed by the chairman for identification) governing the Non-exempt Continuing Connected Transactions (as defined and referred to in item (2) of the section headed “Connected Transactions” in the “Relationship with the Minmetals Group” section of the Circular) and the transactions respectively contemplated thereunder (including but not limited to (i) the issue and allotment of 1,009,090,909 ordinary shares of HK\$0.05 each in the capital of the Company (“Share(s)”) to Top Create Resources Limited (the “Vendor”) or such person(s) as the Vendor may direct at HK\$2.86 per Share and (ii) the issue and allotment of Shares in connection with the Placing (as defined in the Circular) to ensure not less than 25% of the issued Shares will be held in public hands) and the proposed annual caps in relation to the Non-exempt Continuing Connected Transactions as set out in the Circular, be and are hereby approved, confirmed and ratified; and
- (b) any one of the directors of the Company (“**Director(s)**”) be and is hereby authorised to do all such further acts and things and execute such further documents and take all steps which in his opinion may be necessary, desirable or expedient to implement and/or give effect to the Acquisition Agreement, the Agreement on Non-transferred Contracts, the Logistics Services Agreement and the Non-exempt Continuing Connected Transactions and the transactions respectively contemplated thereunder with any changes as such Director may consider necessary, desirable or expedient.”

SPECIAL RESOLUTION

“THAT subject to and conditional upon the approval of the Registrar of Companies in Hong Kong, the name of the Company be and is hereby changed from “Oriental

NOTICE OF EXTRAORDINARY GENERAL MEETING

Metals (Holdings) Company Limited (東方鑫源(集團)有限公司) to “Minmetals Resources Limited (五礦資源有限公司)” and the Directors be and are hereby authorised to perform all such acts, deeds and things as they may, in their absolute discretion, deem fit, to effect and implement the change of name of the Company.”

By Order of the Board
Oriental Metals (Holdings) Company Limited
Xu Huizhong
Director and President

Hong Kong, 30 June 2005

Registered office:

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

Notes:

1. A member of the Company entitled to attend and vote at the meeting is entitled to appoint a proxy or proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed herewith.
2. Article 65 of the articles of association of the Company provides that a poll may be demanded: (a) by the chairman of such meeting; or (b) by at least three Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or (c) by any Member or Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all Members having the right to vote at the meeting; or (d) by any Member or Members present in person (or in the case of a Member being a corporation by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right. A demand by a person as proxy for a Member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member.
3. Where there are joint holders of any share, any one of such joint holders may vote at the meeting or any adjournment thereof, either personally or by proxy, in respect of such share as if he or she were solely entitled thereto, but if more than one of such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
4. In order to be valid, the form of proxy together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy thereof, must be deposited at the office of the Company's share registrar, Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
5. Completion and return of the accompanying form of proxy will not preclude members of the Company from attending and voting in person at the meeting or any adjournment thereof should they so wish.
6. Coppermine Resources Limited and its associates (as the term is defined in the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited) will abstain from voting on the ordinary resolution at the Extraordinary General Meeting.