

Management Discussion And Analysis

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

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



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

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

1. The net profit of 2004 included an one-off deconsolidation profit of HK\$97.4 million. Such non-recurring item was in relation to the reversal of consolidated losses upon deconsolidation of two non-performing subsidiaries. There was no similar amount in 2005; and
2. The acquisition of Minmetals Aluminium completed in October 2005 and contributed approximately HK\$56.2 million profit (including a negative goodwill of HK\$80.9 million recognised in the acquisition) to the Group for a period of less than 3 months.

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

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

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

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

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



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FINANCIAL REVIEW

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

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

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

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

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

- (1) The net realised losses for derivative financial instruments of approximately HK\$23.6 million;
- (2) The net unrealised losses of HK\$110.1 million for fair value changes on the outstanding derivative financial instruments of Minmetals Aluminium resulted from the adoption of the new HKFRS in 2005; and
- (3) Other gains of approximately HK\$87.8 million from the write-back of provisions made in prior years. During the year, the Group made significant effort in the collection and clearance of the historical accounts payable, guarantees and accounts receivable of which provisions had been previously made.

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

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

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

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

SEGMENTS REVIEW

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

TRADING BUSINESS

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

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



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ALUMINIUM FABRICATION BUSINESS

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

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

OTHER INDUSTRIAL OPERATIONS AND PORT LOGISTICS SERVICES

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

This business segment consists of:

- (1) Yingkou Orienmet Plica Tube Company Limited ("Yingkou Orienmet"), which is owned as to 51% by the Group and is principally engaged in the production and sales of flexible metal conduits; and four PRC associated companies, which are engaged in the production and sales of copper rods, aluminium cans, copper cathodes and copper blisters; and
- (2) Enterprises under the newly acquired Minmetals Aluminium, including Minmetals Non-ferrous Lianyungang Company Limited ("Minmetals Lianyungang") which is owned as to 90% by the Group and is engaged in port logistics services; and Sino Nickel Pty Limited ("Sino Nickel"), which is owned as to 40% by the Group and is engaged in nickel trading.

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

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

FINANCIAL RESOURCES, CASH FLOW AND GEARING RATIO

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

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

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

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

Maturity profile	<i>HK\$ million</i>
Within 1 year	533.8
Between 1 and 2 years	617.5

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

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



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ACQUISITION OF SUBSIDIARIES

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

SHARES ISSUE

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

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

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

CAPITAL EXPENDITURE

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

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

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CHARGE ON ASSETS

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

- (a) (i) all the equity interests of Sino Mining Alumina Limited ("Sino Mining"), a subsidiary of the Group; (ii) all the assets of Sino Mining; (iii) the Group's initial payments for alumina purchasing rights; and (iv) certain bank deposits of the Group amounting to approximately HK\$36.4 million have been pledged to a bank to secure the bank loan in relation to the initial payments for the alumina purchasing rights.
- (b) Certain property, plant and equipment and land use rights of the Group with a total net book amount of approximately HK\$399.8 million and bank deposits of approximately HK\$13.3 million were pledged to banks to secure certain banking facilities of the Group.

CONTINGENT LIABILITIES

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

- (a) The Company provided a corporate guarantee to a bank in respect of the banking facilities extended to an associated company amounting to approximately HK\$24.0 million (2004: HK\$23.6 million).
- (b) The Group had unsettled tax payables in respect of certain properties in the PRC which may result in additional charges. No provision has been made by the Group since the amount of additional charges, if any, cannot be reliably determined. It is estimated that the potential additional charges will not exceed HK\$1.4 million (2004: HK\$1.3 million).

RISK MANAGEMENT

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

(a) Commodity price risk

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



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(b) Foreign exchange risk

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

(c) Interest rate risk

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

EMPLOYEE

As at 31 December 2005, the Group employed approximately 2,400 staff (the two subsidiaries engaged in the industrial production, North China Aluminium and Yingkou Orientmet, employed about 2,252 and 83 staff respectively). The total staff costs (including the directors' emoluments) for the year was approximately HK\$75.6 million. The Group adopts a remuneration policy in line with market practice and makes reference to each individual experience and performance. Apart from the general remuneration package, the Group also grants share options and discretionary bonus to eligible staff based on their performance and contribution to the Group. The Group regards quality staff as one of the key factors to corporate success. Various forms of professional training are provided to employees as and when necessary.