1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

2.1 Basis of preparation *(cont'd)*

The adoption of new/revised HKFRS

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

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

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

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

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

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

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

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

2.1 Basis of preparation *(cont'd)*

(a) *(cont'd)*

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

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

The adoption of HKAS 17 resulted in:

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

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

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

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

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

2.1 Basis of preparation *(cont'd)*

(c) *(cont'd)*

The adoption of HKASs 32 and 39 resulted in:

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

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

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

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

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

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

2.1 Basis of preparation *(cont'd)*

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

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

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

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls the composition of the board of directors, controls more than half the voting power or holds more than half of the issued share capital.

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

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

2.2 Consolidation *(cont'd)*

(a) *Subsidiaries (cont'd)*

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

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

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

(b) *Transactions with minority interest*

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

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

2.2 Consolidation *(cont'd)*

(c) Associated companies

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

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

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

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

2.3 Segment reporting

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

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

2.4 Foreign currency translation

(a) *Functional and presentation currency*

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

(b) *Transactions and balances*

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

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

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

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

2.4 Foreign currency translation *(cont'd)*

(c) Group companies

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

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

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

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

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

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

2.5 Property, plant and equipment

Buildings comprise mainly factories, offices and staff quarters. Buildings are stated at cost or their revalued amounts, being their fair values at the date of revaluation, less accumulated depreciation and accumulated impairment losses.

The Group has taken advantage of the transitional provisions set out in paragraph 80A of HKAS 16 "Property, Plant and Equipment", with the effect that certain land and buildings are stated at their revalued amounts, which were determined prior to 30 September 1995 and have not been updated to reflect their fair values at the balance sheet date.

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

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

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

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

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

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

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

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

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

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

2.6 Investment properties

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

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

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

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

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

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

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

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

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

2.7 Goodwill

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

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

2.8 Alumina purchasing rights

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

2.9 Impairment of non-financial assets

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

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

2.10 Financial assets

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

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

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

(b) Loans and receivables

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

(c) Held-to-maturity investments

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

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

2.10 Financial assets *(cont'd)*

(d) Available-for-sale financial assets

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

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

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

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

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

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

2.10 Financial assets *(cont'd)*

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

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

2.11 Accounting for derivative financial instruments and hedging activities

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

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

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

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

(a) *Fair value hedge*

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

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

(b) *Cash flow hedge*

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

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

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

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

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

(c) Net investment hedge

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

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

(d) Derivatives that do not qualify for hedge accounting

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

2.12 Inventories

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

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

2.13 Trade and other receivables

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

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

2.14 Cash and cash equivalents

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

2.15 Share capital

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

2.16 Government grants

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

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

2.17 Provisions and contingent liabilities

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

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

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

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

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

2.18 Borrowings

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

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

2.19 Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

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

2.20 Revenue recognition

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

(a) *Sales of goods*

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

(b) *Servicing income*

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

(c) *Dividend income*

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

(d) *Interest income*

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

(e) *Rental income*

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

2.21 Employee benefits

(a) *Employee leave entitlements*

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

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

2.21 Employee benefits *(cont'd)*

(b) Retirement benefits

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

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

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

Hong Kong and overseas employees are entitled to participate in a number of defined contribution pension schemes, the assets of which are generally held in separate trustee-administered funds. The pension schemes are generally funded by payments from employees and by the relevant Group companies.

The Group's contributions to the defined contribution pension schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(c) Share-based compensation

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

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

2.21 Employee benefits *(cont'd)*

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

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

2.22 Operating leases

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

2.23 Comparatives

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

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

3.1 Financial risk factors *(cont'd)*

(a) Foreign exchange risk

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

(b) Cash flow and fair value interest rate risk

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

(c) Commodity price risk

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

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

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

3.1 Financial risk factors *(cont'd)*

(d) *Credit risk*

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

(e) *Liquidity risk*

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

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

3.2 Fair value estimation

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

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

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

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Estimated useful lives of plant and equipment

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

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

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

(c) Estimated provision for impairment of receivables

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

5. SEGMENT INFORMATION

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

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

(a) Primary reporting format – Business segments

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

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

5. SEGMENT INFORMATION *(cont'd)*

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

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

5. SEGMENT INFORMATION *(cont'd)*

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

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

5. SEGMENT INFORMATION *(cont'd)*

(b) Secondary reporting format – Geographical segments

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

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

6. OTHER (LOSSES)/GAINS – NET

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

7. OPERATING PROFIT

Operating profit is determined after charging the following:

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

8. FINANCE COSTS

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

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

9. INCOME TAX

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

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

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

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

10. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

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

11. EARNINGS PER SHARE

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

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

12. DIVIDENDS

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

13. STAFF COSTS

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

14. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

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

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

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

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

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

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

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

(a) Appointed on 6 October 2005.

(b) Resigned on 6 October 2005.

(c) Resigned on 12 January 2004.

(d) Appointed on 22 September 2004.

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

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

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

Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2004: two) executive directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2004: three) individuals during the year are as follows:

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

The emoluments fell within the following band:

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

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

15. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

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

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

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

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

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

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

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

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

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

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

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

(b) The Company

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

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

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

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

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

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

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

(c) Certain land and buildings were revalued at 30 September 1994 on an open market value basis by Debenham Tie Leung, an independent firm of registered professional surveyors and valuers. The Group has taken advantage of the transitional provisions set out in paragraph 80A of HKAS 16, "Property, Plant and Equipment", with the effect that such land and buildings are stated at their revalued amounts, which were determined prior to 30 September 1995 and have not been updated to reflect their fair values at the balance sheet date.

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

(c) *(cont'd)*

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

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

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

16. INVESTMENT PROPERTIES

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

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

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

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

17. LAND USE RIGHTS – THE GROUP

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

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

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

18. CONSTRUCTION IN PROGRESS – THE GROUP

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

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

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

19. INTERESTS IN SUBSIDIARIES

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

Note:

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

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

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

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

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

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

Note:

1 The class of shares held is ordinary.

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

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

20. INTERESTS IN ASSOCIATED COMPANIES – THE GROUP

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

Note:

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

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

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

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

Note:

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

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

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

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

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

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

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

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

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

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

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

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

(c) Provision for sales contract obligations

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

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

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

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

22. LONG-TERM RECEIVABLES – THE GROUP

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

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

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

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

Available-for-sale financial assets represent:

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

24. DEFERRED INCOME TAX – THE GROUP

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

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

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

(b) Deferred income tax assets are recognised for tax losses available for carried forward to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK$296 million (2004: HK$300 million) to carry forward against future taxable income. Deferred tax assets for these tax losses are not recognised as the future realisation is uncertain. The tax losses do not expire under current tax legislation.

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

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

25. INVENTORIES – THE GROUP

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

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

26. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

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

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

27. DERIVATIVE FINANCIAL INSTRUMENTS – THE GROUP

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

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

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

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

28. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

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

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

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

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

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

29. SHARE CAPITAL

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

Note:

(i) On 2 December 2003, the Company passed a resolution to combine 10 ordinary shares of HK$0.1 each into one ordinary share of HK$1 each (the "Share Consolidation"), and to reduce the nominal value of each ordinary share of HK$1 each to HK$0.05 each (the "Capital Reduction"). Immediately following the Share Consolidation and Capital Reduction, the Company increased and restored its authorised share capital to HK$300,000,000 by the creation of an additional 5,700,000,000 ordinary shares of HK$0.05 each. The Capital Reduction was approved by the High Court and became effective on 6th January 2004.

(ii) Pursuant to the resolution passed by the Company on 2 December 2003 and the subscription agreement signed between the Company and Coppermine Resources Limited ("Coppermine") (the Company's immediate holding company for the period from 12 January 2004 to 5 October 2005), the Company issued 475,376,917 shares of HK$0.05 each to Coppermine on 12 January 2004 for a consideration of HK$418,331,000 (of which HK$23,768,000 was credited to share capital and HK$394,563,000 was credited to share premium account). The subscription consideration was settled by setting off the Company's debt of HK$466,711,000 acquired by Coppermine from the Company's bankers. The remaining portion of HK$48,380,000 was waived by Coppermine and credited to capital reserve account.

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

29. SHARE CAPITAL *(cont'd)*

(iii) *(cont'd)*

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

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

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

30. RESERVES

(a) The Group

	Share premium HK$'000	Capital reserve HK$'000	Special capital reserve *(Note (e))* HK$'000	Revaluation reserve HK$'000	General reserve HK$'000	PRC statutory reserves HK$'000	Exchange translation reserve HK$'000	Available–for-sale financial assets reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2004	800,030	–	–	558	15,600	69,614	2,877	–	(1,282,457)	(393,778)
Issue of new shares *(Note 29 (ii))*	394,563	–	–	–	–	–	–	–	–	394,563
Debts waived by immediate holding company *(Note 29 (ii))*	–	48,380	–	–	–	–	–	–	–	48,380
Transfer to special capital reserve as a result of capital reduction	–	–	125,374	–	–	–	–	–	–	125,374
Transfer to PRC statutory reserves	–	–	–	–	–	834	–	–	(834)	–
Surplus on revaluation of investment properties	–	–	–	221	–	–	–	–	–	221
Deconsolidation of subsidiaries	–	–	–	–	–	–	(848)	–	–	(848)
Profit for the year	–	–	–	–	–	–	–	–	217,726	217,726
Balance at 31 December 2004	1,194,593	48,380	125,374	779	15,600	70,448	2,029	–	(1,065,565)	391,638
Transfer as a result of the change in accounting policy for investment properties	–	–	–	(779)	–	–	–	–	779	–
Issue of new shares, net of issuing expenses *(Note 29 (iii))*	2,308,769	–	–	–	–	–	–	–	–	2,308,769
Transfer to PRC statutory reveres	–	–	–	–	–	2,152	–	–	(2,152)	–
Currency translation differences	–	–	–	–	–	–	3,320	–	–	3,320
Fair value gain *(Note 23)*	–	–	–	–	–	–	–	109,828	–	109,828
Profit for the year	–	–	–	–	–	–	–	–	181,746	181,746
Balance at 31 December 2005	**3,503,362**	**48,380**	**125,374**	**–**	**15,600**	**72,600**	**5,349**	**109,828**	**(885,192)**	**2,995,301**

30. RESERVES *(cont'd)*

(b) The Company

	Share premium HK$'000	Capital reserve HK$'000	Special capital reserve *(Note (e))* HK$'000	Revaluation reserve HK$'000	General reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
Balance at 1 January 2004	800,030	–	–	–	15,600	(1,196,392)	(380,762)
Issue of new shares *(Note 29 (ii))*	394,563	–	–	–	–	–	394,563
Debts waived by immediate holding company *(Note 29 (ii))*	–	48,380	–	–	–	–	48,380
Transfer to special capital reserve as a result of capital reduction	–	–	125,374	–	–	–	125,374
Surplus on revaluation of investment properties	–	–	–	207	–	–	207
Profit for the year	–	–	–	–	–	156,002	156,002
Balance at 31 December 2004	1,194,593	48,380	125,374	207	15,600	(1,040,390)	343,764
Transfer as a result of the change in accounting policy for investment properties	–	–	–	(207)	–	207	–
Issue of new shares, net of issuing expenses *(Note 29 (iii))*	2,308,769	–	–	–	–	–	2,308,769
Profit for the year	–	–	–	–	–	126,999	126,999
Balance at 31 December 2005	**3,503,362**	**48,380**	**125,374**	**–**	**15,600**	**(913,184)**	**2,779,532**

(c) According to the respective articles of association of the PRC subsidiaries of the Group, they are required to transfer 5% of their net profits as stated in the financial statements prepared under PRC accounting regulations to the statutory expansion reserve until the reserve reaches 50% of the registered capital. The transfer to this reserve must be made before the distribution of dividends to the investors.

The statutory expansion reserve shall only be used to make up losses, to expand the PRC subsidiaries' production operations, or to increase the capital of the subsidiaries. Upon approval, the subsidiaries may convert their statutory expansion reserve into registered capital and issue bonus capital to existing investors in proportion to their existing investments. After converting the subsidiaries' statutory expansion reserve into capital, the balance of such reserve must not be less than 25% of the registered capital.

(d) According to the respective articles of association of the PRC subsidiaries of the Group, they are also required to transfer 5% of their net profits as stated in the financial statements prepared under PRC accounting regulations to the statutory general reserve. Upon approval from the Board of Directors, the statutory reserve funds may be used to offset accumulated losses or to increase capital.

30. RESERVES *(cont'd)*

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

31. DEFERRED INCOME – THE GROUP

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

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

32. BANK LOANS – THE GROUP

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

32. BANK LOANS – THE GROUP *(cont'd)*

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

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

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

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

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

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

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

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

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

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

33. TRADE AND OTHER PAYABLES

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

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

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

34. PROVISIONS FOR OTHER LIABILITIES AND CHARGES – THE GROUP

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

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

35. RETIREMENT SCHEMES

The Group provides retirement benefits to all Hong Kong eligible employees under the Mandatory Provident Fund (the "MPF Scheme"). Under the MPF Scheme, the Group and their employees make monthly contributions to the MPF Scheme at 5% of the employees' salaries as defined under the Mandatory Provident Fund legislation. Contributions of both the Hong Kong subsidiaries and their employees are subject to a maximum of HK$1,000 per month and thereafter contributions are voluntary and are not subject to any limitation. The MPF Scheme is administered by an independent trustee and its assets are held separately from those of the Group.

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

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

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

36. SHARE OPTION SCHEME

(a) 1994 share option scheme

Pursuant to the share option scheme adopted by the Company on 25 November 1994 ("1994 Share Option Scheme"), a total number of 11,190,000 share options were granted to certain directors and employees of the Company on 15 March 2004. The exercise price of the granted options is higher than the market price at the date of grant. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

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

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

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

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

(b) 2004 share option scheme

At the annual general meeting of the Company held on 28 May 2005, the Company adopted a new share option scheme ("2004 Share Option Scheme") which is in compliance with the new requirements as set out in Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. No share options have been granted under the 2004 Share Option Scheme since its adoption.

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

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

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

37. BUSINESS COMBINATIONS

(a) Acquisition of subsidiaries

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

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

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

37. BUSINESS COMBINATIONS *(cont'd)*

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

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

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

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

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

37. BUSINESS COMBINATIONS *(cont'd)*

(b) Deconsolidation of subsidiaries

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

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

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

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

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

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

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

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

Major non-cash transactions

Year ended 31 December 2005:

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

Year ended 31 December 2004:

Pursuant to a debt restructuring scheme completed during the year ended 31 December 2004, certain bank loans, an amount due to a shareholder, certain amounts due to related companies and bank interest payable of approximately HK$379,011,000, HK$4,930,000, HK$41,354,000 and HK$41,416,000, respectively, were acquired by Coppermine. The total liabilities of HK$466,711,000 acquired by Coppermine were then capitalised by the issue of 475,376,917 shares in the Company of HK$0.05 each at a consideration of HK$418,331,000. The remaining portion of HK$48,380,000 was waived by Coppermine and credited to capital reserve account (Notes 29 and 30).

39. CONTINGENT LIABILITIES

As at 31 December 2005 the Group had contingent liabilities in respect of the following:

(a) The Company provided a corporate guarantee to a financial institution in respect of banking facilities extended to an associated company amounting to approximately HK$24,038,000 (2004: HK$23,585,000).

(b) The Group had unsettled tax payables in respect of certain properties in the PRC which may result in additional charges. No provision has been made by the Group since the directors believe that the possibility of settlement of these paybles by the Group is remote. The directors of the Company are of the opinion that the potential additional charges will not exceed HK$1,370,000 (2004: HK$1,300,000).

40. COMMITMENTS

(a) Operating leases

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

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

(b) Capital commitments

Capital expenditures not yet incurred are as follows:

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

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

41. RELATED PARTY TRANSACTIONS

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

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

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

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

(a) Transactions with associated companies of the Group

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

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

(b) Transactions with subsidiaries of China Minmetals Corporation

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

(c) Transactions with other state-owned enterprises

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

(d) Key management compensation

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

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

(e) Year-end balances

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

Note:

(i) In the opinion of the directors, the related party transactions described above were carried out in the ordinary course of business at terms mutually agreed between the Group and the respective related parties.

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

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

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