

# Notes to Financial Statements

## 1. CORPORATE INFORMATION

CITIC Resources Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Suites 3001-3006, 30th Floor, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

Following the acquisition of CITIC Dameng Mining Industries Limited (the "Manganese Company") and its subsidiaries, and 51% participating interest in the Seram Island Non-Bula Block production sharing contract (the "Seram PSC"), the Group is principally engaged in the following businesses:

- the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;
- the operation of coal mining and the sale of coal in Australia;
- the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia;
- the sale of crude oil and petroleum drilled from the Dagang Oilfield in the PRC;
- the operation of manganese mining and the sale of refined manganese products in the PRC; and
- the exploration, development, production and sale of crude oil and petroleum drilled from the Seram Island Non-Bula Block, Indonesia.

On 18 February 2006, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC (the "Dagang Participating Interest"), with a then carrying value of US\$27,386,135 (HK\$213,612,000), into 8,591,434 common shares ("Ivanhoe Shares") in the share capital of Ivanhoe Energy Inc. ("Ivanhoe") and a 3-year non-interest bearing, unsecured loan of US\$7,386,135 (HK\$57,612,000) ("Ivanhoe Loan") repayable by Ivanhoe. Ivanhoe Loan is repayable by 36 monthly instalments and the first instalment was due and received in March 2006.

In the opinion of the directors, the parent and the ultimate holding company of the Company is CITIC Group, a company incorporated in the PRC.

During the year, the Group continues to explore other investment opportunities in the field of natural resources.

# Notes to Financial Statements

## 1. CORPORATE INFORMATION (CONTINUED)

### *Proposed acquisition of potential oil assets located in Kazakhstan*

On 27 October 2006, a memorandum of understanding (the “MOU”) was entered into by the Company and CITIC Group. Pursuant to the MOU, the Company has been granted a purchase right (the “Purchase Right”), which is exercisable by the Company during the period of one year (from the date which CITIC Group completed its acquisition of the oil assets located in Kazakhstan), to acquire these assets (the “Potential Assets”). The Potential Assets principally comprise a 94.6% interest in Karazhanbasmunai JSC, a joint stock company formed under the laws of Kazakhstan, which holds 100% of the mineral rights until 2020 to develop the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan. On 29 December 2006, CITIC Group completed the acquisition of the Potential Assets from CITIC Canada Petroleum Limited (formerly known as Nations Energy Company Limited) (“CCPL”).

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between the CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Listing Rules and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right had not been exercised by the Company.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. A disposal group held for sale is stated at the lower of carrying amount and fair value less costs to sell as further explained in note 28 to the financial statements. These financial statements are presented in Hong Kong dollars (“HK\$”) and all values are rounded to the nearest thousand (HK\$’000) except where otherwise indicated.

### *Basis of consolidation*

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of 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.

Minority interests represent interests of outside shareholders not held by the Group in the results and net assets of the Company’s subsidiaries.

# Notes to Financial Statements

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

|                              |  |
|------------------------------|--|
| HKAS 21 Amendment            | Net Investment in a Foreign Operation                          |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts                                  |
| HKAS 39 Amendment            | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment            | The Fair Value Option  |
| HKFRS 6                      | Exploration for and Evaluation of Mineral Resources            |
| HK(IFRIC) – Int 4            | Determining whether an Arrangement contains a Lease            |

The principal changes in accounting policies are as follows:

### (a) **HKAS 21 The Effects of Changes in Foreign Exchange Rates**

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

### (b) **HKAS 39 Financial Instruments: Recognition and Measurement**

#### (i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

#### (ii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

#### (iii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

### (c) **HKFRS 6 – Exploration for and Evaluation of Mineral Resources**

HKFRS deals with the accounting for exploration and evaluation of mineral resources, including oil and gas.

# Notes to Financial Statements

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

### (d) *HK(IFRIC) – Int 4 Determining whether an Arrangement contains a Lease*

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

|                    |  |
|--------------------|--|
| HKAS 1 Amendment   | Capital Disclosures  |
| HKFRS 7            | Financial Instruments: Disclosures   |
| HKFRS 8            | Revised Requirements of Segment Reporting  |
| HK(IFRIC) - Int 7  | Applying the Restatement Approach under HKAS 29<br><i>Financial Reporting in Hyperinflationary Economies</i> |
| HK(IFRIC) - Int 8  | Scope of HKFRS 2   |
| HK(IFRIC) - Int 9  | Reassessment of Embedded Derivatives   |
| HK(IFRIC) - Int 10 | Interim Financial Reporting and Impairment   |
| HK(IFRIC) - Int 11 | HKFRS 2 – Group and Treasury Share Transactions  |
| HK(IFRIC) - Int 12 | Service Concession Arrangements  |

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC) - Int 7, HK(IFRIC) - Int 8, HK(IFRIC) - Int 9, HK(IFRIC) - Int 10, HK(IFRIC) - Int 11 and HK(IFRIC) - Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Subsidiaries**

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

### **Joint ventures**

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

- (a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture's financial and operating policies;
- (b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;
- (c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or
- (d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### **Jointly-controlled assets**

Jointly-controlled assets are assets in a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets.

The Group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognised in the consolidated balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests of jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly-controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### **Goodwill**

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 Segment Reporting.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Impairment of non-financial assets other than goodwill*

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

### *Related parties*

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is an associate;
- (c) the party is a jointly-controlled entity;
- (d) the party is a member of the key management personnel of the Group or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Property, plant and equipment and depreciation*

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for “Non-current assets and disposal groups held for sale”. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Plant and machinery, which include the furnace, water system, pot room and ingot mill, and buildings and structures used in the Portland Aluminium Smelter, are estimated to have a useful life up to 2030.

Other fixed assets are estimated to have the following estimated useful lives:

|  |  |
|--|--|
| Leasehold improvements                                   | 10-12 years or over the unexpired lease terms,<br>whichever is shorter |
| Motor vehicles, plant, machinery,<br>tools and equipment | 5-15 years   |
| Furniture and fixtures                                   | 4-5 years  |
| Buildings and structures                                 | 15-30 years  |

Freehold land is not depreciated.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in process represents a building and structure under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.



# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### ***Oil and gas properties***

For oil and gas properties, the successful effort method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterments which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

Productive oil and gas properties and other tangible and intangible costs of production properties are amortised using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the depreciation, depletion and amortisation provision. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

Capitalised acquisition costs of proved properties are amortised by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved reserves.

### ***Capital works***

Capital works represent exploration and development expenditure in relation to the Group's mining activities, which includes costs of coal mining tenements, are carried forward to the extent that:

- (i) such costs are expected to be recouped through successful development and production of the areas or by its sale; or
- (ii) exploration activities in the area that have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

Costs are amortised from the date of commencement of production on a production output basis.

### ***Other intangible assets***

Other intangible assets represent mining rights and are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using the units of production method based on the proven and probable mineral reserves, which are reviewed at least at each balance sheet date. The intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

### ***Other assets***

Other assets represent the amounts paid for an electricity supply agreement (the "ESA"), a 30-year base power contract entered into with the State Electricity Commission of Victoria, Australia. The ESA provides steady electricity supply at a fixed tariff to the Portland Aluminium Smelter for a period to 31 October 2016. Other assets are stated at cost less accumulated amortisation, provided on a straight-line basis over the term of the base power contract, and any impairment losses.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Non-current assets and disposal groups held for sale*

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

### *Investments and other financial assets*

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

### *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Investments and other financial assets (continued)*

#### **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

#### **Fair value**

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

#### **Impairment of financial assets**

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

#### **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Impairment of financial assets (continued)*

#### **Assets carried at cost**

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### **Available-for-sale financial assets**

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

### *Derecognition of financial assets*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### *Financial liabilities at amortised cost (including bank and other loans)*

Financial liabilities including bank and other loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

### *Derivative financial instruments and hedging*

The Group uses derivative financial instruments such as forward currency and commodity contracts and interest rate swap to hedge its risks associated with foreign currency, commodity price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and commodity prices for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to applicable interest rates in the market.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Derivative financial instruments and hedging (continued)*

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### **Fair value hedges**

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

#### **Cash flow hedges**

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised immediately in equity remain in equity until the forecast transaction or firm commitment occurs.

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Except for exported goods held for re-sale which are stated at cost on the first-in, first-out basis, cost is determined on the weighted average basis. In the case of work in progress and finished goods, cost comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Cash and cash equivalents*

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and bank balances comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

### *Provisions*

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statement.

Provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the Portland Aluminium Smelter and the coal mines in Australia. The Group is required to return the sites to the Australian authorities in their original condition. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

Provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. The provision for abandonment cost has been classified under long term liabilities. The associated cost is capitalised and the liabilities is discounted and an accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

### *Income tax*

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Income tax (continued)*

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

### *Revenue recognition*

Revenue is recognised on the following bases when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;
- (c) handling service fee, when the services have been rendered; and
- (d) dividend income, when the shareholders' right to receive payment has been established.



# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Operating leases*

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### *Employee benefits*

#### **Share-based payment transactions**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (the "equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binominal model, further details of which are given in note 37 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (the "market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon market conditions, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Employee benefits (continued)*

#### **Share-based payment transactions (continued)**

Ownership-based remuneration is provided to employees via the CITIC Australia Trading Limited (“CATL”) director option plan and the employee option plan. Information relating to the scheme is set out in note 37 to the financial statements.

Share-based compensation to directors and employees is recognised as an expense in respect of the services received measured on a fair value basis.

#### **Share options granted after 7 November 2002 and vested after 1 January 2005**

The fair value of options granted under the director and employee option plans is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value of the options at the grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the options, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the options, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the options.

The fair value of the options granted excludes 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 entity revises its estimate of the number of options that are expected to become exercisable. The employee benefits expense recognised during each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share option reserve relating to those options is transferred to the share capital. The market value of any shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

#### **Long service payments**

Certain of the Group’s employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance or the superannuation legislation of the Australian government in the event of termination of their employment. The Group is liable to make such payments in the event that such termination of employment meets the circumstances as specified in the respective regulations.

The Group provides for the probable long service leave and holiday pay expected to be paid to employees under the superannuation legislation of the Australian government. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Employee benefits (continued)*

#### **Pension schemes**

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as an employer vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. Subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution retirement benefits scheme (the "RB Scheme") under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the RB Scheme. The assets of the RB Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as an employer vest fully with the employees when contributed into the RB Scheme.

#### **Paid leave carried forward**

The Group provides paid leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

#### **Borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

#### **Foreign currencies**

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

# Notes to Financial Statements

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### *Foreign currencies (continued)*

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity as the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulated amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and jointly-controlled assets are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled assets which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

### *Judgements*

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

### *Tax*

Determining income tax provisions requires the Group to make judgements on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgement on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

### *Employee benefits – share-based payment transactions*

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to become exercisable, details of which are set in note 37 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will have impact on the consolidated income statement in the subsequent remaining vesting period of the relevant share options.

### *Estimation uncertainty*

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

# Notes to Financial Statements

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### *Estimation uncertainty (continued)*

#### *Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK\$341,512,000 (2005: HK\$341,512,000). More details are given in note 17 to the financial statements.

#### *Oil and gas reserve and mining reserves*

The most significant estimates in the oil and gas operation pertain to oil and gas reserves and mining reserves volumes and the future development, purchase price allocation, provision for rehabilitation cost and abandonment cost as well as estimates relating to certain oil and gas reserve and mining revenues and expenses. Actual amounts could differ from those estimates and assumptions. More details are given in notes 3, 13 and 34 to the financial statements.

## 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the aluminium smelting segment comprises the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;
- (b) the coal segment comprises the operation of coal mining and the sale of coal in Australia;
- (c) the import and export of commodities segment represents the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia;
- (d) the manganese segment comprises the operation of manganese mining operated by the Manganese Company (a non-wholly-owned subsidiary of the Company) and the sale of refined manganese products in the PRC;
- (e) the crude oil segment comprises the operation of oilfields and the sale of crude oil in the PRC and Indonesia; and
- (f) the others segment comprises other operating activities of the Group.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfer are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

# Notes to Financial Statements

## 4. SEGMENT INFORMATION (CONTINUED)

### (a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

#### Group

| Year ended 31 December 2006              | Aluminium<br>smelting | Coal    | Import and<br>export of<br>commodities | Manganese | Crude oil | Others   | Consolidated |
|--|-----------------------|---------|--|-----------|-----------|----------|--------------|
| Segment revenue:                         |                       |         |  |           |           |          |              |
| Sales to external customers              | 1,602,930             | 274,752 | 5,074,136                              | 538,006   | 13,604    | -        | 7,503,428    |
| Other income                             | 37,039                | 120     | 9,756                                  | 15,193    | 5,637     | -        | 67,745       |
|  | 1,639,969             | 274,872 | 5,083,892                              | 553,199   | 19,241    | -        | 7,571,173    |
| Segment results                          | 108,340               | 76,756  | 111,025                                | 65,759    | 15,847    | (11,980) | 365,747      |
| Interest income and<br>unallocated gains |                       |         |  |           |           |          | 215,500      |
| Unallocated expenses                     |                       |         |  |           |           |          | (114,703)    |
| Profit from operating activities         |                       |         |  |           |           |          | 466,544      |
| Unallocated finance costs                |                       |         |  |           |           |          | (150,355)    |
| Profit before tax                        |                       |         |  |           |           |          | 316,189      |
| Tax                                      |                       |         |  |           |           |          | (70,152)     |
| Profit for the year                      |                       |         |  |           |           |          | 246,037      |
| Segment assets                           | 2,034,177             | 157,624 | 1,360,989                              | 942,910   | 1,038,281 | 55,195   | 5,589,176    |
| Unallocated assets                       |                       |         |  |           |           |          | 3,739,185    |
| Total assets                             |                       |         |  |           |           |          | 9,328,361    |
| Segment liabilities                      | 922,399               | 281,107 | 261,457                                | 351,228   | 1,087,969 | 28,788   | 2,932,948    |
| Unallocated liabilities                  |                       |         |  |           |           |          | 2,890,324    |
| Total liabilities                        |                       |         |  |           |           |          | 5,823,272    |
| Other segment information:               |                       |         |  |           |           |          |              |
| Depreciation and amortisation            | 106,630               | 10,060  | 1,460                                  | 17,198    | 11,549    | 11,534   | 158,431      |
| Unallocated amounts                      |                       |         |  |           |           |          | 2,242        |
|  |                       |         |  |           |           |          | 160,673      |
| Other non-cash expenses                  | 19,750                | 5,487   | 842                                    | 2,041     | -         | -        | 28,120       |
| Unallocated amounts                      |                       |         |  |           |           |          | 33,668       |
|  |                       |         |  |           |           |          | 61,788       |
| Capital expenditure                      | 14,955                | 10,795  | 2,368                                  | 133,111   | 7,975     | -        | 169,204      |
| Unallocated amounts                      |                       |         |  |           |           |          | 4,196        |
|  |                       |         |  |           |           |          | 173,400      |

# Notes to Financial Statements

## 4. SEGMENT INFORMATION (CONTINUED)

### (a) Business segments (continued)

Group

| Year ended 31 December 2005<br>Restated | Aluminium<br>smelting | Coal    | Import and<br>export of<br>commodities | Manganese | Crude oil | Others   | Consolidated |
|---|-----------------------|---------|--|-----------|-----------|----------|--------------|
| Segment revenue:                        |                       |         |  |           |           |          |              |
| Sales to external customers             | 1,148,078             | 259,705 | 4,300,699                              | -         | 77,429    | 475      | 5,786,386    |
| Other income/(expenses)                 | (3,138)               | 78,463  | 21,602                                 | -         | -         | 10       | 96,937       |
|   | 1,144,940             | 338,168 | 4,322,301                              | -         | 77,429    | 485      | 5,883,323    |
| Segment results                         | 173,383               | 177,792 | 82,631                                 | -         | (6,620)   | (15,507) | 411,679      |
| Interest income and unallocated gains   |                       |         |  |           |           |          | 98,356       |
| Unallocated expenses                    |                       |         |  |           |           |          | (74,148)     |
| Profit from operating activities        |                       |         |  |           |           |          | 435,887      |
| Unallocated finance costs               |                       |         |  |           |           |          | (93,730)     |
| Profit before tax                       |                       |         |  |           |           |          | 342,157      |
| Tax                                     |                       |         |  |           |           |          | (110,642)    |
| Profit for the year                     |                       |         |  |           |           |          | 231,515      |
| Segment assets                          | 2,133,100             | 160,472 | 849,057                                | -         | 266,096   | 67,119   | 3,475,844    |
| Unallocated assets                      |                       |         |  |           |           |          | 2,544,183    |
| Total assets                            |                       |         |  |           |           |          | 6,020,027    |
| Segment liabilities                     | 485,296               | 74,925  | 102,084                                | -         | 33,072    | 25,308   | 720,685      |
| Unallocated liabilities                 |                       |         |  |           |           |          | 2,331,935    |
| Total liabilities                       |                       |         |  |           |           |          | 3,052,620    |
| Other segment information:              |                       |         |  |           |           |          |              |
| Depreciation and amortisation           | 98,553                | 9,135   | 1,278                                  | -         | 50,043    | 11,511   | 170,520      |
| Unallocated amounts                     |                       |         |  |           |           |          | 2,158        |
|   |                       |         |  |           |           |          | 172,678      |
| Other non-cash expenses                 | 34,937                | 2,482   | 219                                    | -         | -         | 431      | 38,069       |
| Unallocated amounts                     |                       |         |  |           |           |          | 14,854       |
|   |                       |         |  |           |           |          | 52,923       |
| Capital expenditure                     | 15,646                | 11,499  | 2,051                                  | -         | 114,093   | 4        | 143,293      |
| Unallocated amounts                     |                       |         |  |           |           |          | 5,831        |
|   |                       |         |  |           |           |          | 149,124      |

# Notes to Financial Statements

## 4. SEGMENT INFORMATION (CONTINUED)

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2006 and 2005.

#### Group

|                                    | Hong Kong | Mainland<br>China | Australia | Europe    | North<br>America | Other Asian<br>countries | Others | Consolidated |
|------------------------------------|-----------|-------------------|-----------|-----------|------------------|--------------------------|--------|--------------|
| <b>Year ended 31 December 2006</b> |           |                   |           |           |                  |                          |        |              |
| Segment revenue:                   |           |                   |           |           |                  |                          |        |              |
| Sales to external customers        | -         | 3,305,764         | 1,495,282 | 1,850,518 | 315,187          | 494,481                  | 42,196 | 7,503,428    |
| Other segment information:         |           |                   |           |           |                  |                          |        |              |
| Segment assets                     | 1,860,751 | 1,788,287         | 4,373,161 | 215,243   | -                | 1,090,919                | -      | 9,328,361    |
| Capital expenditure                | 280       | 137,027           | 28,118    | -         | -                | 7,975                    | -      | 173,400      |
| <b>Year ended 31 December 2005</b> |           |                   |           |           |                  |                          |        |              |
| Segment revenue:                   |           |                   |           |           |                  |                          |        |              |
| Sales to external customers        | -         | 3,052,563         | 1,373,495 | 866,188   | 309,394          | 105,215                  | 79,531 | 5,786,386    |
| Other segment information:         |           |                   |           |           |                  |                          |        |              |
| Segment assets                     | 1,225,585 | 333,414           | 4,461,028 | -         | -                | -                        | -      | 6,020,027    |
| Capital expenditure                | 5,245     | 114,097           | 29,782    | -         | -                | -                        | -      | 149,124      |



# Notes to Financial Statements

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the year, after allowances for returns, trade discounts and royalties.

An analysis of the Group's revenue, other income and gains is as follows:

|   | 2006             | 2005<br>Restated |
|---|------------------|------------------|
| <b>Revenue</b>  |                  |                  |
| Sale of goods:  |                  |                  |
| Aluminium smelting  | 1,602,930        | 1,148,078        |
| Coal  | 274,752          | 259,705          |
| Import and export of commodities                            | 5,074,136        | 4,300,699        |
| Manganese   | 538,006          | –                |
| Crude oil   | 13,604           | 77,429           |
| Others  | –                | 475              |
|   | <b>7,503,428</b> | 5,786,386        |
| <b>Other income and gains</b>                               |                  |                  |
| Interest income   | 144,810          | 75,002           |
| Handling service fees                                       | 7,121            | 13,326           |
| Dividend income from listed investments                     | 55,115           | 19,768           |
| Gain on sales of coal exploration interests                 | –                | 78,463           |
| Gain on disposal of available-for-sale equity investments   | 5,235            | –                |
| Insurance claim income                                      | 25,996           | –                |
| Gain on conversion of available-for-sale equity investments | 17,502           | –                |
| Sale of scraps  | 11,891           | 5,148            |
| Others  | 15,575           | 3,586            |
|   | <b>283,245</b>   | 195,293          |
|   | <b>7,786,673</b> | 5,981,679        |

# Notes to Financial Statements

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

|   | Notes | 2006             | 2005<br>Restated |
|---|-------|------------------|------------------|
| Cost of inventories sold *  |       | <b>6,974,598</b> | 5,376,077        |
| Depreciation  | 13    | <b>92,560</b>    | 114,330          |
| Amortisation of the ESA   | 16    | <b>62,930</b>    | 58,348           |
| Amortisation of other intangible assets   | 15    | <b>4,235</b>     | –                |
| Amortisation of prepaid land lease premiums   | 14    | <b>948</b>       | –                |
| Minimum lease payments under<br>operating leases on land and buildings                            |       | <b>8,504</b>     | 7,215            |
| Auditors' remuneration  |       | <b>7,369</b>     | 4,374            |
| Employee benefits expense<br>(including directors' remuneration-note 7):                          |       |                  |                  |
| Wages and salaries  |       | <b>95,218</b>    | 52,381           |
| Equity-settled share option expenses  |       | <b>26,158</b>    | 12,680           |
| Pension scheme contributions  |       | <b>289</b>       | 186              |
| Provision for long service and leave payments   |       | <b>6,715</b>     | 12,779           |
|   |       | <b>128,380</b>   | 78,026           |
| Loss on disposal/write-off of items of<br>property, plant and equipment **                        |       | <b>4,568</b>     | 6,563            |
| Provision/(write-back of provision) for impairment of<br>items of property, plant and equipment** |       | <b>(4,893)</b>   | 12,733           |
| Exchange (gains)/losses, net **   |       | <b>53,883</b>    | (30,754)         |
| Provision against inventories   |       | <b>1,515</b>     | 5,151            |
| Provision for impairment of accounts receivable **  |       | <b>1,816</b>     | 1,725            |
| Provision for rehabilitation cost   |       | <b>8,554</b>     | 1,292            |
| Provision for abandonment cost  |       | <b>112</b>       | –                |
| Warranty income, net ***  |       | <b>(14,908)</b>  | –                |

\* Cost of inventories sold for the year ended 31 December 2006 included an amount of HK\$331,693,257 (2005: HK\$153,450,000), which comprised direct staff costs, operating lease rentals, depreciation and amortisation of the ESA. Such amount has also been included in the respective expense items disclosed above. Unrealised losses on embedded derivatives of HK\$111,667,000 (2005: HK\$ 13,235,000) and hedge loss of HK\$162,522,000 (2005: HK\$31,678,000) had been included in cost of inventories sold.

\*\* These amounts are included in "Other operating expenses, net" on the face of the consolidated income statement.

# The warranty income, net, represents warranty income of HK\$34,320,000 received from CITIC Group net of loss on conversion of the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan of HK\$19,412,000. More details are given in note 43(c) to the financial statements.

# Notes to Financial Statements

## 7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

|   | 2006          | 2005   |
|---|---------------|--------|
| Fees:                                     |               |        |
| Executive directors                       | 860           | –      |
| Independent non-executive directors       | 567           | 330    |
|   | <b>1,427</b>  | 330    |
| Other emoluments of executive directors:  |               |        |
| Salaries, allowances and benefits in kind | 10,717        | 6,685  |
| Bonuses                                   | 1,950         | 2,643  |
| Share option benefits                     | 24,618        | 11,564 |
| Pension scheme contributions              | 60            | 274    |
|   | <b>37,345</b> | 21,166 |
|   | <b>38,772</b> | 21,496 |

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosures.

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

|                        | 2006       | 2005 |
|------------------------|------------|------|
| Chan Mo Po, Paul       | –          | 90   |
| Fan Ren Da, Anthony    | 200        | 120  |
| Ngai Man               | 167        | –    |
| Tsang Link Carl, Brian | 200        | 120  |
|                        | <b>567</b> | 330  |

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

## Notes to Financial Statements

### 7. DIRECTORS' REMUNERATION (CONTINUED)

#### (b) Executive directors

|                 | Fees       | Salaries,<br>allowances<br>and benefits<br>in kind | Bonuses      | Share option<br>benefits | Pension<br>scheme<br>contributions | Total<br>remuneration |
|-----------------|------------|--|--------------|--------------------------|------------------------------------|-----------------------|
| <b>2006</b>     |            |  |              |                          |                                    |                       |
| Kwok Peter Viem | -          | 1,873  | 300          | 7,825                    | 12                                 | 10,010                |
| Ma Ting Hung    | -          | 2,003  | 300          | 7,825                    | 12                                 | 10,140                |
| Shou Xuancheng  | -          | 2,003  | 450          | 1,283                    | 12                                 | 3,748                 |
| Sun Xinguo      | -          | 2,003  | 450          | 1,597                    | 12                                 | 4,062                 |
| Li So Mui       | -          | 2,003  | 450          | 642                      | 12                                 | 3,107                 |
| Mi Zengxin      | 215        | -  | -            | 1,283                    | -                                  | 1,498                 |
| Qiu Yiyong      | 215        | -  | -            | 1,283                    | -                                  | 1,498                 |
| Zeng Chen       | 215        | 832  | -            | 1,597                    | -                                  | 2,644                 |
| Zhang Jijing    | 215        | -  | -            | 1,283                    | -                                  | 1,498                 |
|                 | <b>860</b> | <b>10,717</b>                                      | <b>1,950</b> | <b>24,618</b>            | <b>60</b>                          | <b>38,205</b>         |
| <b>2005</b>     |            |  |              |                          |                                    |                       |
| Kwok Peter Viem | -          | 1,388  | 225          | 3,260                    | 12                                 | 4,885                 |
| Ma Ting Hung    | -          | 1,388  | 225          | 3,260                    | 12                                 | 4,885                 |
| Shou Xuancheng  | -          | 597  | 113          | 917                      | 3                                  | 1,630                 |
| Sun Xinguo      | -          | 597  | 450          | 459                      | 3                                  | 1,509                 |
| Li So Mui       | -          | 1,548  | 225          | 458                      | 12                                 | 2,243                 |
| Mi Zengxin      | -          | -  | -            | 917                      | -                                  | 917                   |
| Qiu Yiyong      | -          | -  | -            | 917                      | -                                  | 917                   |
| Zeng Chen       | -          | 1,167  | 1,405        | 459                      | 232                                | 3,263                 |
| Zhang Jijing    | -          | -  | -            | 917                      | -                                  | 917                   |
|                 | -          | 6,685  | 2,643        | 11,564                   | 274                                | 21,166                |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## Notes to Financial Statements

### 8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included five (2005: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one non-director, highest paid employee for 2005 are as follows:

|   | 2006     | 2005         |
|---|----------|--------------|
| Salaries, housing allowances, other allowances and benefits in kind | –        | 481          |
| Bonuses   | –        | 1,465        |
| Pension scheme contributions  | –        | 578          |
|   | <b>–</b> | <b>2,524</b> |

The number of non-director, highest paid employees whose remuneration fell within the HK\$2,500,001 to HK\$3,000,000 banding is nil (2005: one).

### 9. FINANCE COSTS

|  | 2006            | 2005   |
|--|-----------------|--------|
| Interest expense on bank and other loans repayable:                          |                 |        |
| Within one year  | <b>85,452</b>   | 43,264 |
| In the second to fifth years, inclusive                                      | <b>64,773</b>   | 10,219 |
| Beyond five years  | <b>9,697</b>    | 34,054 |
| Total interest   | <b>159,922</b>  | 87,537 |
| Less: Interest capitalised   | <b>(22,897)</b> | –      |
|  | <b>137,025</b>  | 87,537 |
| Other finance charges:   |                 |        |
| Increase in discounted amounts of provision arising from the passage of time | <b>7,673</b>    | 2,445  |
| Others*  | <b>5,657</b>    | 3,748  |
|  | <b>150,355</b>  | 93,730 |

\* Included amortisation of up-front fees of HK\$2,004,600 (2005: HK\$501,150).

## Notes to Financial Statements

### 10. TAX

#### Group

|                               | 2006            | 2005    |
|-------------------------------|-----------------|---------|
| Current-Hong Kong             | –               | –       |
| Current-Elsewhere             |                 |         |
| Charge for the year           | <b>103,072</b>  | 102,371 |
| Overprovision in prior years  | <b>(4,533)</b>  | –       |
| Deferred – note 35            | <b>(28,387)</b> | 8,271   |
| Total tax charge for the year | <b>70,152</b>   | 110,642 |

The statutory tax rate for Hong Kong profits tax is 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2005: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Provision for Australian income tax has been made at the statutory rate of 30% (2005: 30%) on the estimated assessable profits arising in Australia during the year.

For the year ended 31 December 2006, the tax rates applicable to the subsidiaries established and operating in the PRC and Indonesia are 33% and 30% respectively. However, certain PRC subsidiaries of the Group are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year. No provision for Indonesian tax has been made for the year as the Indonesian operation of the Group did not generate any assessable profits.

## Notes to Financial Statements

### 10. TAX (CONTINUED)

A reconciliation of the tax charge/(credit) applicable to profit/(loss) before tax using the statutory rates for the countries/jurisdiction in which the Company and its subsidiaries are domiciled to the tax charge/(credit) at the effective tax rates is as follows:

#### Group – 2006

|   | Australia | Mainland<br>China | Hong Kong | Indonesia | Consolidated |
|---|-----------|-------------------|-----------|-----------|--------------|
| Profit/(loss) before tax  | 299,407   | 68,589            | (47,222)  | (4,585)   | 316,189      |
| Tax charge/(credit) at the statutory rates  | 89,822    | 22,634            | (8,264)   | (1,376)   | 102,816      |
| Lower tax rate/tax holiday or concessions for specific provinces or local authorities | -         | (25,638)          | -         | -         | (25,638)     |
| Adjustments in respect of current tax of previous periods                             | (4,533)   | -                 | -         | -         | (4,533)      |
| Income not subject to tax   | (14,454)  | (3,375)           | (7,990)   | -         | (25,819)     |
| Expenses not deductible for tax   | 1,058     | 5,988             | 16,254    | -         | 23,300       |
| Tax losses utilised from previous periods   | -         | (6,815)           | -         | -         | (6,815)      |
| Increase in unutilised tax losses carried forward                                     | -         | 5,465             | -         | 1,376     | 6,841        |
| Tax charge/(credit) at the Group's effective rate                                     | 71,893    | (1,741)           | -         | -         | 70,152       |

#### Group – 2005

|   | Australia | Mainland<br>China | Hong Kong | Indonesia | Consolidated |
|---|-----------|-------------------|-----------|-----------|--------------|
| Profit/(loss) before tax                          | 380,231   | (23,136)          | (14,938)  | -         | 342,157      |
| Tax charge/(credit) at the statutory rates        | 114,069   | (7,635)           | (2,614)   | -         | 103,820      |
| Income not subject to tax                         | (23,727)  | -                 | (6,388)   | -         | (30,115)     |
| Expenses not deductible for tax                   | 19,413    | -                 | 9,002     | -         | 28,415       |
| Increase in unutilised tax losses carried forward | -         | 8,522             | -         | -         | 8,522        |
| Tax charge at the Group's effective rate          | 109,755   | 887               | -         | -         | 110,642      |

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong, the PRC and Indonesia in aggregate of HK\$69,569,000 (2005: aggregate of HK\$57,183,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses arising in Hong Kong and the PRC as they have arisen in companies that have been loss-making for some time.

# Notes to Financial Statements

## 11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2006 includes a loss of HK\$152,093,000 (2005: profit of HK\$17,079,000) (note 38(b)) dealt with in the financial statements of the Company.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2005 has not been presented as exercise prices of the outstanding share options of the Company were greater than the market price of the Company's shares prevailing during a substantial period of the year ended 31 December 2005.

The calculations of basic and diluted earnings per share are based on:

|  | 2006                    | 2005          |
|--|-------------------------|---------------|
| <b>Earnings</b>  |                         |               |
| Profit attributable to ordinary shareholders of the Company, used in the basic earnings per share calculation        | <b>200,815</b>          | 221,703       |
|  |                         |               |
|  | <b>Number of shares</b> |               |
|  | <b>2006</b>             | 2005          |
| <b>Shares</b>  |                         |               |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | <b>4,317,072,600</b>    | 4,316,884,381 |
| Effect of dilution – weighted average number of ordinary shares:   |                         |               |
| Share options  | <b>43,138,686</b>       | –             |
|  | <b>4,360,211,286</b>    | 4,316,884,381 |



# Notes to Financial Statements

## 13. PROPERTY, PLANT AND EQUIPMENT

### Group

31 December 2006

|  | Notes | Oil and gas properties | Freehold land | Leasehold improvements | Motor vehicles, plant, machinery, tools and equipment | Construction progress and material | Furniture and fixtures | Buildings and structures | Capital works | Total     |
|--|-------|------------------------|---------------|------------------------|---|------------------------------------|------------------------|--------------------------|---------------|-----------|
| Cost:  |       |                        |               |                        |   |                                    |                        |                          |               |           |
| At beginning of year   |       | -                      | 5,832         | 4,119                  | 977,819   | -                                  | 1,377                  | 275,926                  | 60,582        | 1,325,655 |
| Additions  |       | 7,975                  | 25            | 210                    | 41,710  | 85,714                             | 755                    | 10,700                   | 26,279        | 173,368   |
| Disposals/write-off  |       | -                      | -             | -                      | (19,184)  | (8,711)                            | (165)                  | (3,181)                  | (163)         | (31,404)  |
| Acquisitions of subsidiaries                                 | 39(a) | -                      | -             | -                      | 117,990   | 69,172                             | 2,524                  | 122,199                  | 3,996         | 315,881   |
| Acquisition of a 51% participating interest in the Seram PSC | 39(b) | 846,530                | -             | -                      | -   | -                                  | 2,067                  | -                        | -             | 848,597   |
| Transfers  |       | -                      | -             | -                      | 15,891  | (36,440)                           | -                      | 20,549                   | -             | -         |
| At 31 December 2006  |       | 854,505                | 5,857         | 4,329                  | 1,134,226   | 109,735                            | 6,558                  | 426,193                  | 90,694        | 2,632,097 |
| Accumulated depreciation and impairment:                     |       |                        |               |                        |   |                                    |                        |                          |               |           |
| At beginning of year   |       | -                      | -             | 867                    | 125,389   | -                                  | 238                    | 21,048                   | 7,499         | 155,041   |
| Provided during the year                                     |       | 3,323                  | -             | 742                    | 63,662  | -                                  | 565                    | 19,253                   | 5,015         | 92,560    |
| Disposals/write-off  |       | -                      | -             | -                      | (4,875)   | -                                  | (72)                   | (257)                    | -             | (5,204)   |
| Impairment/(reversal of impairment)                          |       | -                      | -             | -                      | (14,583)  | -                                  | -                      | 191                      | 9,499         | (4,893)   |
| Exchange realignment   |       | -                      | -             | 2                      | 2,091   | -                                  | -                      | 767                      | 232           | 3,092     |
| At 31 December 2006  |       | 3,323                  | -             | 1,611                  | 171,684   | -                                  | 731                    | 41,002                   | 22,245        | 240,596   |
| Net book value:  |       |                        |               |                        |   |                                    |                        |                          |               |           |
| At 31 December 2006  |       | 851,182                | 5,857         | 2,718                  | 962,542   | 109,735                            | 5,827                  | 385,191                  | 68,449        | 2,391,501 |

Note: As at 31 December 2006, the property, plant and equipment of HK\$62,252,000 (2005: Nil) were pledged against the bank loans as further detailed in note 33(b) to the financial statements. Freehold land of the Group is located in Australia.

# Notes to Financial Statements

## 13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Group

31 December 2005

|  | Oil and gas<br>properties | Freehold<br>land | Leasehold<br>improvements | Motor<br>vehicles, plant,<br>machinery,<br>tools and<br>equipment | Construction<br>progress and<br>material | Furniture<br>and fixtures | Buildings<br>and<br>structures | Capital<br>works | Total     |
|--|---------------------------|------------------|---------------------------|---|--|---------------------------|--------------------------------|------------------|-----------|
| Cost:                                    |                           |                  |                           |   |  |                           |                                |                  |           |
| At beginning of year                     | 189,612                   | 4,964            | 2,305                     | 1,015,271   | -  | 3                         | 286,882                        | 57,699           | 1,556,736 |
| Additions                                | 114,093                   | 1,155            | 2,239                     | 17,565  | -  | 1,385                     | 8,744                          | 3,943            | 149,124   |
| Disposals/write-off                      | -                         | -                | (462)                     | (1,596)   | -  | (11)                      | (5,577)                        | -                | (7,646)   |
| Reclassification to                      |                           |                  |                           |   |  |                           |                                |                  |           |
| a disposal group held for sale           | (303,705)                 | -                | -                         | -   | -  | -                         | -                              | -                | (303,705) |
| Exchange realignment                     | -                         | (287)            | 37                        | (53,421)  | -  | -                         | (14,123)                       | (1,060)          | (68,854)  |
| At 31 December 2005                      | -                         | 5,832            | 4,119                     | 977,819   | -  | 1,377                     | 275,926                        | 60,582           | 1,325,655 |
| Accumulated depreciation and impairment: |                           |                  |                           |   |  |                           |                                |                  |           |
| At beginning of year                     | 3,848                     | -                | 373                       | 66,141  | -  | -                         | 9,278                          | 3,312            | 82,952    |
| Provided during the year                 | 50,043                    | -                | 656                       | 47,436  | -  | 238                       | 11,770                         | 4,187            | 114,330   |
| Disposals/write-off                      | -                         | -                | (162)                     | (921)   | -  | -                         | -                              | -                | (1,083)   |
| Impairment                               | -                         | -                | -                         | 12,733  | -  | -                         | -                              | -                | 12,733    |
| Reclassification to                      |                           |                  |                           |   |  |                           |                                |                  |           |
| a disposal group held for sale           | (53,891)                  | -                | -                         | -   | -  | -                         | -                              | -                | (53,891)  |
| At 31 December 2005                      | -                         | -                | 867                       | 125,389   | -  | 238                       | 21,048                         | 7,499            | 155,041   |
| Net book value:                          |                           |                  |                           |   |  |                           |                                |                  |           |
| At 31 December 2005                      | -                         | 5,832            | 3,252                     | 852,430   | -  | 1,139                     | 254,878                        | 53,083           | 1,170,614 |

Note: During the year ended 31 December 2005, the directors of the Company considered that certain machinery, tools and equipment were impaired following the sudden failure of electricity supply that had occurred in late 2005. Based on the estimated recoverable amount set out in an insurance compensation plan covering the said machinery, tools and equipment, an impairment provision of HK\$12,733,000 was made in 2005.

# Notes to Financial Statements

## 14. PREPAID LAND LEASE PREMIUMS

### Group

|  | 2006           | 2005 |
|--|----------------|------|
| Arising on acquisitions of subsidiaries (note 39(a))                       | <b>60,564</b>  | –    |
| Cost at 31 December  | <b>60,564</b>  | –    |
| Amortisation   | <b>(948)</b>   | –    |
| Carrying amount at 31 December   | <b>59,616</b>  | –    |
| Current portion included in prepayments,<br>deposits and other receivables | <b>(1,263)</b> | –    |
| Non-current portion  | <b>58,353</b>  | –    |

The leasehold land is held under a long term lease and is situated in the PRC. Leasehold land of HK\$1,300,000 is pledged for bank loans as further detailed in note 33(b) to the financial statements.

## 15. OTHER INTANGIBLE ASSETS

### Group

|  | Mining rights  |
|--|----------------|
| Arising on acquisitions of subsidiaries (note 39(a)) | <b>139,904</b> |
| Additions  | <b>32</b>      |
| At 31 December 2006                                  | <b>139,936</b> |
| Amortisations provided during the year               | <b>(4,235)</b> |
| Net carrying amount at 31 December 2006              | <b>135,701</b> |

As at 31 December 2006, the mining rights of HK\$135,701,000 were pledged against certain bank loans of the Group as further detailed in note 33(b) to the financial statements.

## Notes to Financial Statements

### 16. OTHER ASSETS

#### Group

|                           | 2006           | 2005     |
|---------------------------|----------------|----------|
| Cost:                     |                |          |
| At beginning of year      | <b>737,311</b> | 780,367  |
| Exchange realignment      | <b>49,615</b>  | (43,056) |
| At 31 December            | <b>786,926</b> | 737,311  |
| Accumulated amortisation: |                |          |
| At beginning of year      | <b>105,068</b> | 46,720   |
| Provided during the year  | <b>62,930</b>  | 58,348   |
| At 31 December            | <b>167,998</b> | 105,068  |
| Net book value:           |                |          |
| At 31 December            | <b>618,928</b> | 632,243  |
| Non-current portion       | <b>555,983</b> | 573,878  |
| Current portion           | <b>62,945</b>  | 58,365   |
|                           | <b>618,928</b> | 632,243  |

Other assets represent the amounts paid for the ESA.

# Notes to Financial Statements

## 17. GOODWILL

### Group

|                              | 2006           | 2005    |
|------------------------------|----------------|---------|
| Cost:                        |                |         |
| At beginning and end of year | <b>341,512</b> | 341,512 |

### *Impairment testing of goodwill*

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- aluminium smelting segment of HK\$316,830,000 (2005: HK\$316,830,000); and
- import and export of commodities segment of HK\$24,682,000 (2005: HK\$24,682,000).

### *Aluminium smelting segment*

The recoverable amount of the aluminium smelter cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 6.22% (2005: 5.5%).

### *Import and export of commodities segment*

The recoverable amount of the import and export of commodities cash-generating unit is determined based on fair value less costs to sell. The fair value is calculated by reference to the market share price of the listed vehicle of the import and export of commodities segment (CATL) as at 31 December 2006.

## 18. INTERESTS IN SUBSIDIARIES

### Company

|                           | 2006             | 2005      |
|---------------------------|------------------|-----------|
| Unlisted shares, at cost  | <b>173,134</b>   | 173,134   |
| Due from subsidiaries     | <b>2,822,924</b> | 2,004,583 |
| Due to subsidiaries       | <b>( 1,716)</b>  | ( 1,716)  |
|                           | <b>2,994,342</b> | 2,176,001 |
| Provision for impairments | <b>(611,700)</b> | (454,500) |
|                           | <b>2,382,642</b> | 1,721,501 |

# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

| Name  | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued shares/<br>paid-up capital | Percentage of<br>equity interest<br>attributable to<br>the Company | Principal<br>activities |
|---|---|---|--|-------------------------|
| <b>Directly held</b>                                      |   |   |  |                         |
| SEA Wood Investment Holdings Limited                      | British Virgin Islands/<br>Hong Kong                      | US\$10,000  | 100  | Investment holding      |
| Starbest Venture Limited                                  | British Virgin Islands/<br>Hong Kong                      | US\$1   | 100  | Investment holding      |
| CITIC Oil and Gas Holdings Limited                        | British Virgin Islands/<br>Hong Kong                      | US\$100   | 100  | Investment holding      |
| Star Elite Venture Limited *                              | British Virgin Islands/<br>Hong Kong                      | US\$1   | 100  | Investment holding      |
| <b>Indirectly held</b>                                    |   |   |  |                         |
| Nusoil Manufacturing Limited                              | British Virgin Islands/<br>PRC                            | US\$100   | 100  | Investment holding      |
| Wing Lam (International) Timber Limited                   | Hong Kong   | HK\$60,000,000  | 100  | Investment holding      |
| Dongguan Xinlian Wood Products Company Limited (note (a)) | PRC   | HK\$60,000,000  | 100  | Dormant                 |

# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name                                     | Place of incorporation/<br>registration/<br>and operations | Nominal value<br>of issued shares/<br>paid-up capital | Percentage of<br>equity interest<br>attributable to<br>the Company | Principal<br>activities          |
|--|--|---|--|----------------------------------|
| <b>Indirectly held (continued)</b>       |  |   |  |                                  |
| Global Enterprises (HK) Limited          | Hong Kong  | HK\$2   | 100  | Provision of management services |
| Maxpower Resources Limited               | British Virgin Islands/<br>Hong Kong                       | US\$1   | 100  | Investment holding               |
| Toplight Resources Limited               | British Virgin Islands/<br>Hong Kong                       | US\$1   | 100  | Investment holding               |
| Richfirst Holdings Limited               | British Virgin Islands/<br>PRC                             | US\$100   | 100  | Investment holding               |
| Cogent Assets Limited                    | British Virgin Islands/<br>Hong Kong                       | US\$2   | 100  | Investment holding               |
| Group Smart Resources Limited            | British Virgin Islands/<br>Hong Kong                       | US\$1   | 100  | Investment holding               |
| Highkeen Resources Limited               | British Virgin Islands/<br>Hong Kong                       | US\$1   | 100  | Investment holding               |
| CITIC Petrochemical Holdings Limited     | British Virgin Islands/<br>Hong Kong                       | US\$1   | 100  | Investment holding               |
| CITIC Petrochemical Investments Limited  | British Virgin Islands/<br>Hong Kong                       | US\$1   | 100  | Investment holding               |
| CITIC Resources Australia Pty Limited #  | State of Victoria,<br>Australia                            | A\$199,019,212  | 100  | Investment holding               |
| CITIC Portland Holdings Pty Limited #    | State of Victoria,<br>Australia                            | A\$196,791,454  | 100  | Investment holding               |
| CITIC Australia (Portland) Pty Limited # | State of Victoria,<br>Australia                            | A\$45,675,117   | 100  | Aluminium smelting               |
| CITIC Portland Surety Pty Limited #      | State of Victoria,<br>Australia                            | A\$1  | 100  | Investment holding               |

# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name   | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued shares/<br>paid-up capital | Percentage of<br>equity interest<br>attributable to<br>the Company | Principal<br>activities  |
|--|---|---|--|--|
| <b>Indirectly held (continued)</b>                       |   |   |  |  |
| CITIC (Portland) Nominees I<br>Pty Limited (note (b)) #  | State of Victoria,<br>Australia                           | A\$2  | 100  | Investment<br>holding  |
| CITIC (Portland) Nominees II<br>Pty Limited (note (b)) # | State of Victoria,<br>Australia                           | A\$2  | 100  | Investment<br>holding  |
| CITIC Nominees Pty Limited<br>Partnership #              | State of Victoria,<br>Australia                           | A\$6,693,943  | 100  | Investment<br>holding  |
| CITIC Nominees Pty<br>Limited #                          | State of Victoria,<br>Australia                           | A\$2  | 100  | Investment<br>holding  |
| CITIC Portland Finance I<br>Pty Limited #                | State of Victoria,<br>Australia                           | A\$2  | 100  | Financing  |
| CITIC Australia Trading<br>Limited (note (c)) #          | State of Victoria,<br>Australia                           | A\$7,635,440  | 77.66  | Investment<br>holding  |
| CITIC Australia<br>Commodity Trading<br>Pty Limited #    | State of Victoria,<br>Australia                           | A\$500,002  | 77.66  | Import and<br>export of<br>commodities<br>and<br>manufactured<br>goods |
| CITIC Tyres & Wheels<br>Pty Limited #                    | State of Victoria,<br>Australia                           | A\$100  | 77.66  | Import of<br>tyres and<br>alloy wheels                                 |
| CITIC Batteries<br>Pty Limited #                         | State of Victoria,<br>Australia                           | A\$2  | 77.66  | Dormant  |
| CITIC Australia Coal<br>Pty Limited #                    | State of Victoria,<br>Australia                           | A\$6,589,637  | 100  | Investment<br>holding  |
| CITIC Australia Coal<br>Exploration Pty<br>Limited #     | State of Victoria,<br>Australia                           | A\$2,845,375  | 100  | Exploration,<br>development<br>and mining<br>of coal                   |



# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name   | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued shares/<br>paid-up capital | Percentage of<br>equity interest<br>attributable to<br>the Company | Principal<br>activities                           |
|--|---|---|--|---|
| <b>Indirectly held (continued)</b>             |   |   |  |   |
| CITIC Australia Coppabella<br>Pty Limited #    | State of Victoria,<br>Australia                           | A\$5,000,002  | 100  | Mining and<br>production<br>of coal               |
| CITIC Australia Moorvale<br>West Pty Limited # | State of Victoria,<br>Australia                           | A\$2  | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC Olive Downs<br>Pty Limited #             | State of Victoria,<br>Australia                           | A\$99,958   | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC West Walker<br>Pty Limited #             | State of Victoria,<br>Australia                           | A\$91,812   | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC West Rolleston<br>Pty Limited #          | State of Victoria,<br>Australia                           | A\$196,390  | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC West/North Burton<br>Pty Limited #       | State of Victoria,<br>Australia                           | A\$34,238   | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC Capricorn<br>Pty Limited #               | State of Victoria,<br>Australia                           | A\$9,549  | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC Bowen Basin<br>Pty Limited #             | State of Victoria,<br>Australia                           | A\$378,353  | 100  | Exploration and<br>development<br>of coal mines   |
| CITIC Nickel Pty Ltd #                         | State of Victoria,<br>Australia                           | A\$2  | 100  | Investment<br>holding                             |
| CITIC Nickel Australia<br>Pty Limited #        | State of Victoria,<br>Australia                           | A\$1  | 100  | Exploration and<br>development<br>of nickel mines |

# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name  | Place of incorporation/ registration and operations | Nominal value of issued shares/ paid-up capital | Percentage of equity interest attributable to the Company | Principal activities                           |
|---|---|---|---|--|
| <b>Indirectly held (continued)</b>  |   |   |   |  |
| CITIC Nickel International Pty Limited #                                  | State of Victoria, Australia                        | A\$1  | 100   | Exploration and development of nickel mines    |
| Beijing Qian Quan Investment Consultant Co. Limited #                     | Beijing, PRC  | RMB1,243,173                                    | 100   | Consulting                                     |
| Beijing Yi Xin Mei Pty Limited #  | Beijing, PRC  | RMB500,000                                      | 100   | Consulting                                     |
| CITIC Mining Equipment Pty Limited * #                                    | State of Victoria, Australia                        | A\$2  | 100   | Investment holding                             |
| Tyre Choice Pty Limited * #   | State of Victoria, Australia                        | A\$2  | 77.66   | Investment holding                             |
| CITIC Dameng Holdings Limited   | Bermuda/ Hong Kong                                  | HK\$100,000                                     | 80  | Investment holding                             |
| CITIC Dameng Investments Limited (note (d))                               | British Virgin Islands/ Hong Kong                   | US\$1   | 80  | Investment holding                             |
| CITIC Dameng Trading Limited  | Hong Kong   | HK\$10,000                                      | 80  | Trading  |
| CITIC Dameng Mining Industries Limited *^<br>(中信大錳礦業有限責任公司)               | PRC   | RMB500,000,000                                  | 48  | Exploration and development of manganese mines |
| Guangxi Start Manganese Material Co., Ltd<br>(廣西斯達特錳材料有限公司)*▲             | PRC   | RMB24,280,000                                   | 34.16   | Exploration and development of manganese mines |
| Guangxi Nanning Kuanguang Industry & Trade Co., Ltd<br>(廣西南寧寬廣工貿有限責任公司)*▲ | PRC   | RMB1,000,000                                    | 36.96   | Manufacture of manganese and metal products    |

# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

| Name  | Place of incorporation/<br>registration<br>and operations | Nominal value<br>of issued shares/<br>paid-up capital | Percentage of<br>equity interest<br>attributable to<br>the Company | Principal<br>activities                      |
|---|---|---|--|--|
| <b>Indirectly held (continued)</b>                                    |   |   |  |  |
| Tiandeng Dameng<br>Ferroalloy Co., Ltd<br>(天等縣大錳鐵合金<br>有限公司) *▲       | PRC   | RMB6,000,000  | 28.8   | Manufacture<br>and sale of<br>metal products |
| Guangxi Daxin Dabao<br>Ferroalloy Co., Ltd<br>(廣西大新縣大寶鐵<br>合金有限公司) *▲ | PRC   | RMB2,680,000  | 28.8   | Iron alloy<br>smelting                       |
| CITIC Indonesia Energy<br>Limited *                                   | British Virgin Islands/<br>Hong Kong                      | US\$1   | 100  | Investment<br>holding                        |
| CITIC Seram Energy<br>Limited * (note (e))                            | British Virgin Islands/<br>Indonesia                      | US\$50,000  | 100  | Investment<br>holding                        |
| CITIC New Highland<br>Petroleum Limited *                             | British Virgin Islands/<br>Hong Kong                      | US\$1   | 100  | Investment<br>holding                        |

\* Acquired or established during the year.

# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

^ Sino-foreign equity joint venture registered under the PRC law.

▲ Limited liability company registered under the PRC law.

# Notes to Financial Statements

## 18. INTERESTS IN SUBSIDIARIES (CONTINUED)

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Notes:

- (a) Dongguan Xinlian Wood Products Company Limited (“Dongguan Xinlian”) is a wholly-foreign owned enterprise established by Wing Lam (International) Timber Limited (“Wing Lam”) in the PRC for a period of 12 years commencing from the date of issuance of its business licence on 3 January 1997.
- (b) These two companies jointly own CITIC Nominees Pty Limited Partnership, which owns the interests in the Portland Aluminium Smelter joint venture.
- (c) The shares of CATL are listed on the Australian Stock Exchange (the “ASX”).

CATL operates a pre-IPO share option scheme for its directors and other employees (the “Pre-Scheme”). The purpose of the Pre-Scheme is to provide incentives for employees to remain in their employment for the long term. CATL had granted share options under the Pre-Scheme to its directors and other employees to subscribe for a total of 4,700,000 shares in CATL at subscription prices that range from A\$0.20 to A\$0.35 per share. No consideration is payable by participants on the grant of the options.

- (d) On 28 February 2006, CITIC Dameng Investments Limited completed the acquisition of the Manganese Company. The Manganese Company in turn holds controlling interests in Guangxi Start Manganese Material Co., Ltd., Guangxi Nanning Kuanguang Industry & Trade Co., Ltd., Tiandeng Dameng Ferroalloy Co., Ltd. and Guangxi Daxin Dabao Ferroalloy Co., Ltd.
- (e) CITIC Seram Energy Limited (“CITIC Seram”) acquired a 51% participating interest in the 30 year Seram PSC which owns certain oil producing assets in Indonesia for a purchase price of HK\$874,952,000 subject to adjustment.

On 23 November 2006, CITIC Seram completed the acquisition of a 51% participating interest in the Seram PSC from KUFPEC (Indonesia) Limited. As of the same date, CITIC Seram became the operator responsible for managing and operating exploration and development at the Seram Island Non-Bula Block.

CITIC Seram has granted to Lion Petroleum (Seram) Limited (“Lion”) a put option (the “Put Option”), in which Lion has the right (but not the obligation) to sell to CITIC Seram, and require CITIC Seram to acquire Lion’s 2.5% participating interest in the Seram PSC for a consideration of US\$4,700,000 (HK\$36,700,000 million), subject to adjustment. The Put Option may be exercised at any time during the three months period from the date on which the budget and work program for the year 2007 for the Seram joint venture are approved by the operating committee in accordance with the joint operating agreement of Seram. Lion did not exercise the Put Option and the Put Option lapsed in March 2007.

# Notes to Financial Statements

## 19. INTERESTS IN JOINTLY-CONTROLLED ASSETS

At 31 December 2006, the Group had joint venture operations in which the Group holds interests as follows:

- (a) 22.5% participating interest in the Portland Aluminium Smelter joint venture, the principal activity of which is aluminium smelting;
- (b) 16% participating interest in the spent potlining project joint venture at Portland, the principal activity of which is the processing of spent potlining;
- (c) 7% participating interest in the Coppabella and Moorvale coal mines joint venture, the principal activity of which is the mining and sale of coal;
- (d) 10% participating interest in the Olive Downs joint venture, the principal activity of which is the exploration of coal;
- (e) 10% participating interest in the Moorvale West joint venture, the principal activity of which is the exploration of coal;
- (f) 10% participating interest in the West/North Burton joint venture, the principal activity of which is the exploration of coal;
- (g) 10% participating interest in the West Rolleston joint venture, the principal activity of which is the exploration of coal;
- (h) 15% participating interest in the West Walkers joint venture, the principal activity of which is the exploration of coal;
- (i) 15% participating interest in the Capricorn joint venture, the principal activity of which is the exploration of coal;
- (j) 15% participating interest in the Bowen Basin Coal joint venture, the principal activity of which is the exploration of coal;
- (k) 50% participating interest in the CB Exploration joint venture, the principal activity of which is the exploration of coal; and
- (l) 51% participating interest in the Seram PSC. Details of the acquisition of the participating interest in this oilfield are included in note 39(b) to the financial statements.

## Notes to Financial Statements

### 19. INTERESTS IN JOINTLY-CONTROLLED ASSETS (CONTINUED)

The jointly-controlled assets as detailed in (c) to (k) have different reporting dates to the Group, being 30 June compared to 31 December. The jointly-controlled assets as detailed in (a) to (k) are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. The audited financial statements issued by another auditors of these jointly-controlled assets up to 31 December 2006 have been used for the purpose of preparation of the consolidated financial statements of the Group.

The Group's interest in the net assets employed in the Portland Aluminium Smelter joint venture, which accounts for over 10% of the Group's total assets, is included in the consolidated balance sheet under the classifications shown below:

|   | 2006             | 2005      |
|---|------------------|-----------|
| Non-current assets  | <b>2,200,182</b> | 2,070,585 |
| Current assets  | <b>146,986</b>   | 114,681   |
| Current liabilities   | <b>(318,611)</b> | (99,115)  |
| Non-current liabilities   | <b>(92,210)</b>  | (397,667) |
| Share of net assets employed<br>in the Portland Aluminium Smelter joint venture | <b>1,936,347</b> | 1,688,484 |

The Group's interests in the net assets employed in the Seram joint venture is included in the consolidated balance sheet under the classifications shown below:

|  | 2006             | 2005 |
|--|------------------|------|
| Non-current assets   | <b>853,295</b>   | –    |
| Current assets   | <b>203,556</b>   | –    |
| Current liabilities  | <b>(49,604)</b>  | –    |
| Non-current liabilities                                    | <b>(100,483)</b> | –    |
| Share of net assets employed<br>in the Seram joint venture | <b>906,764</b>   | –    |

The Group's interests in the combined net assets employed in the other jointly-controlled assets are included in the consolidated balance sheet under the classifications shown below:

|  | 2006            | 2005     |
|--|-----------------|----------|
| Non-current assets                                       | <b>68,602</b>   | 61,166   |
| Current assets   | <b>94,123</b>   | 58,356   |
| Current liabilities                                      | <b>(43,599)</b> | (31,768) |
| Non-current liabilities                                  | <b>(14,696)</b> | (10,564) |
| Share of net assets employed in the other joint ventures | <b>104,430</b>  | 77,190   |

## Notes to Financial Statements

### 20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

|   | Group          |         |
|---|----------------|---------|
|   | 2006           | 2005    |
| Non-current listed equity investments, at fair value: |                |         |
| Australia   | <b>770,538</b> | 657,035 |
| Canada  | <b>75,398</b>  | –       |
|   | <b>845,936</b> | 657,035 |
|   |                |         |
|   |                |         |
|   | Group          |         |
|   | 2006           | 2005    |
| The cost of the above investments were:               |                |         |
| Australia   | <b>296,344</b> | 258,522 |
| Canada  | <b>130,013</b> | –       |
|   | <b>426,357</b> | 258,522 |

During the year, the loss on fair value of the Group's available-for-sale equity investments of HK\$10,175,000 (2005: gain of HK\$124,350,000) and related deferred tax liability of HK\$13,332,000 (2005: HK\$37,305,000) amounted to HK\$23,507,000 had been debited directly from equity (2005: HK\$87,045,000 had been credited directly into equity).

The fair values of available-for-sale listed equity investments are based on quoted market prices.

### 21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

#### *Current portion*

The current balance includes an amount of HK\$86,115,727, being professional fees incurred for financial and legal advice in connection with the Group's potential investment projects. These amounts are intended to be capitalised into the cost of the potential investments if the Group proceeds with these investments. Otherwise such professional fees will be expensed off to the consolidated income statement once it is determined that the Group will not proceed with the related investment.

The current year's balance also includes an amount of US\$200,000,000 (HK\$1,560,000,000) which was paid as earnest money for the potential investment project in Kazakhstan, further details of which are set out in note 43(b) to the financial statements.

An amount of HK\$2,066,000 (2005: HK\$ 301,000) is included in the current portion and represents an amount due from fellow subsidiaries of the Group. The balance is unsecured, interest-free and has no fixed terms of repayment.

#### *Non-current portion*

Last year's non-current balance included an amount of RMB300,000,000 (HK\$288,500,000) and an amount of HK\$17,170,000 which was paid as deposit and prepayment of professional fees for the Manganese Company. Last year's balance also included prepayment of professional fees of HK\$5,739,000 directly attributable to other potential investments.

# Notes to Financial Statements

## 22. INVENTORIES

|                  | Group            |         |
|------------------|------------------|---------|
|                  | 2006             | 2005    |
| Raw materials    | 184,149          | 67,468  |
| Work in progress | 124,512          | 37,830  |
| Finished goods   | 803,489          | 550,840 |
|                  | <b>1,112,150</b> | 656,138 |

## 23. DUE FROM RELATED COMPANIES/THE ULTIMATE HOLDING COMPANY

The amounts due from related companies/the ultimate holding company of the Group are unsecured, interest-free and repayable on demand. The carrying values of the amounts due from related companies/the ultimate holding company approximate to their fair values.

The maximum outstanding balances during the year for related companies and the ultimate holding company were HK\$51,486,000 and HK\$34,320,000 respectively.

## 24. LOAN RECEIVABLE

The Group's loan receivable arose from the conversion of the Dagang Participating Interest. More details are given in notes 28 and 43(c) to the financial statements.

The amortised cost of the Group's loan receivable approximates to its fair value.

The maturity profile of the loan receivable as at the balance sheet date is analysed into the remaining periods to its contractual maturity dates as follows:

|  | Group           |      |
|--|-----------------|------|
|  | 2006            | 2005 |
| Repayable:                               |                 |      |
| Within three months                      | 4,235           | –    |
| Three months to one year                 | 13,092          | –    |
| One year to five years                   | 21,615          | –    |
|  | <b>38,942</b>   | –    |
| Portion classified as current assets     | <b>(17,327)</b> | –    |
| Portion classified as non-current assets | <b>21,615</b>   | –    |



# Notes to Financial Statements

## 25. ACCOUNTS RECEIVABLE

|                   | Group          |         |
|-------------------|----------------|---------|
|                   | 2006           | 2005    |
| Notes receivables | <b>18,522</b>  | –       |
| Trade receivables | <b>921,416</b> | 395,749 |
|                   | <b>939,938</b> | 395,749 |

Notes receivables represent bank acceptance notes of the Manganese Company which are issued by major banks in China.

The Group normally offers credit terms of 30 to 60 days to its established customers.

An aged analysis of the accounts receivable as at the balance sheet date, based on the invoice date, is as follows:

|                     | Group          |         |
|---------------------|----------------|---------|
|                     | 2006           | 2005    |
| Within one month    | <b>643,465</b> | 313,181 |
| One to two months   | <b>255,889</b> | 76,950  |
| Two to three months | <b>17,794</b>  | 4,630   |
| Over three months   | <b>22,790</b>  | 988     |
|                     | <b>939,938</b> | 395,749 |

Included in the Group's total accounts receivable is an amount due from the Group's fellow subsidiary of HK\$235,785,000 (2005: HK\$18,313,000), which is repayable on similar credit terms to those offered to other customers of the Group.

## Notes to Financial Statements

### 26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | Group        |       |
|---|--------------|-------|
|   | 2006         | 2005  |
| Current unlisted equity investments, at fair value: |              |       |
| Australia   | <b>1,974</b> | 1,830 |

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

### 27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

|                        | Group          |           | Company       |         |
|------------------------|----------------|-----------|---------------|---------|
|                        | 2006           | 2005      | 2006          | 2005    |
| Cash and bank balances | <b>310,258</b> | 166,033   | <b>1,955</b>  | 48      |
| Time deposits *        | <b>540,486</b> | 1,353,562 | <b>20,735</b> | 887,632 |
|                        | <b>850,744</b> | 1,519,595 | <b>22,690</b> | 887,680 |

\* Amounts of HK\$75,528,279 (2005: HK\$522,332,000) and HK\$15,372,065 (2005: HK\$520,618,000) of the time deposits of the Group and of the Company, respectively, as at 31 December 2006 were placed with CITIC Ka Wah Bank Limited.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

At the balance sheet date, the cash and bank balances of the Group and the Company denominated in Renminbi ("RMB") amounted to HK\$116,754,514 and HK\$2,310,052 (2005: HK\$147,509 and Nil). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## Notes to Financial Statements

### 28. ASSETS/LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Pursuant to a resolution of the board of directors of the Company passed on 15 November 2005, the Company announced the board's decision to exercise its option to convert the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. The Group decided to cease its holding of the Dagang Participating Interest because the Group was of the view that the conversion is in the interests of the Group as it will provide the Group with exposure to all of Ivanhoe's oil and energy interests rather than just the Dagang Oilfield project. The conversion was completed on 18 February 2006. Further details of the conversion are included in note 43(c) to the financial statements. As at 31 December 2005, the assets and liabilities related to the Dagang Participating Interest were classified as a disposal group held for sale.

The results of the Dagang Participating Interest for the period/year are presented below:

|                                       | <b>Period from<br/>1 January 2006 to<br/>18 February 2006</b> | 2005     |
|---------------------------------------|---|----------|
| Revenue                               | <b>13,604</b>   | 77,429   |
| Expenses                              | <b>(13,771)</b>   | (84,049) |
| Loss before tax                       | <b>(167)</b>  | (6,620)  |
| Tax                                   | <b>889</b>  | ( 887)   |
| Net profit/(loss) for the period/year | <b>722</b>  | (7,507)  |

The major classes of assets of the Dagang Participating Interest classified as held for sale as at 31 December are as follows:

|                                    | <b>2006</b> | 2005    |
|------------------------------------|-------------|---------|
| <b>Assets</b>                      |             |         |
| Property, plant and equipment, net | –           | 249,814 |
| Accounts receivable                | –           | 16,282  |
| Assets classified as held for sale | –           | 266,096 |
| <b>Liabilities</b>                 |             |         |
| Accounts payable                   | –           | 33,072  |

# Notes to Financial Statements

## 29. ACCOUNTS PAYABLE

An aged analysis of the accounts payable as at the balance sheet date, based on the invoice date, is as follows:

|                     | Group          |                |
|---------------------|----------------|----------------|
|                     | 2006           | 2005           |
| Within one month    | 455,696        | 170,572        |
| One to two months   | 58,416         | 14,762         |
| Two to three months | 5,284          | 172            |
| Over three months   | 14,392         | 782            |
|                     | <b>533,788</b> | <b>186,288</b> |

The accounts payable are non-interest-bearing and are normally settled on 60-day terms.

There is no accounts payable included in a disposal group (Note 28) as at 31 December 2006 (2005: HK\$33,073,000) which was aged within three months.

## 30. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in the total balance was an amount of HK\$7,210,000 (2005: HK\$6,644,000) due to CITIC Group, the ultimate holding company of the Company, which represents an interest expense payable on loans totalling US\$41,000,000 (HK\$327,003,000) that had been advanced by CITIC Group (note 33(g)).

## 31. DERIVATIVE FINANCIAL INSTRUMENTS

|   | Group<br>2006 |                |
|---|---------------|----------------|
|   | Assets        | Liabilities    |
| Forward currency contracts and currency options | 10,064        | 8,450          |
| Forward commodity contracts                     | –             | 134,310        |
| Interest rate swap and options                  | 6,316         | –              |
| Derivative financial instruments                | –             | 185,223        |
|   | <b>16,380</b> | <b>327,983</b> |
| Portion classified as non-current:              |               |                |
| Derivative financial instruments                | –             | (41,063)       |
| Current portion                                 | <b>16,380</b> | <b>286,920</b> |

The carrying amounts of forward currency and commodity contracts, interest rate swap and embedded derivatives are the same as their fair values.

The Group is a party to derivative financial instruments in the normal course of business in order to hedge the exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

Accounting policies in relation to derivative financial instruments are set out in note 2.4 to the financial statements.

# Notes to Financial Statements

## 31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### *Forward currency contracts and currency option – cash flow hedges*

The Group's exports business in Australia involves transactions where both the sales revenue and the majority of the related costs of the goods sold are denominated in United States dollars, as well as other currencies. The Group has entered into forward currency contracts and currency options to hedge its net foreign currency exposures in relation to such transactions.

Imports of the Group generally involve transactions where the purchases of imported goods (as well as some of the costs related to such purchases) are denominated in United States dollars, as well as other currencies. However, subsequent sales of such goods are generally denominated in Australian dollars. Therefore, to enable the Group to manage such business operations, including setting the Australian dollar selling prices of the imported goods, forward currency contracts and currency options are entered into to hedge current and anticipated future purchases.

The contracts are timed to mature when major shipments are scheduled to arrive and cover anticipated purchases and sales in the ensuing financial year. Forward currency contracts described above are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy set out in note 2.4 to the financial statements.

At 31 December, the terms of the outstanding contracts held by the Group were as follows:

|                              | 2006                           |                             | 2005                           |                             |
|------------------------------|--------------------------------|-----------------------------|--------------------------------|-----------------------------|
|                              | Weighted average exchange rate | Contractual amount HK\$'000 | Weighted average exchange rate | Contractual amount HK\$'000 |
| <b>Forward contracts:</b>    |                                |                             |                                |                             |
| (i) Sell A\$/Buy US\$        |                                |                             |                                |                             |
| Less than 3 months           | <b>0.7681</b>                  | <b>303,625</b>              | 0.7426                         | 168,917                     |
| Buy A\$/Sell US\$            |                                |                             |                                |                             |
| Less than 3 months           | <b>0.7312</b>                  | <b>68,849</b>               | 0.7403                         | 78,484                      |
| In 3 to 12 months, inclusive | <b>0.7137</b>                  | <b>58,548</b>               | 0.7435                         | 163,983                     |
| In 1 to 2 years, inclusive   | <b>0.7134</b>                  | <b>6,413</b>                | 0.7435                         | 18,222                      |
| <b>Currency options:</b>     |                                |                             |                                |                             |
| (i) Put US\$ option sell     |                                |                             |                                |                             |
| Less than 3 months           | <b>0.7700</b>                  | <b>40,081</b>               | 0.7565                         | 12,482                      |
| In 3 to 12 months, inclusive | –                              | –                           | 0.7704                         | 3,531                       |
| (ii) Call A\$ option buy     |                                |                             |                                |                             |
| Less than 3 months           | –                              | –                           | 0.7565                         | 12,482                      |
| In 3 to 12 months, inclusive | –                              | –                           | 0.7704                         | 3,531                       |

Amounts disclosed above represent currencies sold measured at the contracted rate.

The portion of gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in equity. When a cash flow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount in equity.

# Notes to Financial Statements

## 31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### *Forward commodity contracts – cash flow hedges*

The Group has also committed to the following contracts in order to protect the Group from adverse movements in aluminium prices.

All commodity contracts are normally settled other than by physical delivery of the underlying commodities and hence are classified as financial instruments. On maturity, the contracted price is compared to the spot price and the differential is applied to the contracted quantity. A net amount is paid or received by the Group.

Aluminium forward contracts are entered into for the purpose of hedging future production, the contracts are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy in note 2.4 to the financial statements.

At 31 December, the terms of the Group's outstanding commodity derivative financial instruments were as follows:

|                                  | 2006                 |                              |                             | 2005                 |                              |                             |
|----------------------------------|----------------------|------------------------------|-----------------------------|----------------------|------------------------------|-----------------------------|
|                                  | Quantity hedged (MT) | Average price per tonne HK\$ | Contractual amount HK\$'000 | Quantity hedged (MT) | Average price per tonne HK\$ | Contractual amount HK\$'000 |
| <b>Aluminium forward (sold):</b> |                      |                              |                             |                      |                              |                             |
| Less than 3 months               | 5,600                | 15,733                       | 88,883                      | 7,800                | 13,697                       | 106,835                     |
| In 3 to 12 months, inclusive     | 15,750               | 16,988                       | 267,581                     | 19,350               | 13,681                       | 264,776                     |
| In 1 to 2 years, inclusive       | 6,700                | 15,444                       | 102,340                     | 2,150                | 13,681                       | 29,421                      |
| In 2 to 5 years, inclusive       | 450                  | 14,680                       | 6,604                       | 12,000               | 12,769                       | 153,213                     |

### *Interest rate swap contracts and options – cash flow hedges*

The Group has entered into interest rate swap to hedge against unfavourable movements in interest rates payable on floating rate borrowings. The Group is obliged to pay interest at fixed rates and receives interest at floating rates on the notional principal of the swap, with settlement being on a net basis.

The contracts require settlement of net interest receivable or payable at specified intervals which coincide with the dates on which interest is payable on the underlying debt. Such net receipts or payments are recognised as an adjustment to interest expense at the time the floating rates are set for each interval. The floating rates for A\$ denominated swap are set by reference to Bank Bill Swap reference rate ("BBSW") and for US\$ denominated swap are set by reference to London Interbank Offered Rate ("LIBOR").

# Notes to Financial Statements

## 31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

### *Interest rate swap contracts and options – cash flow hedges (continued)*

Swap currently in place cover 50% of the syndicate loan principal outstanding in CITIC Australia (Portland) Pty Limited and are timed to expire as each loan repayment falls due. The fixed interest rate is fixed at 3.58% over the whole term of the contract and the variable interest rates are set at 6-month LIBOR.

Interest rate options are entered from time to time by the coal mining and other joint venture managers on behalf of the joint venture partners to reduce the impact of changes in interest rates on floating rate long-term basis.

At 31 December, the remaining terms, notional principal amounts and other significant terms of the Group's outstanding interest rate swap contracts and options were as follows:

US\$ interest rate swap:

|                   | 2006                      |                 | 2005                      |                 |
|-------------------|---------------------------|-----------------|---------------------------|-----------------|
|                   | Weighted average rate (%) | Notional amount | Weighted average rate (%) | Notional amount |
| Within 1 year     | 3.58                      | 23,400          | 3.58                      | 23,400          |
| In the fifth year | 3.58                      | 296,400         | 3.58                      | 319,800         |

The terms of the forward contracts and options have been negotiated to match the terms of the commitments. The cash flow hedges of the expected future sale and the expected future purchases were assessed to be highly effective and a net loss, before deferred tax, of HK\$78,385,000 was included in the hedging reserve as follows:

|   | 2006    | 2005     |
|---|---------|----------|
| Total fair value losses included in the hedging reserve | 78,385  | 174,468  |
| Total fair value losses included in profit or loss      | 111,667 | 13,235   |
| Deferred tax on fair value losses                       | (9,989) | (56,313) |
| Net losses on cash flow hedges                          | 180,063 | 131,390  |

## 32. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and repayable on demand. The carrying amount of the amount due to a minority shareholder approximates to its fair value.

## Notes to Financial Statements

### 33. BANK AND OTHER LOANS

|   | Notes | Group            |           |
|---|-------|------------------|-----------|
|   |       | 2006             | 2005      |
| Bank loans – unsecured #                                | (a)   | <b>2,465,035</b> | 772,594   |
| Bank loans – secured * # (Note)                         | (b)   | <b>878,650</b>   | 686,405   |
| Unsecured loan from Transport Infrastructure Corridor * | (c)   | <b>6,815</b>     | 7,850     |
| Unsecured loan from Exploration Permit for coal *       | (d)   | <b>6,242</b>     | 6,775     |
| Unsecured loans from former minority shareholders ^     | (e)   | <b>11,862</b>    | 11,862    |
| Unsecured loan from a minority shareholder ^            | (f)   | <b>61,930</b>    | 61,330    |
| Unsecured loan from CITIC Group #                       | (g)   | <b>327,003</b>   | 358,800   |
| Unsecured loan from 广西金孟锰业有限公司 ^                        | (h)   | <b>45,025</b>    | –         |
|   |       | <b>3,802,562</b> | 1,905,616 |
|   |       | Company          |           |
|   |       | 2006             | 2005      |
| Bank loans – unsecured #                                |       | <b>1,513,200</b> | –         |

- \* Fixed rate
- # Floating rate
- ^ Interest free

Note: Includes the effects of a related interest rate swap as further detailed in note 31 to the financial statements.



# Notes to Financial Statements

## 33. BANK AND OTHER LOANS (CONTINUED)

Notes:

- (a) The unsecured bank loans of HK\$2,465,035,000 include mainly revolving term loans denominated in US dollars that totalled US\$230,000,000 (HK\$1,419,560,000), which was interest bearing at LIBOR + (0.5% to 0.7%). The unsecured bank loans also include trade finance facilities of A\$154,218,268 (HK\$951,835,150) which were interest bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited.
- (b) The secured bank loans of HK\$878,650,000 include mainly:
- A US\$82,000,000 (HK\$639,600,000) loan due by 31 December 2008 (extendable in accordance with the terms of the Portland Aluminium Smelter joint venture), which was interest-bearing at LIBOR and secured by a 22.5% participating interest in Portland Aluminium Smelter joint venture.
- A loan of RMB243,846,336 (HK\$ 239,050,000) with due dates from 17 January 2007 to 14 September 2010, which was interest-bearing at rates ranging from 6.12% to 7.25% per annum and secured by property, plant and equipment of HK\$62,252,000, prepaid land lease premiums of HK\$1,300,000, a letter of credit, mining rights of HK\$135,701,000 and a guarantee provided by a minority shareholder.
- (c) The loans were obtained from the State Government of Queensland, Australia. The loans are unsecured, interest bearing at 6.69% per annum and repayable in equal quarterly instalments by 30 September 2012.
- (d) The loans were obtained from the manager of the Coppabella and Moortvale coal mines joint venture. The loans are unsecured, interest bearing at 6% per annum and repayable in equal annual instalments by 11 December 2013.
- (e) The loans were from the former minority shareholders (details of which are set out in note 40(a)). The loans are unsecured, interest-free and not repayable within one year.
- (f) The loan was from a minority shareholder of CITIC Dameng Investments Limited, namely CITIC United Asia Investments Limited (which is an indirect wholly-owned subsidiary of CITIC Group). The loan is unsecured, interest-free and not repayable within one year.
- (g) The loan of US\$41,000,000 (HK\$327,003,000) was granted by CITIC Group, the ultimate holding company of the Group. The loan is unsecured, interest bearing at LIBOR + 1.5% per annum and repayable in equal annual installments by September 2015.
- (h) The loans were from 广西金孟锰业有限公司. The loans are unsecured, interest-free and repayable on 1 July 2007.

## Notes to Financial Statements

### 33. BANK AND OTHER LOANS (CONTINUED)

|  | Group              |           |
|--|--------------------|-----------|
|  | 2006               | 2005      |
| Bank loans repayable:                                      |                    |           |
| Within one year or on demand                               | 1,495,017          | 817,476   |
| In the second year   | 833,648            | 48,719    |
| In the third to fifth years, inclusive                     | 1,015,020          | 140,400   |
| Beyond five years  | –                  | 452,404   |
|  | <b>3,343,685</b>   | 1,458,999 |
| Other loans repayable:                                     |                    |           |
| Within one year  | 46,796             | 1,917     |
| In the second year   | 1,878              | 1,917     |
| In the third to fifth years, inclusive                     | 6,335              | 5,751     |
| Beyond five years  | 3,073              | 5,040     |
|  | <b>58,082</b>      | 14,625    |
| Loan from former minority shareholders,<br>beyond one year | <b>11,862</b>      | 11,862    |
| Loan from minority shareholders,<br>beyond one year        | <b>61,930</b>      | 61,330    |
| Loans from CITIC Group:                                    |                    |           |
| Within one year  | 46,209             | 39,000    |
| In the second year   | 38,999             | 39,000    |
| In the third to fifth years, inclusive                     | 116,998            | 117,000   |
| Beyond five years  | 124,797            | 163,800   |
|  | <b>327,003</b>     | 358,800   |
| Total bank and other loans                                 | <b>3,802,562</b>   | 1,905,616 |
| Portion classified as current liabilities                  | <b>(1,588,022)</b> | (858,393) |
| Non-current portion  | <b>2,214,540</b>   | 1,047,223 |
|  |                    |           |
|  | Company            |           |
| Bank loans repayable:                                      |                    |           |
| Within one year or on demand                               | 343,200            | –         |
| In the second year   | 234,000            | –         |
| In the third to fifth years, inclusive                     | 936,000            | –         |
|  | <b>1,513,200</b>   | –         |
| Portion classified as current liabilities                  | <b>(343,200)</b>   | –         |
| Non-current portion  | <b>1,170,000</b>   | –         |

## Notes to Financial Statements

### 33. BANK AND OTHER LOANS (CONTINUED)

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

#### Group

|   | Effective<br>interest rate p.a. (%) | Carrying amounts |           | Fair values      |           |
|---|-------------------------------------|------------------|-----------|------------------|-----------|
|   |                                     | 2006             | 2005      | 2006             | 2005      |
| Unsecured loan from<br>Transport Infrastructure<br>Corridor | 5.921                               | <b>5,788</b>     | 7,850     | <b>5,923</b>     | 7,955     |
| Unsecured loan from<br>Exploration Permit for coal          | 5.960                               | <b>5,498</b>     | 6,775     | <b>5,506</b>     | 6,826     |
| Unsecured loan from<br>CITIC Group                          | 6.034                               | <b>280,794</b>   | 319,800   | <b>289,509</b>   | 315,863   |
| Unsecured bank loans  | 5.855                               | <b>1,170,000</b> | –         | <b>1,176,820</b> | –         |
| Secured bank loans  | 5.898                               | <b>592,785</b>   | 639,606   | <b>593,662</b>   | 630,411   |
| Unsecured bank loans  | 5.898                               | <b>6,863</b>     | –         | <b>6,955</b>     | –         |
| Other secured bank loans                                    | 5.844 – 5.855                       | <b>79,020</b>    | –         | <b>81,091</b>    | –         |
| Unsecured loans from<br>former minority shareholders        | 5.960                               | <b>11,862</b>    | 11,862    | <b>11,557</b>    | 11,615    |
| Unsecured loan from<br>a minority shareholder               | 5.960                               | <b>61,930</b>    | 61,330    | <b>59,755</b>    | 60,051    |
|   |                                     | <b>2,214,540</b> | 1,047,223 | <b>2,230,778</b> | 1,032,721 |

#### Company

|                      | Effective Interest<br>Rate p.a. (%) | Carrying amounts |      | Fair values      |      |
|----------------------|-------------------------------------|------------------|------|------------------|------|
|                      |                                     | 2006             | 2005 | 2006             | 2005 |
| Unsecured bank loans | 6.034                               | <b>1,170,000</b> | –    | <b>1,176,820</b> | –    |

## Notes to Financial Statements

### 34. PROVISIONS

#### Group

|  | Long service and<br>leave payments | Provision for<br>rehabilitation<br>cost | Provision for<br>abandonment<br>cost | Total    |
|--|------------------------------------|---|--------------------------------------|----------|
| At 1 January 2006                              | 45,877                             | 73,363                                  | –                                    | 119,240  |
| Acquisition of a joint<br>venture (note 39(b)) | –                                  | –                                       | 24,682                               | 24,682   |
| Additions                                      | 6,715                              | 34,365                                  | 112                                  | 41,192   |
| Amount written back                            | –                                  | (23,225)                                | –                                    | (23,225) |
| Exchange realignment                           | 3,600                              | 5,798                                   | –                                    | 9,398    |
| At 31 December 2006                            | 56,192                             | 90,301                                  | 24,794                               | 171,287  |
| Portion classified as<br>current liabilities   | (45,476)                           | (8,262)                                 | –                                    | (53,738) |
| Non-current portion                            | 10,716                             | 82,039                                  | 24,794                               | 117,549  |

### 35. DEFERRED TAX

The movements in the Group's deferred tax liabilities and assets during the year were as follows:

#### Deferred tax liabilities – 2006

|   | Accelerated<br>tax depreciation | Fair value<br>adjustments | Total    |
|---|---------------------------------|---------------------------|----------|
| At 1 January 2006   | 430,687                         | 40,298                    | 470,985  |
| Acquisitions of subsidiaries (note 39(a))   | 3,465                           | 7,788                     | 11,253   |
| Deferred tax charged to the<br>consolidated income statement<br>during the year (note 10) | (14,363)                        | (15,458)                  | (29,821) |
| Deferred tax credited to<br>equity during the year  | –                               | 30,461                    | 30,461   |
| Exchange differences  | 30,613                          | 6,442                     | 37,055   |
| Gross deferred tax liabilities<br>at 31 December 2006                                     | 450,402                         | 69,531                    | 519,933  |

## Notes to Financial Statements

### 35. DEFERRED TAX (CONTINUED)

#### Deferred tax assets – 2006

|  | Losses available<br>for offset<br>against future<br>taxable profit |
|--|--|
| At 1 January 2006  | 11,188   |
| Deferred tax charged to the consolidated<br>income statement during the year (note 10) | (1,434)  |
| Deferred tax credited to equity during the year  | (4,484)  |
| Exchange realignment   | 1,484  |
| Gross deferred tax assets at 31 December 2006  | 6,754  |
| Net deferred tax liabilities at 31 December 2006                                       | 513,179  |

#### Deferred tax liabilities – 2005

|   | Accelerated<br>tax depreciation | Fair value<br>adjustments | Total    |
|---|---------------------------------|---------------------------|----------|
| At 1 January 2005   | 449,170                         | 62,955                    | 512,125  |
| Deferred tax charged to the<br>consolidated income statement<br>during the year (note 10) | 9,317                           | (3,971)                   | 5,346    |
| Deferred tax debited to equity<br>during the year   | –                               | (15,046)                  | (15,046) |
| Exchange realignment  | (27,800)                        | (3,640)                   | (31,440) |
| Gross deferred tax liabilities<br>at 31 December 2005                                     | 430,687                         | 40,298                    | 470,985  |

# Notes to Financial Statements

## 35. DEFERRED TAX (CONTINUED)

### Deferred tax assets – 2005

|  | <b>Losses available<br/>for offset<br/>against future<br/>taxable profit</b> |
|--|--|
| At 1 January 2005  | 14,984   |
| Deferred tax charged to the consolidated income statement<br>during the year (note 10) | (2,925)  |
| Exchange realignment   | (871)  |
| Gross deferred tax assets at 31 December 2005  | 11,188   |
| Net deferred tax liabilities at 31 December 2005                                       | 459,797  |

## 36. SHARE CAPITAL

### Shares

|   | 2006           | 2005    |
|---|----------------|---------|
| Authorised:<br>6,000,000,000 (2005: 6,000,000,000)<br>ordinary shares of HK\$0.05 each            | <b>300,000</b> | 300,000 |
| Issued and fully paid:<br>4,318,184,381 (2005: 4,316,884,381) ordinary<br>shares of HK\$0.05 each | <b>215,909</b> | 215,844 |

During the year, the subscription rights attaching to 1,300,000 share options were exercised at the subscription price of HK\$1.08 per share, resulting in the issue of 1,300,000 ordinary shares of HK\$0.05 each for a total cash consideration, before issuance expenses, of HK\$1,404,000. The use of the proceeds is for the Group's normal daily operation.

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

# Notes to Financial Statements

## 37. SHARE OPTION SCHEME

On 30 June 2004, a new share option scheme (the “New Scheme”) was adopted by the Company to replace the share option scheme which was adopted by the Company on 21 August 1997 (the “Old Scheme”). The Old Scheme was terminated on 30 June 2005.

Pursuant to the New Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the New Scheme is as follows:

- |  |  |
|--|--|
| (a) Purpose  | – To enable the Company to grant options to Eligible Participants (as defined below) as incentives and rewards for their contributions to the Group.   |
| (b) Eligible Participants  | – Being employees or executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and consultants, business associates and advisers who will provide or have provided services to the Group.  |
| (c) Total number of shares available for issue under the New Scheme            | – The total number of shares which may be issued upon the of all outstanding options granted and yet to exercise be exercised under the New Scheme shall not exceed 30% of the total number of shares of the Company in issue.   |
| (d) Maximum entitlement of each Eligible Participant                           | – The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue at the date of grant. |
| (e) Period during which the shares must be taken up under an option            | – The period during which an option may be exercised is determined by the board of directors of the Company at its absolute discretion, except that no option may be exercised after 10 years from the date of adoption of the New Scheme, subject to early termination of the New Scheme.   |
| (f) Minimum period for which an option must be held before it can be exercised | – The minimum period for which an option must be held before it can be exercised is one year.  |

# Notes to Financial Statements

## 37. SHARE OPTION SCHEME (CONTINUED)

- (g) Basis of determining the exercise price – The exercise price must be at least the highest of (i) the closing price of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.
- (h) Remaining life of the New Scheme – The New Scheme remains in force until 29 June 2014 unless otherwise terminated in accordance with the terms stipulated therein.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 2 June 2005, the Company granted share options under the New Scheme to its directors, certain consultants and employees to subscribe for a total of 167,000,000 ordinary shares in the Company at the exercise price of HK\$1.08 per share. Of these, 45,683,116 ordinary shares to each of Mr. Kwok Peter Viem and Mr. Ma Ting Hung were granted subject to approval by shareholders of the Company in the special general meeting held on 26 July 2005 (the "SGM") in accordance with the Listing Rules and the Rules of the New Scheme. Furthermore, all share options were granted on the basis that certain terms attached thereto required the approval of shareholders of the Company in the SGM as they constituted a change to the terms of the New Scheme. The closing price of the shares immediately before the date of grant was HK\$1.07 per share.

On 28 December 2005, the Company granted additional share options under the New Scheme to its directors to subscribe for a total of 10,000,000 ordinary shares in the Company at the exercise price of HK\$1.06 per share. The closing price of the shares immediately before the date of grant was HK\$1.05 per share.

The 1,300,000 share options exercised during the year resulted in the issue of 1,300,000 ordinary shares of the Company and new share capital of HK\$65,000 and share premium of HK\$1,625,000 (before issue expenses), as further detailed in note 36 to the financial statements.



# Notes to Financial Statements

## 37. SHARE OPTION SCHEME (CONTINUED)

Movements in the share options during the year end options outstanding under the New Scheme as at the balance sheet date are set out below:

| Participants                 | Number of share options |                           |                     | Date of grant* | Exercise period          | Price per share     |                         |   |                       |
|------------------------------|-------------------------|---------------------------|---------------------|----------------|--------------------------|---------------------|-------------------------|---|-----------------------|
|                              | At 1 January 2006       | Exercised during the year | At 31 December 2006 |                |                          | Exercise price HK\$ | At date of grant** HK\$ | Immediately before the exercise date HK\$ | At exercise date HK\$ |
| <b>Directors</b>             |                         |                           |                     |                |                          |                     |                         |   |                       |
| Kwok Peter Viem              | 50,000,000              | -                         | 50,000,000          | 02-06-2005     | 02-06-2007 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
| Ma Ting Hung                 | 50,000,000              | -                         | 50,000,000          | 02-06-2005     | 02-06-2007 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
| Shou Xuancheng               | 10,000,000              | -                         | 10,000,000          | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
| Sun Xinguo                   | 5,000,000               | -                         | 5,000,000           | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
|                              | 5,000,000               | -                         | 5,000,000           | 28-12-2005     | 28-12-2006 to 27-12-2010 | 1.06                | 1.05                    | N/A                                       | N/A                   |
|                              | 10,000,000              | -                         | 10,000,000          |                |                          |                     |                         |   |                       |
| Li So Mui                    | 5,000,000               | -                         | 5,000,000           | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
| Mi Zengxin                   | 10,000,000              | -                         | 10,000,000          | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
| Qiu Yiyong                   | 10,000,000              | -                         | 10,000,000          | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
| Zeng Chen                    | 5,000,000               | -                         | 5,000,000           | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
|                              | 5,000,000               | -                         | 5,000,000           | 28-12-2005     | 28-12-2006 to 27-12-2010 | 1.06                | 1.05                    | N/A                                       | N/A                   |
|                              | 10,000,000              | -                         | 10,000,000          |                |                          |                     |                         |   |                       |
| Zhang Jijing                 | 10,000,000              | -                         | 10,000,000          | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | N/A                                       | N/A                   |
|                              | 165,000,000             | -                         | 165,000,000         |                |                          |                     |                         |   |                       |
| <b>Eligible participants</b> |                         |                           |                     |                |                          |                     |                         |   |                       |
| In aggregate                 | 12,000,000              | (1,300,000)               | 10,700,000          | 02-06-2005     | 02-06-2006 to 01-06-2010 | 1.08                | 1.07                    | 1.46 - 1.84                               | 1.42 - 1.88           |
|                              | 177,000,000             | (1,300,000)               | 175,700,000         |                |                          |                     |                         |   |                       |

\* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

\*\* The share price at date of grant is the closing price as quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

# Notes to Financial Statements

## 37. SHARE OPTION SCHEME (CONTINUED)

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 175,700,000 share options outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 175,700,000 additional ordinary shares of the Company, additional share capital of HK\$8,785,000 and share premium of HK\$180,771,000 (before issue expenses).

On 7 March 2007, the Company issued options under the New Scheme in respect of 20,000,000 Shares at the exercise price of HK\$3.072 per share. The closing price of the shares immediately before the grant was HK\$3.070 per share.

At the date of approval of these financial statements, the Company had 190,200,000 share options outstanding under the Scheme, which represented approximately 3.8% of the Company's shares in issue as at that date.

The following share options of CATL were outstanding under the Pre-Scheme during the year:

| Participants                    | Number of share options       |   |                     | Exercise period          | Price per share       |  |                               |
|---------------------------------|-------------------------------|---|---------------------|--------------------------|-----------------------|--|-------------------------------|
|                                 | At 1 January 2006<br>Restated | Grant/<br>(exercised)<br>during<br>the year | At 31 December 2006 |                          | Exercise price<br>A\$ | Immediately<br>before the<br>exercise<br>date<br>A\$ | At<br>exercise<br>date<br>A\$ |
| <b>Directors of the Company</b> |                               |   |                     |                          |                       |  |                               |
| Zeng Chen                       | 166,668                       | -   | <b>166,668</b>      | 19-06-2005 to 18-06-2007 | 0.350                 | N/A  | N/A                           |
| Zhang Jijing                    | 200,000                       | (200,000)                                   | -                   | 19-06-2005 to 18-06-2007 | 0.350                 | 0.525  | 0.520                         |
|                                 | 366,668                       | (200,000)                                   | <b>166,668</b>      |                          |                       |  |                               |
| <b>Directors of CATL</b>        |                               |   |                     |                          |                       |  |                               |
|                                 | 366,668                       | (186,668)                                   | <b>180,000</b>      | 19-06-2005 to 18-06-2007 | 0.350                 | 0.730  | 0.755                         |
|                                 | 140,000                       | -   | <b>140,000</b>      | 19-06-2005 to 18-06-2007 | 0.350                 | N/A  | N/A                           |
|                                 | 506,668                       | (186,668)                                   | <b>320,000</b>      |                          |                       |  |                               |
| <b>Eligible participants</b>    |                               |   |                     |                          |                       |  |                               |
|                                 | 216,666                       | -   | <b>216,666</b>      | 19-06-2003 to 18-06-2007 | 0.200                 | N/A  | N/A                           |
|                                 | 399,999                       | (66,667)                                    | <b>333,332</b>      | 19-06-2004 to 18-06-2007 | 0.250                 | 0.730  | 0.755                         |
|                                 | 400,002                       | -   | <b>400,002</b>      | 19-06-2004 to 18-06-2007 | 0.300                 | N/A  | N/A                           |
|                                 | 1,016,667                     | (66,667)                                    | <b>950,000</b>      |                          |                       |  |                               |
|                                 | 1,890,003                     | (453,335)                                   | <b>1,436,668</b>    |                          |                       |  |                               |

## Notes to Financial Statements

### 38. RESERVES

#### (a) Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 and 45 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the holding company of the Group acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares over the nominal value of the share capital of the Company issued in exchange therefor.

#### (b) Company

|  | Share<br>premium<br>account | Contributed<br>surplus | Share option<br>reserve | Accumulated<br>losses | Total            |
|--|-----------------------------|------------------------|-------------------------|-----------------------|------------------|
| As at 1 January 2005   | 2,561,962                   | 172,934                | –                       | (360,584)             | 2,374,312        |
| Equity-settled share<br>options arrangements<br>(note 37)          | –                           | –                      | 12,662                  | –                     | 12,662           |
| Net profit for the year  | –                           | –                      | –                       | 17,079                | 17,079           |
| At 31 December 2005<br>and 1 January 2006                          | 2,561,962                   | 172,934                | 12,662                  | (343,505)             | 2,404,053        |
| Issue of new shares<br>upon exercise of<br>share options (note 37) | 1,625                       | –                      | (286)                   | –                     | 1,339            |
| Equity-settled share<br>options arrangements<br>(note 37)          | –                           | –                      | 26,158                  | –                     | 26,158           |
| Net loss for the year  | –                           | –                      | –                       | (152,093)             | (152,093)        |
| At 31 December 2006  | <b>2,563,587</b>            | <b>172,934</b>         | <b>38,534</b>           | <b>(495,598)</b>      | <b>2,279,457</b> |

The contributed surplus of the Company represents the excess of the then combined net assets of the subsidiaries acquired pursuant to the Group reorganisation detailed in note (a) above, over the nominal value of the share capital of the Company issued in exchange therefor. In accordance with the laws of Bermuda, the contributed surplus of the Company may be distributed in cash or in specie in certain prescribed circumstances.

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share based payments transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profit should the related options expire or be forfeited.

# Notes to Financial Statements

## 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) *Acquisitions of subsidiaries*

On 28 February 2006, the Group acquired a 48% indirect interest (with effective control via a 80% owned subsidiary) in the Manganese Company. The Manganese Company is engaged in the operation of manganese mining and sale of refined manganese products in the PRC. The purchase consideration was in form of cash, consideration amount of RMB300,000,000 (HK\$288,500,000) (note 21) and the cost directly attributable to the acquisition of HK\$17,170,000 had been paid in 2005 and recorded as a long term prepayment.

The fair values of the identifiable assets and liabilities of the Manganese Company and its subsidiaries as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

|  | Notes | Fair value<br>recognised<br>on acquisition | Carrying<br>amount |
|--|-------|--|--------------------|
| Net assets acquired:                           |       |  |                    |
| Property, plant and equipment                  | 13    | 315,881                                    | 315,881            |
| Prepaid land lease premiums                    | 14    | 60,564                                     | 60,564             |
| Other intangible assets                        | 15    | 139,904                                    | 104,013            |
| Cash and bank balances                         |       | 148,230                                    | 148,230            |
| Inventories                                    |       | 16,801                                     | 16,801             |
| Accounts receivable                            |       | 12,624                                     | 12,624             |
| Prepayments, deposits and other<br>receivables |       | 6,755                                      | 6,755              |
| Accounts payable                               |       | (19,188)                                   | (19,188)           |
| Accrued liabilities and other payables         |       | (139,279)                                  | (139,279)          |
| Tax payable                                    |       | (823)                                      | (823)              |
| Deferred tax liabilities                       | 35    | (11,253)                                   | (3,465)            |
| Bank and other loans                           |       | (11,114)                                   | (11,114)           |
| Minority interests                             |       | (213,432)                                  | (202,191)          |
|  |       | <b>305,670</b>                             | <b>288,808</b>     |
| Satisfied by deposits paid in 2005             |       | <b>305,670</b>                             |                    |

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

|  | 2006           | 2005 |
|--|----------------|------|
| Cash consideration paid  | –              | –    |
| Cash and bank balances acquired  | <b>148,230</b> | –    |
| Net inflow of cash and cash equivalents<br>in respect of the acquisition of subsidiaries | <b>148,230</b> | –    |

Since its acquisition, the Manganese Company and its subsidiaries contributed HK\$538,006,000 to the Group's turnover and HK\$65,759,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK\$7,529,736,000 and HK\$252,978,000, respectively.

The purchase price allocation set out above is still preliminary, pending the finalisation of the valuation of certain property, plant and equipment and intangible assets and the determination of the tax basis of the assets and liabilities acquired.

# Notes to Financial Statements

## 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (b) Acquisition of participating interest in a joint venture

On 22 November 2006, the Group acquired a 51% participating interest in the Seram PSC (see details in note 18(e)). The purchase consideration for the acquisition was in form of cash, with HK\$757,723,000 paid at the acquisition date and directly attributable costs of HK\$117,229,000 taken up as accrued liabilities and other payables.

The fair values of the identifiable assets and liabilities of the 51% participating interest in the Seram PSC as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

|  | Notes | Fair value<br>recognised<br>on acquisition | Carrying<br>amount |
|--|-------|--|--------------------|
| Net assets acquired:                           |       |  |                    |
| Oil and gas properties                         | 13    | 846,530                                    | 639,920            |
| Furniture and fixtures                         | 13    | 2,067                                      | 2,067              |
| Deferred tax assets                            |       | –  | 243,549            |
| Inventories                                    |       | 75,611                                     | 75,611             |
| Prepayments, deposits and<br>other receivables |       | 99,415                                     | 99,415             |
| Accounts payable                               |       | (8,121)                                    | (8,121)            |
| Accrued liabilities and other payables         |       | (26,335)                                   | (26,335)           |
| Tax payable                                    |       | (8,135)                                    | (8,135)            |
| Provisions                                     | 34    | (24,682)                                   | (24,682)           |
| Long term other payables                       |       | (81,398)                                   | (81,398)           |
|  |       | <b>874,952</b>                             | <b>911,891</b>     |
| Satisfied by:                                  |       |  |                    |
| Cash   |       | 757,723                                    | –                  |
| Accrued liabilities and other payables         |       | 117,229                                    | –                  |
|  |       | <b>874,952</b>                             | <b>–</b>           |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the 51% participating interest in the Seram PSC is as follows:

|   | 2006           | 2005 |
|---|----------------|------|
| Cash consideration paid   | <b>757,723</b> | –    |
| Cash and bank balances acquired   | –              | –    |
| Net outflow of cash and cash equivalents<br>in respect of the acquisition of participating<br>interest in a joint venture | <b>757,723</b> | –    |

The purchase price allocation set out above is still preliminary, pending the finalisation of the valuation relating to the oil and gas reserves and the determination of the tax basis of the assets and liabilities acquired.

# Notes to Financial Statements

## 39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

### (c) *Disposal of a participating interest in a joint venture*

On 18 February 2006, the Group converted the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. More details of the transaction are given in note 28 to the financial statements. Net assets disposed of on 18 February 2006 had immaterial changes compared to that of 31 December 2005.

### (d) *Major non-cash transactions*

On 15 December 2005, the Group disposed of part of its participating interest in Bowen Basin joint venture in consideration of certain ordinary shares of Macarthur. On the same date, the Group also restructured the remaining participating interest in the Bowen Basin joint venture into seven separate jointly-controlled assets.

During the year ended 31 December 2006, the Group converted the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. More details of the transaction are given in note 28 to the financial statements.

During the year ended 31 December 2006, Mount Gibson Iron Limited ("Mount Gibson"), a third party, acquired Aztec Resources Limited, an available-for-sale equity investment of the Group, through the issuance of new shares of Mount Gibson to a subsidiary of the Group. Such non-cash share swap transaction resulted in a gain on disposal of available-for-sale equity investments of HK\$17,502,000 (note 5).

During the year ended 31 December 2006, the Group has incurred professional fees in connection with the Group's potential investment projects which had been accrued and remained unsettled as of 31 December 2006 in aggregate of HK\$50,939,000.

## 40. LITIGATION

- (a) In January 1999, Dongguan Xinlian, a wholly-owned subsidiary of the Company held through Wing Lam, received a writ of summons (the "Claim") from China Foreign Trade Development Company (the "Plaintiff") claiming US\$6,362,000 (HK\$49,624,000) and related interest in respect of six re-export contracts purported to have been entered into by Dongguan Xinlian prior to it becoming a Group subsidiary. A judgement (the "First Judgement") was issued by the Shenzhen Intermediate People's Court in February 2000 against Dongguan Xinlian for a sum of US\$3,448,000 (HK\$26,894,000). In response, Dongguan Xinlian filed an appeal against the First Judgement with the People's High Court of Guangdong Province.

In August 2003, certain members of the Plaintiff management team were sentenced to imprisonment for creating forged documents, including those presented by them in relation to the Claim. Despite this, the People's High Court of Guangdong Province issued a judgement (the "Second Judgement") in December 2003 against Dongguan Xinlian for US\$4,800,000 (HK\$37,440,000) with related interest. In January 2004, Dongguan Xinlian filed another appeal to the State Supreme Court requesting the withdrawal of the Second Judgement and a decision that Dongguan Xinlian is not liable to the Plaintiff in respect of the Second Judgement. In December 2004, the People's High Court of Guangdong Province overturned the Second Judgement and issued a decision that it will re-hear the case.

In December 2005, the People's High Court of Guangdong Province issued a judgement whereby the validity of the Second Judgement against Dongguan Xinlian was maintained (the "Third Judgement").

# Notes to Financial Statements

## 40. LITIGATION (CONTINUED)

(a) (Continued)

As advised by the Group's legal advisers, there were a number of conflicts and discrepancies with regard to the Second Judgement and the Third Judgement. The Second Judgement and the Third Judgement were not supported by valid evidence and although the People's High Court of Guangdong Province acknowledged the criminal liabilities of certain members of the Plaintiff's management team (including forging the contracts connected to the Claim), the People's High Court of Guangdong Province did not, contrary to normal legal procedures, take these factors into account when it gave the Third Judgement. In February 2006, Dongguan Xinlian commenced an appeal process against the Third Judgement. In the meantime, the Shenzhen Intermediate People's Court has frozen the assets and machinery of Dongguan Xinlian and the Group has also taken steps to apply for a suspension of the auction of the assets and machinery of Dongguan Xinlian.

The ex-shareholders of Wing Lam (the "Ex-shareholders") have given an undertaking to indemnify the Group against all monetary losses that may arise from the Claim up to HK\$11,862,000, being the outstanding other loans from the Ex-shareholders as at 31 December 2006.

In light of the indemnity from the Ex-shareholders and the advice of the Group's legal advisers, the directors believe that the outcome of the Claim will not have a material adverse impact on the financial results of the Group; and accordingly, no provision is considered necessary.

- (b) The Group has a 7% participating interest in the unified unincorporated co-operative Coppabella and Moorvale coal mines joint venture, the manager and agent of which is Macarthur Coal (C&M Management) Pty Limited (the "Manager"). Roche Mining Pty Limited (the "Contractor") is contracted to mine coal and overburden at the Coppabella mine for a five year term which commenced on 1 July 2003.

In December 2003, the Manager lodged a notice of dispute with the Contractor under the terms of the mining contract. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the Contractor to deliver coal in accordance with the contract provisions. Subsequently, the Manager received a series of claims from the Contractor as follows:

**(i) Related to the 2004 financial year**

In June 2004, following rejection by the superintendent of claims from the Contractor, the Contractor lodged a notice of dispute on the Manager under the mining contract. The rejected claim, consisting of nine heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. The Contractor then referred the dispute to arbitration.

# Notes to Financial Statements

## 40. LITIGATION (CONTINUED)

(b) (Continued)

**(ii) Related to the 2005 financial year**

In February 2005, the arbitrator determined that seven of the nine points of claim could proceed to arbitration. The Manager received the detailed points of claim from the Contractor in March 2005 and detailed further particulars in September 2005. In April 2006, the Manager lodged its defence to the points of claim and lodged a counterclaim against the Contractor. In July 2005, the Contractor lodged a further notice of dispute in relation to alleged additional costs resulting from the superintendent's approval of the 2005 financial year mine plan. The claims were rejected by the superintendent and the subsequent dispute was referred to arbitration in August 2005. In April 2006, the Contractor lodged a consolidated and further amended points of claim in relation to both the 2004 financial year claim and the 2005 financial year claim.

**(iii) Related to the 2006 financial year**

In January 2006, the Contractor lodged a further notice of claim in relation to alleged additional costs resulting from the superintendent's approval of the 2006 financial year mine plan. However, the Contractor has not provided to the superintendent the requested details of the nature and quantum of this claim. In October 2006, the Manager lodged its defence to the consolidated claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A\$100 million (HK\$617 million) out of which the Group's share amounted to A\$7 million (HK\$43 million). Areas of duplication have been identified across these three claims and the Contractor is yet to provide particulars regarding basis and quantum of the third claim.

The Manager disputes the above claims and will vigorously defend its position in arbitration. The arbitrator has set a date to hear the consolidated 2004 and 2005 financial year claims in June 2007. However, there is no set date for hearing of the consolidated 2006 financial year claim.

In the opinion of the directors, disclosure of any further information about the above matter would be prejudicial to the interests of the Manager and the joint venture participants of the Coppabella and Moorvale coal mine joint venture.



# Notes to Financial Statements

## 41. OPERATING LEASE ARRANGEMENTS

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

|   | Group         |               |
|---|---------------|---------------|
|   | 2006          | 2005          |
| Within one year                         | 12,883        | 9,348         |
| In the second to fifth years, inclusive | 16,803        | 14,827        |
| Beyond five years                       | 9,848         | 2,423         |
|   | <b>39,534</b> | <b>26,598</b> |

## 42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following capital expenditure commitments:

|   | Group         |       |
|---|---------------|-------|
|   | 2006          | 2005  |
| Contracted, but not provided for:<br>Infrastructure, plant and equipment,<br>share of the jointly-controlled entities | <b>27,445</b> | 8,911 |

At 31 December 2006, the Group had authorised but not contracted for commitments in relation to the acquisition of the Potential Assets in Kazakhstan as set out in note 1.

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2005: Nil).

## 43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

In addition to matters disclosed elsewhere in the financial statements, during the year, the Group had the following transactions with its related parties:

- (a) During the year ended 31 December 2006, the Group made sales in aggregate of HK\$1,378,446,000 (2005: HK\$1,025,037,000) to a fellow subsidiary, CITIC Metal Company Limited. The sales were made on normal commercial terms and conditions offered to the major customers of the Group.

As at 31 December 2006, the Group had an amount due from the fellow subsidiary of HK\$235,785,000 (2005: HK\$18,313,000) which has been included in the accounts receivable balance.

# Notes to Financial Statements

## 43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (CONTINUED)

- (b) Proposed very substantial acquisition regarding the acquisition of Potential Assets located in Kazakhstan

On 27 October 2006, a MOU was entered into by CITIC Group and the Company. Pursuant to the MOU, the Company has been granted the Purchase Right, which is exercisable by the Company during the period of one year (from the date which CITIC Group completed its acquisition of certain potential assets), to acquire the Potential Assets. The Potential Assets principally comprise a 94.6% interest in Karazhanbasmunai JSC, a joint stock company formed under the laws of Kazakhstan, which holds 100% of the mineral rights until 2020 to develop the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan. On 29 December 2006, CITIC Group completed the acquisition of the Potential Assets from CCPL. The Company paid US\$200,000,000 (HK\$1,560,000,000) (note 21) on 31 October 2006 to CITIC Group as the earnest money for the proposed acquisition.

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Listing Rules and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right had not been exercised by the Company. Further details are set out in the announcement of the Company dated 1 November 2006.

- (c) Warranty income resulting from the conversion of the Dagang Participating Interest into Ivanhoe Shares

On 31 October 2006, an acknowledgement from CITIC Group was received by the Group in respect of a warranty settlement agreement dated 10 October 2006 between the Group and CITIC Group, pursuant to which CITIC Group agreed to compensate the Company for HK\$34,320,000 in respect of the loss of HK\$19,412,000 suffered by the Company in respect of the conversion of the Dagang Participating Interest in Richfirst into Ivanhoe Shares. A loss to the reduction in the number of Ivanhoe Shares converted due to the appreciation of Ivanhoe Shares prices during the delayed conversion period.

As at 31 December 2006, the Group had an outstanding amount due from the ultimate holding company of HK\$34,320,000 due to the above (note 23). The outstanding amount was settled subsequent to the balance sheet date.

- (d) During the year, the Group has paid rental charges of HK\$2,814,000 (2005: HK\$2,679,000) to 99 King Street Property Management Pty Ltd., a subsidiary of CITIC Group.

# Notes to Financial Statements

## 43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (CONTINUED)

- (e) Outstanding balances with related parties:
- (i) As disclosed in the consolidated balance sheet, the Group had outstanding advances payable to its minority shareholder of HK\$38,174,000 (2005: nil). Details of the advances are included in note 32 to the financial statements.
  - (ii) Details of the Group's receivables from its fellow subsidiaries, related companies and ultimate holding company of HK\$2,066,000 (2005: HK\$301,000), HK\$51,486,000 (2005: nil) and HK\$34,320,000 (2005: nil) respectively, as at the balance date. Details of the receivables are included in notes 21 and 23 to the financial statements.
  - (iii) Details of the Group's loans from the Company's former minority shareholders, a minority shareholder and the ultimate holding company are included in note 33 to the financial statements.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap, forward currency and commodity contracts. The purpose is to manage the interest rate, currency and commodity price risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that trading in financial instruments shall be undertaken only with due care.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### **Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap are designated to hedge the underlying debt obligations. At 31 December 2006, after taking into account the effect of the interest rate swap, approximately 50% (2005: 41%) of the Group's interest-bearing borrowings bore interest at fixed rates.

# Notes to Financial Statements

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### *Foreign currency risk*

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group requires all its operating units to use forward currency contracts to eliminate the foreign currency exposures, for which payment is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

### *Credit risk*

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, collateral is usually not required.

### *Liquidity risk*

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

## 45. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group entered into the following significant transactions:

- (a) On 9 February 2007, the Company entered into the placing and subscription agreement (the "Placing and Subscription Agreement") with USI as subscriber, Citigroup Global Markets Asia Limited and UBS AG as underwriters, pursuant to which the Company agreed to allot and issue, and USI agreed to subscribe for 570,000,000 new ordinary shares of the Company of HK\$0.05 each at a price of HK\$2.46 per new share.

The 570,000,000 new shares represent 13.2% of the issued share capital of the Company as at 8 February 2007, being the last trading day before the signing of the Placing and Subscription Agreement (the "Last Trading Day"). The placing price of HK\$2.46 represents (i) a discount of 5.02% to the closing price of HK\$2.59 per share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of 2.93% to the average closing price of HK\$2.39 per share as quoted on the Stock Exchange for the five trading days immediately prior to and including the Last Trading Day; and (iii) a premium of 2.93% to the average closing price of HK\$2.39 per share as quoted on the Stock Exchange for the ten trading days immediately prior to and including the Last Trading Day.

The transaction, completed on 28 February 2007, constituted a discloseable transaction under the Listing Rules. Further details of the transaction are set out in the announcement of the Company dated 9 February 2007.

# Notes to Financial Statements

## 45. POST BALANCE SHEET EVENTS (CONTINUED)

- (b) On 9 February 2007, the Company entered into the subscription agreement (the “Subscription Agreement”) with Keentech, a major shareholder of the Company, pursuant to which the Company conditionally agreed to allot and issue, and Keentech agreed to subscribe for 130,000,000 new ordinary shares of the Company of HK\$0.05 each (the “Subscription Shares”) at a price of HK\$ 2.46 (the “Subscription Price”) per Subscription Share.

The Subscription Shares represent 2.66% of the issued share capital of the Company as at 2 March 2007, being the latest practicable date prior to the printing of the circular of the Company dated 5 March 2007 (the “Latest Practicable Date”) or 2.59% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The Subscription Price represents (i) a discount of 5.02% to the closing price of HK\$2.59 per share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of 2.93% to the average closing price of HK\$2.39 per share as quoted on the Stock Exchange for the five trading days immediately prior to and including the Last Trading Day; and (iii) a premium of 2.93% to the average closing price of HK\$2.39 per share as quoted on the Stock Exchange for the ten trading days immediately prior to and including the Last Trading Day.

The transaction, completed on 19 April 2007, constituted a connected transaction under the Listing Rules. The total consideration of the Subscription Shares amounted to HK\$319,800,000 and was paid in cash on the completion date. Further details of the transaction are set out in the circular of the Company dated 5 March 2007.

- (c) On 20 March 2007, an ordinary resolution was passed at the special general meeting of the Company whereby the authorised share capital of the Company of HK\$300,000,000 divided into 6,000,000,000 ordinary shares of HK\$0.05 each be increased to HK\$500,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.05 each by the creation of an additional 4,000,000,000 ordinary shares of HK\$0.05 each, which such shares shall on their issue rank pari passu in all respects with existing issued shares.
- (d) During the 5th Session of the 10th National People’s Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the “New Tax Law”) was approved and will become effective on 1 January 2008. The New Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Tax Law to the Group cannot be reasonably estimated at this stage.

## 46. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year’s presentation and accounting treatment.

## 47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.