

Directors' Report

The board of directors (the "Board") of Minmetals Resources Limited (the "Company") has pleasure in presenting the annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

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

An analysis of the Group's revenue by business and geographical segments, together with their respective contributions to profit from operations for the year ended 31 December 2006 is set out in Note 5 to the financial statements.

MAJOR CUSTOMERS & SUPPLIERS

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

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

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

RESULTS AND APPROPRIATIONS

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

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

RESERVES

Movements in reserves of the Company and the Group during the year are set out in Note 30 to the financial statements.



Directors' Report

PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in Note 15 to the financial statements.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 29 to the financial statements.

CONVERTIBLE BONDS

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

DIRECTORS

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

Chairman

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

Vice Chairman

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

Executive Directors

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

Non-executive Directors

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

Independent Non-executive Directors

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



Directors' Report

DIRECTORS (cont'd)

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

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

In accordance with Article 101 of the Articles of Association of the Company, Mr. Xu Huizhong, Mr. Wang Lixin, Mr. Liu Hongru and Mr. Ting Leung Huel, Stephen will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the independent non-executive directors of the Company an annual confirmation of his independence pursuant to Rule 3.13 to the Listing Rules and considers them to be independent.

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting of the Company has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

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

As at 31 December 2006, the interests and short positions of the directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long position in underlying shares of the Company

Name of director	Nature of interest	Number of underlying shares held (Note 1)	Approximate percentage of total number of issued shares (Note 2)
Zhou Zhongshu	Personal	3,000,000	0.17%
Xu Huizhong	Personal	4,600,000	0.27%
Wang Lixin	Personal	2,000,000	0.12%
Shen Ling	Personal	1,500,000	0.09%
Zhang Shoulian	Personal	1,500,000	0.09%
Li Linhu	Personal	1,500,000	0.09%
Zong Qingsheng	Personal	1,500,000	0.09%



Directors' Report

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

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

Notes:

1. The directors' interests in the underlying shares are share options granted by the Company pursuant to the 1994 Share Option Scheme and 2004 Share Option Scheme, details of which are set out under the section headed "Share Option Schemes".
2. The calculation is based on the number of underlying shares as a percentage of the total number of issued shares of the Company (i.e. 1,714,440,521 shares) as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, other than a nominee share in a subsidiary held by a director of the Company in trust for the Company, none of the directors or the chief executive of the Company or any of their associates has any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code. In addition, save as disclosed above, none of the directors or the chief executive of the Company nor their spouses or children under 18 years of age had been granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contracts of significance to which the Company, any of its holding companies, or any of their subsidiaries was a party, in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.



Directors' Report

SHARE OPTION SCHEMES

1994 Share Option Scheme

Pursuant to the share option scheme adopted by the Company on 25 November 1994 (the "1994 Share Option Scheme"), there were 6,030,000 options outstanding as at 31 December 2006. The 1994 Share Option Scheme had expired on 24 November 2004. Accordingly, no further options would be granted in accordance with the provisions thereunder but in all other respects the provisions of the 1994 Share Option Scheme shall remain in force to govern the exercise of all the options granted prior to such expiry and shall continue to be valid and outstanding until the expiry of the exercise period. The exercise period for the 6,030,000 outstanding options had expired on 15 March 2007 and no options had been exercised prior to that date.

The following is a summary of the principal terms of the 1994 Share Option Scheme:

1. Purpose

The 1994 Share Option Scheme was established to recognise and acknowledge the contributions that eligible participants had made or might make to the Group in order to attract and retain high calibre employees of the Group.

2. Participants

Any employees including directors of the Group.

3. Total number of shares available for issue under the 1994 Share Option Scheme

No further options may be granted under the 1994 Share Option Scheme as it had expired on 24 November 2004.

4. Maximum entitlement of each participant

The maximum number of shares in respect of which options might be granted to any one employee should not exceed 25% of the maximum number of shares in respect of which options might be granted under the 1994 Share Option Scheme.

Effective from 1 September 2001, the total number of shares of the Company issued and to be issued upon exercise of options (including both exercised and outstanding) granted in any 12-month period to each participant must not exceed 1% of the shares of the Company in issue in accordance with the revised provisions as set out in Chapter 17 to the Listing Rules.

5. Period within which the shares must be taken up under an option

An option may be exercised in whole or in part at any time after the date on which the option is deemed to have been granted and from time to time or before the date which is three years after such date.

6. Minimum period for which an option must be held before it can be exercised

Not applicable



Directors' Report

SHARE OPTION SCHEMES (cont'd)

1994 Share Option Scheme (cont'd)

7. Amount payable on acceptance of the option

A non-refundable remittance of HK\$10.00 by way of consideration for the grant of an option was required to be paid by each grantee upon acceptance of the option.

8. Basis of determining the exercise price

The exercise price was determined by the Board of the Company and would not be less than (i) 80% of the average of the closing prices of the shares on the Stock Exchange on the five business days immediately preceding the date of granting of options or (ii) the nominal value of the shares, whichever is the higher.

Effective from 1 September 2001, the exercise price must be at least the higher of (i) the closing price of the shares on the date of grant, which must be a business day, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of a share of the Company in accordance with the revised provisions as set out in Chapter 17 to the Listing Rules.

9. The remaining life of the 1994 Share Option Scheme

The life of the 1994 Share Option Scheme was until 24 November 2004.

During the year, the movements of the options which have been granted under the 1994 Share Option Scheme are as follows:

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

Notes:

- In respect of the options granted on 15 March 2004, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$3.00 per share.
- Options lapsed due to cessation of employment.



Directors' Report

SHARE OPTION SCHEMES *(cont'd)*

2004 Share Option Scheme

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

The following is a summary of the principal terms of the 2004 Share Option Scheme:

1. Purpose

To recognise and acknowledge the contributions that the eligible persons had made or may from time to time make to the Group whether in the past or in the future.

2. Participants

Any directors or any employees of any company of the Group and any advisers of, consultants of, contractors to any company of the Group or any person who has any relationship (whether business or otherwise) with any company of the Group or any person whom the Board of the Company considers, in its sole discretion, appropriate.

3. Total number of shares available for issue under the 2004 Share Option Scheme

The total number of shares available for issue under the 2004 Share Option Scheme is 60,734,961 shares, representing approximately 3.54% of the issued share capital of the Company as at the date of this report.

4. Maximum entitlement of each participant

No option may be granted to any eligible person which, if exercised in full, would result in the total number of shares issued and to be issued upon exercise of the options already granted and to be granted to such eligible person under the 2004 Share Option Scheme (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such new grant exceeding 1% of the issued share capital of the Company as at the date of such new grant. Any grant of further options above this limit shall be subject to the requirements under the Listing Rules.

5. Period within which the shares must be taken up under an option

The Board of the Company may in its absolute discretion 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.

6. Minimum period for which an option must be held before it can be exercised

There is no general requirement on the minimum period for which an option must be held under the terms of the 2004 Share Option Scheme. However, the Board of the Company may determine in its absolute discretion in relation to the minimum period of the options to be held.



Directors' Report

SHARE OPTION SCHEMES *(cont'd)*

2004 Share Option Scheme *(cont'd)*

7. Time of acceptance and the amount payable on acceptance of the option

An offer of an option may be accepted within 28 business days (or such shorter period as the Board of the Company shall determine) from the date of such offer and the amount payable on acceptance of such offer is HK\$10.00.

8. Basis of determining the exercise price

The exercise price shall be determined by the Board of the Company at the time of grant of the relevant option and shall not be less than the highest of:

- (i) the closing price per share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;
- (ii) an amount equivalent to the average closing price per share of the Company as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of a share of the Company.

9. The remaining life of the 2004 Share Option Scheme

The 2004 Share Option Scheme will remain in force until 27 May 2014.



Directors' Report

SHARE OPTION SCHEMES (cont'd)

2004 Share Option Scheme (cont'd)

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

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

Notes:

- In respect of the options granted on 18 April 2006, the closing price of the shares of the Company immediately before the date on which the options were granted was HK\$2.60 per share.
- Save as one employee who has been granted 1,000,000 options on 18 April 2006 with a vesting period of 18 months starting from 22 February 2006 till 21 August 2007.



Directors' Report

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

As at 31 December 2006, the following persons were recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares and underlying shares of 5% or more of the issued shares of the Company:

Long position in the shares of the Company

Name	Capacity	Number of shares held	Approximate percentage of total number of issued shares (Note 1)
China Minmetals Corporation ("China Minmetals")	Interest of controlled corporations (Notes 2 & 3)	1,284,467,826	74.92%
China Minmetals Non-ferrous Metals Company Limited ("CMN")	Interest of controlled corporation (Note 2)	1,009,090,909	58.86%
Top Create Resources Limited ("Top Create")	Beneficial owner (Note 2)	1,009,090,909	58.86%
China Minmetals H.K. (Holdings) Limited ("Minmetals HK")	Interest of controlled corporation (Note 3)	275,376,917	16.06%
Coppermine Resources Limited ("Coppermine")	Beneficial owner (Note 3)	275,376,917	16.06%

Notes:

- The calculation is based on the number of shares held by each person (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued shares of HK\$0.05 each (i.e. 1,714,440,521 shares) of the Company as at 31 December 2006.
- Top Create is a wholly owned subsidiary of CMN which in turn is owned as to approximately 82.23% by China Minmetals. Accordingly, CMN and China Minmetals were by virtue of the SFO deemed to be interested in the 1,009,090,909 shares of HK\$0.05 each of the Company held by Top Create as at 31 December 2006.
- Coppermine is a wholly owned subsidiary of Minmetals HK which in turn is a wholly owned subsidiary of China Minmetals. Accordingly, Minmetals HK and China Minmetals were by virtue of the SFO deemed to be interested in the 275,376,917 shares of HK\$0.05 each of the Company held by Coppermine as at 31 December 2006.

Save as disclosed above, as at 31 December 2006, no other person was recorded in the register required to be kept by the Company under section 336 of the SFO as having an interest or a short position in the shares and underlying shares of 5% or more of the issued shares of the Company.



Directors' Report

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

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

CONTINUING CONNECTED TRANSACTIONS

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

1. Agreement on non-transferred contracts

Prior to the completion of the acquisition of the entire interest in the Peak Strategic Industries Limited by the Company pursuant to the acquisition agreement ("the Acquisition")(details of which are published in the circular of the Company dated 30 June 2005) on 6 October 2005, there were three subsisting sourcing contracts (the "Non-transferred Sourcing Contracts", or individually the "Non-transferred Sourcing Contract") and nine subsisting sales contracts (the "Non-transferred Sales Contracts" or individually the "Non-transferred Sales Contract", together with the Non-transferred Sourcing Contracts collectively referred to as the "Non-transferred Contracts") held under the name of China Minmetals Non-ferrous Metals Company Limited ("CMN"). On 28 June 2005, CMN entered into an agreement on Non-transferred Contracts with its wholly owned subsidiary, Minmetals Aluminium Company Limited ("Minmetals Aluminium") (the "Agreement on Non-transferred Contracts") pursuant to which CMN will sell the alumina sourced under the Non-transferred Sourcing Contracts to Minmetals Aluminium at the contracted purchase price plus RMB1 per tonne and Minmetals Aluminium will sell alumina to CMN for on-sell to the contracting parties under the Non-transferred Sales Contracts at the contracted sales price minus RMB1 per tone with effect from 1 January 2005. The Agreement on Non-transferred Contracts is an interim measure only and had expired on 31 December 2006.

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

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

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



Directors' Report

CONTINUING CONNECTED TRANSACTIONS *(cont'd)*

2. Logistics services agreement

On 28 June 2005, Minmetals Aluminium entered into a logistics services agreement with Minmetals Shipping & Forwarding Company Limited ("Minmetals Shipping") (the "Logistics Services Agreement") pursuant to which Minmetals Shipping agreed to provide and to procure its subsidiaries to provide shipping, customs clearance, unloading, packaging and custody services (the "Services") to Minmetals Aluminium and its subsidiaries.

Following the completion of the Acquisition took place on 6 October 2005, Minmetals Aluminium became a wholly owned subsidiary of the Company. Accordingly, Minmetals Shipping is a connected person of the Company under the Listing Rules by virtue of China Minmetals, the ultimate controlling shareholder of the Company, having an attributable interest of approximately 71.7% in it.

The total logistics services fees paid to Minmetals Shipping and its subsidiaries for the Services for the year ended 31 December 2006 amounted to approximately RMB66,186,000 which did not exceed the proposed annual cap of RMB100,000,000 prescribed for the year ended 31 December 2006 as disclosed in the Company's circular dated 30 June 2005.

The continuing connected transactions for the year ended 31 December 2006 have been reviewed by the independent non-executive directors of the Company and confirmed that the continuing connected transactions have been entered into:

- (a) in the ordinary and usual course of business of the Group;
- (b) either on normal commercial terms or on terms no less favorable to the Group than terms available to or from independent third parties;
- (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Group as a whole; and
- (d) the total annual transaction value of each of the Agreement on Non-transferred Contracts and the Logistics Services Agreement for the year ended 31 December 2006 have not exceeded the respective proposed annual cap amounts as approved by the independent shareholders at the extraordinary general meeting of the Company held on 25 July 2005.

Directors' Report

EMOLUMENT POLICY

The Group's emolument policy is formulated by the Remuneration Committee on the basis of employees' merit, qualifications and competence.

The determination of remuneration packages of the directors of the Company takes into consideration on factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The Company has adopted share option schemes as an incentive to the directors and eligible employees, details of the schemes are set out under the section headed "Share Option Schemes".

RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in Note 36 to the financial statements.

DIRECTORS AND SENIOR MANAGEMENT

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

BANK LOANS AND OTHER BORROWINGS

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

FIVE-YEAR FINANCIAL SUMMARY

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

AUDITORS

PricewaterhouseCoopers, who will retire at the forthcoming annual general meeting, being eligible, offer themselves for re-appointment.

CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 34 to 40 of this annual report.



Directors' Report

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Board, as at the latest practicable date prior to the printing of this report, the Company has maintained sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

By order of the Board

ZHOU Zhongshu

Chairman

Hong Kong, 11 April 2007

