Annual Report 2007




CITIC Resources Holdings Limited

(incorporated in Bermuda with limited liability)

Stock Code: 1205

Contents

Corporate Information

EXECUTIVE DIRECTORS

Mr. Kong Dan *(Chairman)*
Mr. Mi Zengxin *(Vice Chairman)*
Mr. Shou Xuancheng *(Vice Chairman)*
Mr. Sun Xinguo
(President and Chief Executive Officer)
Ms. Li So Mui
Mr. Qiu Yiyong
Mr. Zeng Chen
Mr. Zhang Jijing

NON-EXECUTIVE DIRECTORS

Mr. Ma Ting Hung
Mr. Wong Kim Yin
Ms. Yap Chwee Mein *(Alternate to Mr. Wong Kim Yin)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan Ren Da, Anthony
Mr. Ngai Man
Mr. Tsang Link Carl, Brian

AUDIT COMMITTEE

Mr. Tsang Link Carl, Brian *(Chairman)*
Mr. Fan Ren Da, Anthony
Mr. Ngai Man

REMUNERATION COMMITTEE

Mr. Fan Ren Da, Anthony *(Chairman)*
Mr. Ngai Man
Mr. Tsang Link Carl, Brian
Mr. Sun Xinguo

NOMINATION COMMITTEE

Mr. Ngai Man *(Chairman)*
Mr. Fan Ren Da, Anthony
Mr. Tsang Link Carl, Brian
Mr. Kong Dan
Mr. Zhang Jijing

INVESTMENT COMMITTEE

Mr. Mi Zengxin *(Chairman)*
Mr. Sun Xinguo
Mr. Zeng Chen
Mr. Zhang Jijing
Mr. Wong Kim Yin
Mr. Fan Ren Da, Anthony

COMPANY SECRETARY

Ms. Li So Mui

QUALIFIED ACCOUNTANT

Mr. Chung Ka Fai, Alan

REGISTERED OFFICE

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Hamilton HM 11, Bermuda

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SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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28 Queen's Road East, Wanchai, Hong Kong

AUDITORS

Ernst & Young
Certified Public Accountants
18th Floor, Two International Finance Centre
8 Finance Street, Central, Hong Kong

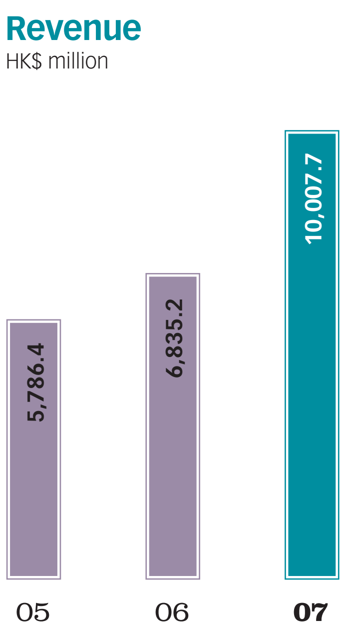
PRINCIPAL BANKERS

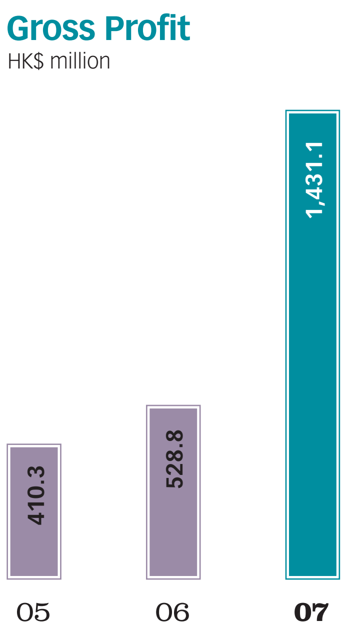
China Development Bank
CITIC Ka Wah Bank Limited
Mizuho Corporate Bank, Ltd.

Financial Highlights

The board of directors (the "Board") of **CITIC Resources Holdings Limited** (the "Company") is pleased to deliver a satisfactory 2007 annual results of the Company and its subsidiaries (collectively the "Group").

	2007 HK$ million	2006 HK$ million (restated)	Change
Revenue	**10,007.7**	6,835.2	+ 46.4%
Gross profit	**1,431.1**	528.8	+170.6%
Profit attributable to shareholders	**282.8**	200.8	+ 40.8%
Total assets	**30,775.0**	9,328.4	+229.9%
Net assets	**7,159.6**	3,505.1	+104.3%
Earnings per share attributable to ordinary shareholders			
Basic	**HK 5.65 cents**	HK 4.65 cents	+ 21.5%
Diluted	**HK 5.61 cents**	HK 4.61 cents	+ 21.7%





Kong Dan
Chairman

Chairman's Statement

I am very pleased to present this report on behalf of the Board and as the first of my Chairmanship of CITIC Resources Holdings Limited.

The steady economic growth in 2007 helped by strong and persistent demand for energy and natural resources allowed the Company to achieve satisfactory results, notwithstanding the turmoil in the international financial markets. The Company's growth has benefited from its increased investment in energy assets. Oil and commodity prices generally reached then market highs during the year, whilst the Group also faced the challenge of increases in operating costs and capital expenditure incidental to the Group's businesses.

FINANCIAL RESULTS

In 2007, the Group's revenue increased by 46.4% to HK$10,007.7 million. Profit attributable to shareholders was HK$282.8 million, representing an increase of 40.8% from the previous year. Earnings per share was HK 5.65 cents, compared with HK 4.65 cents per share in 2006.

BUSINESS REVIEW

In December 2007, the Group concluded the purchase of an almost 50% interest in the Karazhanbas oilfield located in Kazakhstan which had proved reserves of 341.1 million barrels of oil as at 31 December 2007. This was financed from funds raised in the international debt markets. In May 2007, the Group successfully closed on the issue of its US$1,000 million 6.75% senior notes due 2014, which marked the Group's first ever bond issue. This was a major financing activity successfully completed by the Group prior to the onset of the subprime crisis in the United States of America.

The Group manages and operates the Karazhanbas oilfield on a joint venture basis with JSC KazMunaiGas Exploration Production ("KMG EP") which holds an identical interest in the oilfield. KMG EP is one of the largest oil and gas producing companies in Kazakhstan and is listed on the Kazakhstan and London stock exchanges. The Group looks forward to creating a successful working relationship with KMG EP and to increasing the production of the oilfield by employing China National Petroleum Corporation's exclusive recovery technology for heavy oil. The Group expects that a significant increase in oil production from the oilfield will be achieved in 2008 notwithstanding the challenges of production and costs associated with such production.

In October 2007, the Group closed the acquisition of a 90% interest in Tincy Group Energy Resources Limited, the appointed contractor in respect of the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, the People's Republic of China. The principal field in this block has an estimated total recoverable proved, probable and possible oil reserves of about 63.5 million barrels as of 30 June 2007. The Group has been undertaking preparation work in respect of development of the block.

With the addition of the Karazhanbas and the Hainan-Yuedong interests, the total oil reserves (proved, probable and possible) under operation by the Group have increased from 37.5 million barrels to 622.9 million barrels during the course of 2007. We believe the significant growth of the Group's oil business will enhance the Group's long term profitability. We contemplate that profits from our oil business once fully developed will become the Group's largest profit contributor.

Our Australia based businesses of aluminium smelting, coal and import and export of commodities continue to make significant contributions to the Group's performance and remain an integral part of the Group's overall strategy. A noteworthy event was the Group's acquisition of an additional 8.37% in the equity of the Australian Stock Exchange listed Macarthur Coal Limited ("Macarthur Coal") in July 2007 which pushed the Group's interest up to 19.99% at that time. We are now one of the substantial shareholders in Macarthur Coal which provides about 44% of the low volatile pulverised coal injection coal exported from Australia. CITIC Australia Trading Limited, a company listed in Australia and controlled by the Group, again delivered record profits in 2007.

The manganese business performed well in 2007 and is expected to increase capacity with our proposed acquisition of additional manganese mining interests in Gabon, Western Africa.

We believe all of these developments create and will help deliver value to our shareholders.

During 2007, to strengthen our capital base and raise capital to support the growth of the Group, the Company undertook a number of share placements raising HK$2,137.9 million cash in total. Singapore based Temasek Holdings (Private) Limited ("Temasek Holdings") became a substantial shareholder in the Company as part of the process. Temasek Holdings has considerable experience and investment intelligence in a wide range of businesses. They have nominated a non-executive director to the Board. We believe Temasek Holdings' presence and support will benefit our Group.

BUSINESS OUTLOOK

In 2008, energy investment will become more challenging and the international financial markets may continue to remain unstable. However, we are determined to further our efforts in improving the efficiency and productivity of our existing assets and to contain operating costs while securing an increase in production from the Karazhanbas oilfield, the commercial development of the Hainan-Yuedong Block and the expansion of the Indonesian Seram Island Non-Bula Block, all with a view to further boosting the development capability, profitability and risk resistance of the Group's oil business. The Group is also committed to improving the profitability of the commodities business in Australia and to further increasing the productivity of CITIC Dameng Mining Industries Limited. Meanwhile, the Group will continue to identify new investment opportunities to enhance the Group's performance and shareholder value.

BOARD MEMBER CHANGES

Mr. Kwok Peter Viem stepped down as a director and the Chairman and Mr. Ma Ting Hung stepped down from his position as Vice Chairman but continues as a non-executive director. On behalf of the Board, I wish to thank Mr. Kwok and Mr. Ma for their valuable contribution to the Group during their respective stewardship as Chairman and Vice Chairman

I myself was appointed as a director and the Chairman of the Company during the year. Mr. Mi Zengxin was elected a Vice Chairman of the Company. I wish to extend my congratulations to Mr. Mi on his appointment.

APPRECIATION

The Group has undertaken various business initiatives in 2007. I thank my fellow directors, management and dedicated staff for their hard work and unstinting efforts in what was an extremely busy year for the Group.

On behalf of the Board, I express our sincere gratitude to our shareholders, customers, suppliers, bankers and business associates for their continued support to the Group.

Kong Dan
Chairman

Hong Kong, 18 April 2008

Management's Discussion and Analysis

FINANCIAL REVIEW

Group's financial results: HK$'000

Operating results and ratios

	Year ended 31 December 2007	2006 (restated)	Increase
Revenue	**10,007,656**	6,835,161	46.4%
Gross profit	**1,431,104**	528,830	170.6%
Profit attributable to shareholders	**282,777**	200,815	40.8%
Earnings per share (Basic)	**HK 5.65 cents**	HK 4.65 cents	21.5%
Gross profit margin [1]	**14.3 %**	7.7 %	
Inventory turnover [2]	**8.9 times**	8.7 times	

Financial position and ratios

	31 December 2007	2006 (restated)	Increase
Cash and bank balances	**2,074,457**	850,744	143.8%
Total assets	**30,774,965**	9,328,361	229.9%
Bank and other loans	**4,202,104**	3,802,562	10.5%
Bond obligations	**7,992,859**	—	N/A
Equity attributable to shareholders	**6,071,463**	3,225,343	88.2%
Current ratio [3]	**1.3 times**	1.7 times	
Gearing ratio [4]	**200.9%**	117.9%	

[1] gross profit / revenue x 100%
[2] cost of sales / [(opening inventories + closing inventories) / 2]
[3] current assets / current liabilities
[4] (bank and other loans + bond obligations) / equity attributable to shareholders x 100%

The Group has achieved a satisfactory financial performance for 2007. The Australia based businesses of aluminium smelting, coal and import and export of commodities continue to make significant contributions to the Group's performance and remain an integral part of the Group's overall strategy while the manganese business in the People's Republic of China (the "**PRC**") and the oil businesses in Indonesia and Kazakhstan have made positive contribution to the Group's profits.

The following is a comparison of the results of each segment between 2007 and 2006.

Aluminium smelting

- Revenue ▲ 10%
  Net profit after tax (from ordinary activities) ▲ 105%

- Revenue was driven by higher selling prices and a 11% increase in sales volume compared to 2006.

  In 4Q 2006, production recovered fully following the power outage which occurred in November 2005 and caused damage to some pots. As a result, sales volume increased.

- The return to full production capacity in 2007 helped improve net profit although certain costs, such as alumina and electricity which are linked to the market price of aluminium, increased. The increased revenue compensated for the increased cost.

  Underlying profit performed extremely well despite unfavourable exchange rates as the Australian dollar appreciated against US dollar. During the year, aluminium prices increased. Due to lower aluminium hedging exposure, more profit was captured from the increase in aluminium prices.

Another key reason for the significant rise in net profit was due to a gain of HK$36.3 million (2006: loss of HK$111.7 million) from the revaluation of "embedded derivatives". In accordance with Hong Kong Financial Reporting Standards, a component of the Electricity Supply Agreement (the "**ESA**") which is linked to the market price of aluminium is considered as a financial instrument embedded in the ESA. Such embedded derivatives need to be marked to market at the balance sheet date based on the future aluminium prices. On 31 December 2007, as the forward curve of aluminium prices decreased as compared to that on 31 December 2006, the revaluation of the embedded derivatives resulted in an unrealised gain and was accounted for in "Cost of sales" in the consolidated income statement.

- There was a provision for full impairment on the spent pot lining project of HK$22.6 million (2006: Nil), but the provision was not considered as an expense arising from ordinary activities.

Coal

- Revenue ▼ 38%
  Net profit after tax (from ordinary activities) ▼ 78%

- Revenue was affected by a 30% drop in sales volume compared to 2006. This is attributed to infrastructure constraints such as rail service restrictions and port congestion resulting in shipment delays. Heavy rainfall during the year also disrupted mining operations.

- The decrease in net profit was due to a drop in sales volume, lower contract coal prices and an appreciation of the Australian dollar as most sales were not hedged. Also, the production costs increased significantly due to supply constraints and the aforesaid production and infrastructure constraints.

  Correspondingly, the Group received a smaller dividend of HK$15.7 million in 1H 2007 (full year of 2006: HK$55.1 million) from Macarthur Coal Limited ("**Macarthur Coal**"). In July 2007, the Group acquired an additional 8.37% in the equity of Macarthur Coal for a consideration of A$112.9 million, which pushed the Group's interest up to 19.99% at the time. As a result, Macarthur Coal became an associate company of the Group and the share of profit attributable to the Group for 2H 2007 was HK$15.7 million.

- There was a net gain of HK$7.4 million (2006: Nil) from the sale of coal exploration interests. This gain was not treated as profit arising from ordinary activities.

Import and export of commodities

- Revenue ▲ 33%
  Net profit after tax (from ordinary activities) ▲ 52%

  Increase in revenue and net profit was partly due to the appreciation of the Australian dollar. The following table shows a breakdown of revenue and net profit/(loss) before tax for 2007 and a comparison with 2006:

			Exports				
		Total	**Alumina**	**Iron ore**	**Steel**	**Others**	**Imports**
Revenue	HK$ million	**5,873.6**	663.8	2,919.7	786.9	4.2	1,499.0
	Compared to 2006	**▲ 33%**	▼ 38%	▲ 98%	▼ 15%	▼ 93%	▲ 70%
Net profit/(loss) before tax	HK$ million	**118.3**	35.7	41.5	8.2	(1.9)	34.8
	Compared to 2006	**▲ 49%**	▼ 18%	▲ 446%	▲ 215%	N/A	▲ 38%

- The growth in revenue was attributable to iron ore exports, steel imports and automotive battery imports.

  Exported products include alumina and iron ore sourced from Australia and other countries to the PRC. Imported products include tyres and wheels from China into Australia.

  Alumina spot prices experienced considerable fluctuations during the year and strengthened significantly in 4Q 2007. However, sales volume continued to decline during the year, as western alumina producers and the smelters in the PRC (end-users) have increased direct trading instead of through traders like CITIC Australia Trading Limited ("**CATL**") and also because of the rapid expansion of alumina production in the PRC which has reduced demand for imports.

  The volume and prices of iron ore exports increased with continued demand from steel mills in the PRC. The exports grew strongly based on iron ore sourced from India and the Koolan Island project of Mount Gibson Iron Limited ("**Mount Gibson**") in Australia. A long term off-take contract was signed with Mount Gibson and the maiden shipment left Koolan Island to the PRC in July 2007.

  Steel exports are still in the development stage. The net profit includes a write-back of a 2006 potential stock loss provision. CATL will continue to work closely with the Chinese steel mills and European and Middle East customers to consolidate the business.

  Significant sales growth of imports was attributable to steel and automotive batteries. Revenue from steel imports and battery imports grew almost 80% and 60% respectively.

- Alumina exports remained an important contributor to net profit though there was decrease in attributable profit. Profit was mainly contributed by sales under long term supply contracts and effective risk management by CATL in a tight alumina spot market.

  Iron ore exports became the largest contributor to CATL's net profit. CATL has been positive about its long term prospects of increasing iron ore sales particularly into the PRC market and ability to establish this major trading line alongside its alumina exports. The net profit of iron ore exports grew significantly not only in line with increased revenue, but also with improved profit margins. The off-take contract with Mount Gibson forms a solid foundation for the development of iron ore exports as a source of long term earnings for CATL.

  CATL's efforts in exporting Chinese steel to Europe and Asia are yielding returns and it continues to develop this further into a regular and profitable trading line.

  Imports continued to increase their contribution to overall profit. The steel and battery divisions performed strongly. Steel imports made a good contribution while the battery division increased its profit by more than 70%. CATL has strong ties with suppliers and local customers in respect of steel imports. It has also developed a reputation with its local customers as a competitive and reliable supplier of automotive batteries and continues to capture market share.

- The encouraging result confirms that CATL has successfully achieved its strategic target to actively develop other trading lines to reduce CATL's heavy reliance upon alumina exports.

  While trading is volatile in its nature, CATL's experienced trading team closely monitors the development of each of its trading lines.

Manganese

Revenue	▲ 213% (compared to 9 months in 2006)
Net profit after tax (from ordinary activities)	▲ 629% (compared to 9 months in 2006)

  The financial results of CITIC Dameng Mining Industries Limited (the "**Manganese Company**") have been consolidated into the accounts of the Group since 2Q 2006.

- Revenue was driven by higher selling prices and a 34% increase in sales volume.

  The average selling price of electrolytic manganese metal increased by 103% over the year and its sales accounted for 45% of revenue. The sales of high-carbon chromium alloy produced by a new subsidiary of the Manganese Company since 1H 2007 also made a significant contribution.

- The surge in net profit after tax was in line with increased revenue and was also a result of an improved profit margin and effective cost control. The increased revenue compensated for the increased production costs associated with raw materials, electricity and labour costs.

- In February 2007, the Manganese Company acquired a 70% interest in Guangxi Qinzhou Guixin Ferroalloy Co., Ltd. for a consideration of RMB16 million. Its principal activities are the production and sale of high-carbon chromium alloy. This new subsidiary made a satisfactory contribution to the results of the Manganese Company. Further details of this new subsidiary are set out in note 41(c) to the financial statements.

  In November 2007, the Manganese Company acquired a 14.38% interest in Daxin Guinan Chemical Industrial Limited for a consideration of RMB4.2 million. Its principal activities are the production and sale of sulphuric acid.

- The Manganese Company is expanding its production capacity on electrolytic manganese metal and dioxide. It is also expected to increase capacity in 2H 2008 with a proposed acquisition of additional manganese mining interests in Gabon, Western Africa. Further details of the transaction are set out in note 1 to the financial statements.

Crude Oil (Oilfield in Indonesia)

- CITIC Seram Energy Limited ("**CITIC Seram**"), an indirect wholly-owned subsidiary of the Company, owns a 51% participating interest in the production sharing contract relating to the Seram Island Non-Bula Block, Indonesia (the "**Seram Interest**"). CITIC Seram is the operator of the block.

- The Seram Interest began contributed to the Group's net profit in 2007. Similar to other jointly-controlled assets of the Group, only the revenue, expenses, assets and liabilities in the Seram Interest are taken into the consolidated accounts. During the year, the contribution to the Group was as follows:

Sales volume	730,000 barrels
Revenue	HK$321.2 million
Segment results	HK$128.6 million

- In 2007, the average production was about 4,100 barrels per day, exceeding the pre-set target of 4,000 barrels. With greater efforts in maintenance, optimization of well parameter and improvement of surface facility, CITIC Seram has been keeping the production at a low declining rate of 12% in comparing to a natural declining rate of 15% to 20%.

- According to the report of DeGolyer and MacNaughton, an independent technical adviser, as at 31 December 2007, the estimated gross reserves of the principal field in the Seram Island Non-Bula Block were 35.9 million barrels of oil, comprising:

Proved Reserves	7.5 million barrels
Probable Reserves	3.4 million barrels
Possible Reserves	25.0 million barrels

- The drilling of three exploration wells and a 293km 2D seismic survey, which were planned to be conducted in 2H 2007, were rescheduled to 2008. These activities were awaiting approvals from the Indonesian Government and compliance with the procurement procedures governed by Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi (BPMIGAS), the oil and gas upstream regulatory authority in Indonesia.

  The 2008 exploration and exploitation plan includes five exploration wells, two developments wells and a 293km 2D seismic survey. In February, drilling commenced in Nief Utara A1, one of the exploration wells.

- In August 2007, the Company entered into a memorandum of understanding with Kuwait Foreign Petroleum Exploration Company KSC ("**KUFPEC**"), the state-owned oil company of Kuwait and one of the Group's partners in the Seram Island Non-Bula Block. This memorandum encourages further co-operation between the Group and KUFPEC in oil investments in Indonesia and South-east Asia.

Crude Oil (Oilfield in the PRC)

- In October 2007, CITIC Haiyue Energy Limited ("**CITIC Haiyue**"), an indirect wholly-owned subsidiary of the Company, completed the acquisition of a 90% interest in Tincy Group Energy Resources Limited ("**Tincy Group**") for a consideration of US$148.2 million.

  Tincy Group holds the right to explore, develop and operate the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, the PRC.

- The principal field within the Hainan-Yuedong Block is still in the appraisal and development stage. It is, therefore, will not make an immediate contribution to the revenue of the Group.

Crude Oil (Oilfield in Kazakhstan)

- In December 2007, CITIC Oil & Gas Holdings Limited ("**CITIC Oil & Gas**"), an indirect wholly-owned subsidiary of the Company, completed the Kazakhstan Transaction (as defined under the heading "New investments" below) for a purchase consideration of US$1,030.6 million.

- As from 13 December 2007, the financial results of CITIC Oil & Gas, including the results of the Kazakhstan Interests (as defined under the heading "New investments" below), have been consolidated into the accounts of the Group. For these 19 days, the contribution to the Group was as follows:

Sales volume	303,820 barrels
Revenue	HK$197.1 million
Segment results	HK$ 93.2 million

  Further financial information are set out in note 41(a) to the financial statements.

- In 2007, the average production of oil from the Karazhanbas oilfield (as defined under the heading "New investments" below) was about 35,500 barrels per day.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash

As at 31 December 2007, the Group had a cash balance of HK$2,074.5 million. During the year, the Company obtained funds of:

- HK$7,621.7 million through the issue of the Notes (details are set out under the heading "Borrowings" below); and

- HK$2,287.6 million through the issue of new ordinary shares of HK$0.05 each in the share capital of the Company ("**Shares**") (details are set out under the heading "Share Capital" below).

Borrowings

As at 31 December 2007, the Group had outstanding borrowings of HK$12,195.0 million, which comprised:

- secured bank loans of HK$1,210.7 million;
- unsecured bank loans of HK$2,522.8 million;
- unsecured other loans of HK$468.6 million; and
- bond obligations of HK$7,992.9 million.

The secured bank loans were secured by the Group's 22.5% participating interest in the Portland Aluminium Smelter joint venture; the fixed assets of KBM (as defined under the heading "New investments" below); the fixed assets, prepaid land lease premiums and mining right of the manganese mine, and a guarantee provided by Guangxi Dameng Manganese Industry Co., Ltd. ("**Guangxi Dameng**"). The bank trade finance facilities available to CATL are guaranteed by CITIC Resources Australia Pty Limited. Further details are set out in note 34 to the financial statements.

Most transactions of CATL are debt funded which means CATL is highly geared. However, in contrast to term loans, CATL's borrowings are transaction specific and of short durations, matching the term of the underlying trade. When sale proceeds are received at the completion of a transaction, the related borrowings are repaid accordingly.

In May 2007, CITIC Resources Finance (2007) Limited ("**CR Finance**"), a direct wholly-owned subsidiary of the Company, completed the issue of US$1,000,000,000 6.75% senior notes due 2014 (the "**Notes**"). The obligations of CR Finance under the Notes are irrevocably and unconditionally guaranteed by the Company. The net proceeds of the Notes, after deduction of underwriting discounts and commissions and related expenses, amounted to US$976.6 million (HK$7,621.7 million). The money was used to facilitate the acquisition of 50% of CITIC Group's interest in the Karazhanbas oilfield as part of the Kazakhstan Transaction (as defined under the heading "New investments" below) and for general working capital requirements. Further details of the Notes are set out in the announcement of the Company dated 17 May 2007.

As at 31 December 2007, the gearing ratio of the Group was 200.9% (31 December 2006: 117.9%). Of the total outstanding borrowings, HK$2,595.8 million was repayable within one year. There was no adverse change to the financial position of the Group.

Share capital

In February and April 2007, the Company issued a total of 700,000,000 new Shares at a price of HK$2.46 per new Share. The net proceeds of the subscriptions amounted to HK$1,687.4 million and were received in cash. Further details of the subscriptions are set out in the announcement of the Company dated 9 February 2007 and in the circular of the Company dated 5 March 2007 respectively.

In July 2007, the Company issued 101,000,000 new Shares at a price of 4.46 per new Share. The net proceeds of the subscription amounted to HK$450.5 million and were received in cash.

During the year, the Company also issued a total of 138,700,000 new Shares as a result of the exercise of share options at an average exercise price of HK$1.079 per Share. The net proceeds of the subscription amounted to HK$149.7 million and were received in cash.

At the special general meeting of the Company held on 20 March 2007, an ordinary resolution was duly passed approving an increase in the authorised share capital of the Company from HK$300,000,000 to HK$500,000,000 by the creation of an additional 4,000,000,000 Shares.

Financial risk management

The Group's diversified business is exposed to a variety of risks, such as market risks (including foreign currency risk, commodity price risk and interest rate risk), credit risk and liquidity risk. The management of such risks is dictated by a set of internal policies and procedures designed to minimize potential adverse effects to the Group. The policies and procedures have proven to be effective. Further details are set out in note 49 to the financial statements.

The Group uses derivative financial instruments such as forward currency and commodity contracts and interest rate swaps to hedge its risks associated with foreign currency, commodity price and interest rate fluctuations arising from the Group's operations and its sources of finance.

New investments

- In July 2007, the Group acquired an additional 8.37% in the equity of the Australian Stock Exchange (the "**ASX**") listed Macarthur Coal for a consideration of A$112.9 million, which pushed the Group's interest up to 19.99% at the time. As a result, Macarthur Coal became an associate company of the Group. The Group is now one of the largest shareholders in Macarthur Coal which provides about 44% of the low volatile pulverised coal injection coal exported from Australia.

  Further details of the transaction are set out in the circular of the Company dated 21 September 2007 and note 21 to the financial statements.

- In October 2007, CITIC Haiyue, an indirect wholly-owned subsidiary of the Company, completed the acquisition of a 90% interest in Tincy Group for a consideration of US$148.2 million.

  Tincy Group, being the appointed contractor pursuant to a production sharing contract entered into with China National Petroleum Corporation ("**CNPC**") in February 2004, holds the right to explore, develop and operate, until 2034, the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, the PRC (the "**Hainan-Yuedong Block**"). The existing contract area is around 110 sq.km.

  According to the report of Sproule International Limited, an independent oil and gas consultant, as of 30 June 2007, the Yuedong oilfield, the principal field within the Hainan-Yuedong Block, has an estimated total recoverable proved, probable and possible oil reserves of about 63.5 million barrels. Tincy Group manages and operates the block in co-operation with CNPC.

  The Yuedong oilfield is still in the appraisal and development stage. It is, therefore, expected that a substantial amount of capital expenditure will be required in respect of this investment with no immediate contribution by it to the revenue of the Group. Nevertheless, the successful acquisition of the Hainan-Yuedong Block interest has increased the Group's business focus and development in the oil sector.

  Further details of the transaction are set out in the announcement of the Company dated 28 September 2007 and note 41(b) to the financial statements.

- In December 2007, CITIC Oil & Gas, an indirect wholly-owned subsidiary of the Company, completed the acquisition from CITIC Group of the entire issued share capital of Renowned Nation Limited ("**RNL**"), and thereby the Kazakhstan Interests (as defined below), and the benefit of certain indebtedness owing by KBM Energy Limited ("**KEL**") to CITIC Group (the "**Kazakhstan Transaction**"). The purchase consideration in respect of the Kazakhstan Transaction was US$1,030.6 million.

  The **Kazakhstan Interests** comprise interests in 50% of the issued voting shares of JSC Karazhanbasmunai ("**KBM**") (which represents 47.3% of the total issued shares of KBM) and 50% of the participation rights in each of Argymak TransService LLP ("**ATS**") and Tulpar Munai Services LLP ("**TMS**"). KBM, ATS and TMS operate the oil and oil related businesses and activities in Kazakhstan. KBM is engaged in the development, production and sale of oil and holds the right to explore, develop, produce and sale of oil in the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan (the "**Karazhanbas oilfield**") until 2020. ATS is engaged in the provision of transportation services and other oilfield related logistics services. TMS is engaged in the provision of oil well drilling, construction and workover services.

JSC KazMunaiGas Exploration Production ("**KMG EP**") holds an identical interest in the Karazhanbas oilfield effective from the same date when CITIC Oil & Gas completed the Kazakhstan Transaction. KMG EP is one of the largest oil and gas producing companies in Kazakhstan. It is listed on the Kazakhstan and London stock exchanges and is controlled by the Government of Kazakhstan.

The Group and KMG EP manage and operate the Karazhanbas oilfield as a joint venture through their respective 50% ownership interests in CITIC Canada Energy Limited, a company incorporated in Alberta, Canada.

As at 31 December 2007, the Karazhanbas oilfield had estimated proved oil reserves of 341.1 million barrels.

Further details of the Kazakhstan Transaction are set out in the circular of the Company dated 12 June 2007, the announcement of the Company dated 12 December 2007 and note 41(a) to the financial statements.

Opinion

The Board is of the opinion that after taking into account the existing available borrowing facilities and internal resources, the Group has sufficient resources to meet its foreseeable working capital requirements and there will be no adverse change to its financial position.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2007, the Group had around 8,100 full time employees, including management and administrative staff. Most of the Group's employees are employed in the PRC, Kazakhstan and Indonesia while the others are employed in Australia and Hong Kong.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The emoluments are also based on individual's knowledge, skill, time commitment, responsibilities and performance and are determined by reference to the Group's profits and performance. Rent-free quarters are provided to some employees in Kazakhstan and Indonesia.

The employees of the Group's PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

The Group operates the following contribution retirement benefits schemes for its employees:

(a) a defined scheme under the Pension Provisioning Law in Kazakhstan for those employees in Kazakhstan who are eligible to participate;

(b) a defined scheme under the Government Law No. 11/1992 of the Indonesian government for those employees in Indonesia who are eligible to participate;

(c) a defined scheme under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate; and

(d) a defined scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees in Hong Kong who are eligible to participate.

Contributions are made based on a percentage of the employees' basic salaries. The assets of the above schemes 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 these schemes.

The Company and CATL operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Board of Directors and Senior Management

DIRECTORS

Mr. Kong Dan	*Chairman*
Mr. Mi Zengxin	*Vice Chairman*
Mr. Shou Xuancheng	*Vice Chairman*
Mr. Sun Xinguo	*President and Chief Executive Officer*
Ms. Li So Mui	*Executive Director*
Mr. Qiu Yiyong	*Executive Director*
Mr. Zeng Chen	*Executive Director*
Mr. Zhang Jijing	*Executive Director*
Mr. Ma Ting Hung	*Non-executive Director*
Mr. Wong Kim Yin	*Non-executive Director*
Ms. Yap Chwee Mein (Alternate to Mr. Wong Kim Yin)	*Non-executive Director*
Mr. Fan Ren Da, Anthony	*Independent Non-executive Director*
Mr. Ngai Man	*Independent Non-executive Director*
Mr. Tsang Link Carl, Brian	*Independent Non-executive Director*

DIRECTORS — BIOGRAPHIES

Mr. Kong Dan, aged 60, was appointed as the Chairman and an Executive Director of the Company in August 2007. He was the honorary chairman of the Company from March to August 2007. He is also a member of the nomination committee of the Company. Mr. Kong is responsible for the strategic planning and corporate development of the Group. He holds a Master's Degree in Economics from the China Academy of Social Sciences Graduate School. He is the chairman of CITIC Group, CITIC International Financial Holdings Limited (Stock Code: 183) listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), CITIC United Asia Investments Limited ("**CITIC United Asia**") and CITIC Hong Kong (Holdings) Limited, the chairman and a non-executive director of China CITIC Bank Corporation Limited ("**China CITIC Bank**") (Stock Code: 998) listed on the Main Board of the Stock Exchange and the Shanghai Stock Exchange, and a non-executive director of CITIC Ka Wah Bank Limited. Prior to joining CITIC Group, Mr. Kong held a number of high-level positions in the China Everbright group of companies between 1984 and 2000, including vice chairman and president of China Everbright Group Limited and China Everbright Holdings Company Limited. Mr. Kong has extensive business connections and over 23 years' experience in investment and finance.

Mr. Mi Zengxin, aged 57, was appointed as a Vice Chairman of the Company in August 2007. He has been an Executive Director of the Company since 2004. He is also a member of the investment committee of the Company and a director of several subsidiaries of the Group. Mr. Mi is responsible for the strategic development of the Group. He holds a Master's Degree in Science from Beijing University of Science and Technology. He is an executive director and the vice president of CITIC Group, the chairman of CITIC USA Holdings Limited and CITIC Australia Pty Limited ("**CA**"), the chairman and a non-executive director of Asia Satellite Telecommunications Holdings Limited (Stock Code: 1135) listed on the Main Board of the Stock Exchange, and a director of CITIC United Asia. He also holds executive management positions in several other subsidiaries of CITIC Group. Mr. Mi has over 24 years' experience in multi-national business, corporate management and various industries.

Mr. Shou Xuancheng, aged 58, is a Vice Chairman of the Company. He has been an Executive Director of the Company since 2005. He is also a director of several subsidiaries of the Group. Mr. Shou is responsible for the planning and development of the Group's oil investments and portfolio. He holds a Master's Degree and a Doctoral Degree in Engineering from Petroleum University of China. He held a number of high-level positions in the China National Petroleum Corporation group of companies between 1985 and 2004, including China National Oil & Gas Exploration and Development Corporation, CNPC International (Kazakhstan) Co. Ltd., PetroChina Company Limited listed on the Main Board of the Stock Exchange and PetroChina International Limited. Mr. Shou has over 37 years' experience in the oil and gas industry.

Mr. Sun Xinguo, aged 57, is the President and Chief Executive Officer of the Company. He has been an Executive Director of the Company since 2002. He is also a member of the remuneration committee and investment committee of the Company and a director of several subsidiaries of the Group. Mr. Sun is responsible for the corporate development of the Group. He holds a Bachelor of Arts Degree from Fudan University and graduated from the Advanced Management Program (AMP167) of Harvard Business School in 2004. He is a director of CITIC Group and Keentech Group Limited ("**Keentech**"). He also holds directorships in several other subsidiaries of CITIC Group. Mr. Sun has over 32 years' experience in project investment, marketing and operation, import and export, securities investment and corporate finance.

Ms. Li So Mui, aged 53, joined in 2000 as an Executive Director and the Company Secretary of the Company. She is also a director of several subsidiaries of the Group. Ms. Li is responsible for the financial management and general administration of the Group. She holds a Master's Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") and the Association of International Accountants. Ms. Li has over 30 years' experience in the accounting and banking field.

Mr. Qiu Yiyong, aged 51, joined in 2002 as an Executive Director of the Company. He is also a director of several subsidiaries of the Group. Mr. Qiu is responsible for the corporate development of the Group. He holds a Bachelor of Economics Degree from Xiamen University and is a qualified senior statistician in the PRC. He is the managing director of CITIC United Asia, a director of CITIC Group, Keentech and DVN (Holdings) Limited (Stock Code: 500) listed on the Main Board of the Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group. Prior to joining CITIC Group, he was a director of two companies listed on the Stock Exchange. Mr. Qiu has over 26 years' experience in investment management.

Mr. Zeng Chen, aged 44, joined in 2004 as an Executive Director of the Company. He is also a member of the investment committee of the Company and a director of several subsidiaries of the Group. Mr. Zeng is responsible for the management and operations of the Group. He holds a Master's Degree in International Finance from Shanghai University of Finance and Economics. He is the managing director of CA, the chairman and a non-executive director of CATL and a non-executive director of Macarthur Coal and Marathon Resources Limited (the latter three companies are listed on the ASX). He also holds directorships in several other subsidiaries of CITIC Group. Mr. Zeng has over 19 years' experience in business operations and development, asset restructuring and the aluminium and coal industry.

Mr. Zhang Jijing, aged 52, joined in 2002 as an Executive Director of the Company. He is also a member of the nomination committee and investment committee of the Company and a director of several subsidiaries of the Group. Mr. Zhang is responsible for the corporate development of the Group. He holds a Bachelor of Engineering Degree from Hefei Polytechnic University in Anhui Province and a Master's Degree in Economics from the Graduate School of Chinese Academy of Social Sciences in Beijing. He is a director, the assistant president and the head of Strategy & Planning Department of CITIC Group, the deputy chairman of CA, a director of CITIC Securities Co., Ltd. listed on the Shanghai Stock Exchange and Keentech, and a non-executive director of China CITIC Bank. Mr. Zhang has over 22 years' experience in corporate management, industrial investment, business finance and the aluminium industry.

Mr. Ma Ting Hung, aged 44, was a Vice Chairman of the Company and was re-designated as a Non-executive Director of the Company in August 2007. He was an Executive Director of the Company between 2000 and 2007. He is also a director of several subsidiaries of the Group. He holds a Bachelor of Arts Degree majoring in Economics from the University of Southern California. He is an independent non-executive director of Universe International Holdings Limited (Stock Code: 1046) listed on the Main Board of the Stock Exchange. Mr. Ma has over 20 years' experience in the banking, finance and the natural resources industry.

Mr. Wong Kim Yin, aged 37, was appointed as a Non-executive Director of the Company in April 2008. He is also a member of the investment committee of the Company. He holds an Executive Master's Degree in Business Administration from the University of Chicago Graduate School of Business. He is a managing director of Temasek Holdings (Private) Limited ("**Temasek Holdings**") responsible for investments in the energy industry. Prior to joining Temasek Holdings in 2004, he worked for The AES Corporation, a power company listed on the New York Stock Exchange, and was responsible for merger and acquisition and greenfield project development in Asia Pacific. Mr. Wong has over 10 years' experience in investment management.

Ms. Yap Chwee Mein, aged 37, was appointed as an alternate to Mr. Wong Kim Yin in April 2008. She holds a Master's Degree in Business Administration from the University of Michigan and is a Chartered Financial Analyst. She is a managing director of Temasek Holdings responsible for investments in China and in the real estate cluster, and a director of Temasek Holdings (HK) Limited. Prior to joining Temasek Holdings in 2004, she worked for investment banking division of JPMorgan Singapore, covering clients in the Asia. Prior to that, she worked for JPMorgan's New York office, in the capital markets team and the mergers and acquisition group. Ms. Yap has over 8 years' experience in investment management.

Mr. Fan Ren Da, Anthony, aged 47, joined in 2000 as an Independent Non-executive Director of the Company. He is also a member of the audit committee, remuneration committee, nomination committee and investment committee of the Company. He holds a Master's Degree in Business Administration from the USA. He is the chairman and managing director of AsiaLink Capital Limited. Prior to that, he held senior positions with various international financial institutions and was the managing director of a company listed on the Stock Exchange. Mr. Fan is an independent non-executive director of Raymond Industrial Limited (Stock Code: 229) and Uni-President China Holdings Ltd. (Stock Code: 220), both listed on the Main Board of the Stock Exchange.

Mr. Ngai Man, aged 62, joined in 2006 as an Independent Non-executive Director of the Company. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. He has been a senior adviser to the Chairmen of Charoen Pokphand Group and Chia Tai Group since 1988. He is also a director of Longtime Company Limited and Orient Telecom & Technology Holdings Limited. Mr. Ngai has over 35 years' experience in various industries in South-east Asia including telecommunications, trading, hotels and leisure, petrochemicals, real estate and agriculture. In 1995, he was recognised as an "honourary citizen" by the Shenzhen Municipal Government.

Mr. Tsang Link Carl, Brian, aged 44, joined in 2000 as an Independent Non-executive Director of the Company. He is also a member of the audit committee, remuneration committee and nomination committee of the Company. He is a practising solicitor in Hong Kong and is a partner of the Hong Kong law firm of Iu, Lai & Li. He holds a LLB Degree from the King's College, London. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. Mr. Tsang is an independent non-executive director of Pacific Century Premium Developments Limited (Stock Code: 432) and Walker Group Holdings Limited (Stock Code: 1386), both listed on the Main Board of the Stock Exchange and a non-executive director of Midland IC&I Limited (GEM Stock Code: 8090) listed on the GEM Board of the Stock Exchange. In 2005, he was appointed as an adjudicator of the Registration of Persons Tribunal. In 2006, he was appointed as a member of Disciplinary Panel of HKICPA and a member of the Appeal Panel on Housing.

SENIOR MANAGEMENT — BIOGRAPHIES

Mr. Cha Johnathan Jen Wah, aged 43, joined in 2005 as General Counsel of the Company. He is a solicitor admitted in Hong Kong and in England and Wales. Mr. Cha has over 17 years' experience in mergers and acquisitions, corporate finance, regulatory and general commercial work.

Mr. Chung Ka Fai, Alan, aged 41, joined in 1996 as a Chief Accountant of the Company. He is an associate member of the Australian Society of Certified Practising Accountants. Prior to joining the Company, he worked for various multinational companies. Mr. Chung has over 17 years' experience in the accounting field.

Mr. Luk Kar Yan, aged 40, joined in 2005 as a Vice President of the Company. He is responsible for the financial management of the Group. He holds a Bachelor of Social Sciences Degree from the University of Hong Kong and a Master's Degree in Business Administration from the Hong Kong University of Science and Technology. He is an associate member of HKICPA. Mr. Luk has over 18 years' experience in the banking and finance industry.

Corporate Governance Report

The Company is committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders. The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has, for the year ended 31 December 2007, applied the principles and complied with the applicable provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), except for the deviation to paragraph A.4.1 of the CG Code as set out in the section "Non-executive Directors" below.

BOARD OF DIRECTORS

The Board currently comprises a total of 13 members, with eight executive directors, two non-executive directors and three independent non-executive directors:

Executive directors:

Mr. Kwok Peter Viem	(Chairman)	(resigned on 21 August 2007)
Mr. Kong Dan	(Chairman)	(appointed on 21 August 2007)
Mr. Mi Zengxin	(Vice Chairman)	(re-designated on 21 August 2007)
Mr. Shou Xuancheng	(Vice Chairman)	
Mr. Sun Xinguo	(President and Chief Executive Officer)	
Ms. Li So Mui		
Mr. Qiu Yiyong		
Mr. Zeng Chen		
Mr. Zhang Jijing		

Non-executive directors:

Mr. Ma Ting Hung		(re-designated on 21 August 2007)
Mr. Tang Kui		(appointed on 21 August 2007 and resigned on 1 April 2008)
Mr. Wong Kim Yin		(appointed on 1 April 2008)
Ms. Yap Chwee Mein	(alternate to Mr. Wong Kim Yin)	(appointed on 1 April 2008)

Independent non-executive directors:

Mr. Fan Ren Da, Anthony
Mr. Ngai Man
Mr. Tsang Link Carl, Brian

The Board has a balanced composition of executive, non-executive and independent non-executive directors so that it can effectively exercise independent judgement. The composition of the Board is disclosed in all corporate communications.

The Board possesses a balance of skills and experience appropriate for the requirements of the business of the Company. The Board assumes responsibility for leadership and control of the Company and is collectively responsible for promoting the success of the Company. Directors take decisions objectively in the interests of the Company. The directors, individually and collectively, are aware of their responsibilities and accountability to shareholders and for the manner in which the affairs of the Company are managed and operated.

The Group has management expertise in the energy resources and commodities sectors, including oil, aluminium, coal and manganese. The Board has the required knowledge, experience and capabilities to operate and develop the Group's businesses and implement the Company's business strategies.

In August 2007, due to other business commitments, Mr. Kwok Peter Viem stepped down as a director and the Chairman of the Company and Mr. Ma Ting Hung stepped down from his position as Vice Chairman but continues as a non-executive director of the Company. Mr. Kong Dan was appointed a director and graciously agreed to be the new chairman of the Company. The Board believes that his considerable knowledge, experience and counsel will further develop the strategy and business of the Group and enhance returns to shareholders of the Company. Mr. Mi Zengxin was elected a Vice Chairman. Temasek Holdings, which became a substantial shareholder in the Company, has nominated a non-executive director to the Board. The nominated director and his successor bring in valuable experience to the Board from their diverse business and professional backgrounds. The biographies of the directors and senior management are set out on pages 20 to 23 of this annual report.

On appointment, each new director is briefed by senior executives on the Group's corporate goals and objectives, activities and business, strategic plans and financial situations. He is also provided with a package of orientation materials in respect of his duties and responsibilities under the Listing Rules, the Company's bye-laws, corporate governance and financial reporting standards. The company secretary is responsible for keeping all directors updated on the Listing Rules and other regulatory and reporting requirements.

All directors are subject to re-election at regular intervals. The Company's bye-laws provide that any director appointed by the Board to fill a casual vacancy or as an additional director shall hold office only until the next following general meeting of the Company or until the next following annual general meeting of the Company, whichever shall be the earlier, and such director shall be eligible for election at that meeting. In addition, at each annual general meeting, one-third of the directors shall retire from office by rotation provided that every director is subject to retirement at least once every three years.

To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationship among members of the Board or between the chairman and the chief executive officer.

The Company provides directors with directors' and officers' liability insurance coverage to protect them from loss as a result of any legal proceeding against the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The role of the chairman is separate from that of the chief executive officer so as to delineate their respective areas of responsibility, power and authority. The chairman focuses on the Group's strategic planning while the chief executive officer has overall executive responsibility for the Group's development and management. They receive significant support from the directors and the senior management team.

The chairman has a clear responsibility to ensure that the whole Board receives complete and reliable information in a timely manner. He has been continually improving the quality and timeliness of the information distributed to the directors. The Board, led by the chairman, sets the overall direction, strategy and policies of the Company.

The chairman provides leadership for the Board to ensure that it works effectively, discharges its responsibilities and acts in the best interests of the Company. He is also responsible for overseeing effective functioning of the Board and application of good corporate governance practices and procedures. The chairman seeks to ensure that all directors are properly briefed on issues arising at board meetings. He also encourages the directors to make full and active contributions to the Board's affairs.

Under the leadership of the chief executive officer, management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Group's businesses.

The Board determines which functions are reserved to the Board and which are delegated to management. It delegates appropriate aspects of its management and administration functions to management. It also gives clear directions as to the powers of management, in particular, with respect to the circumstances where management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. These arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs of the Company.

Important matters are reserved to the Board for its decision, including long-term objectives and strategies, extension of the Group's activities into new business areas, appointments to the Board and the board committees, annual internal controls assessment, annual budgets, material acquisitions and disposals, material connected transactions, material banking facilities, announcements of interim and final results and payment of dividends.

NON-EXECUTIVE DIRECTORS

The non-executive directors (including the independent non-executive directors) are seasoned individuals from diversified backgrounds and industries and one member has an appropriate accounting qualification and related financial management expertise as required by the Listing Rules. With their expertise and experience, they serve the relevant function of bringing independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise. Their responsibilities include maintaining a balance between the interests of minority shareholders and the Company as a whole.

All independent non-executive directors serve on the remuneration, nomination and audit committees, and one independent non-executive director serves on the investment committee. They are invited to participate in board meetings so that they are able to provide at such meetings their experience and judgement on matters discussed in the meetings.

Paragraph A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors are not appointed for specific terms. However, under the Company's bye-laws, one-third of the directors are subject to retirement by rotation provided that every director (including those appointed for a specific term) is subject to retirement at least once every three years. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in paragraph A.4.1 of the CG Code.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all of the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and considers them to be independent.

BOARD MEETINGS

Meetings of the Board are held regularly and at least four times a year at about quarterly intervals to approve, inter alia, the financial results of the Company. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. Directors can attend board meetings either in person or by electronic means of communication.

There was satisfactory attendance for board meetings, which evidence prompt attention of the directors to the affairs of the Company. A total of seven board meetings were held in 2007.

All directors are invited to include matters in the agenda for regular board meetings. The Company generally gives 14 days prior written notice of a regular board meeting and reasonable prior notice for all other board meetings.

If a substantial shareholder or a director has a conflict of interest in a material matter, a board meeting will be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction will be present at such board meeting. The voting and quorum requirements specified in the Company's bye-laws conform with the requirements of the CG Code.

Directors have timely access to adequate information to enable them to make an informed decision and to discharge their duties and responsibilities. An agenda and the presentation material are usually sent to the directors 3 days before the meeting.

The company secretary is responsible for taking the minutes. Drafts of minutes are sent to the directors for comment within a reasonable time after each meeting. The minutes are kept by the company secretary and they are open for inspection by the directors and the members of the board committees. Board papers and related materials are available to the directors whenever requested. Efforts are made to ensure that queries of the directors are dealt with promptly.

All directors have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed. The directors also have separate and independent access to the senior management of the Company to make further enquiries or to obtain more information where necessary. The Company provides an agreed procedure enabling the directors to seek independent professional advice at the Company's expense.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

Throughout the year, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct for dealings in securities of the Company by the directors.

All directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the Model Code throughout the year.

BOARD COMMITTEES

There are four board committees: remuneration, nomination, investment and audit. They were each established with specific written terms of reference which deal clearly with the committees authority and responsibilities.

The terms of reference for each committee include the minimum prescribed responsibilities. They are published on the website of the Company.

There was satisfactory attendance for the board committees meetings. The minutes of the committee meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings, recommendations and decisions during the year.

REMUNERATION COMMITTEE

The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for executive directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for making recommendations on the establishment of a formal and transparent procedure for developing policy on the remuneration of executive directors and senior management and for determining specific remuneration packages for all directors and senior management. It also makes recommendations to the Board regarding the remuneration of the independent non-executive directors.

The committee consults with the chairman and/or the chief executive officer about its proposals relating to the remuneration of other executive directors. It is authorised by the Board to obtain such legal, remuneration or other professional advice as it shall deem appropriate in the discharge of its duties.

The Group's remuneration policy seeks to provide fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. Emoluments are also based on an individual's knowledge, skill, time commitment, responsibilities and performance and are determined by reference to the Group's profits and performance.

Members of the committee are:

Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	(Chairman)
Mr. Ngai Man	(Independent Non-executive Director)	
Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	
Mr. Ma Ting Hung	(Executive Director)	(resigned on 21 August 2007)
Mr. Sun Xinguo	(Executive Director)	

Three meetings were held in the year. The committee reviewed and approved the performance-based remuneration package of each individual executive director. No director was involved in deciding his/her own remuneration.

The Company and one of its subsidiaries, CATL, operate share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

Details of the emoluments and options of each director, on a named basis, are set out in note 7, 8 and 39 respectively to the financial statements.

NOMINATION COMMITTEE

The committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

The committee is responsible for reviewing the structure, size and composition (including skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes, identifying individuals suitably qualified to become board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships. The committee is also responsible for assessing the independence of independent non-executive directors and making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and plans for succession of directors.

The committee consults with the chairman and/or the chief executive officer about its proposals relating to the process for Board appointments and for identifying and nominating candidates as members of the Board.

The criteria for the committee to select and recommend candidates for directorship include the candidates' skill, knowledge, experience and integrity and whether he/she can demonstrate a standard of competence commensurate with his/her position as a director of the Company.

Members of the committee are:

Mr. Ngai Man	(Independent Non-executive Director)	(Chairman)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	
Mr. Kwok Peter Viem	(Executive Director)	(resigned on 21 August 2007)
Mr. Kong Dan	(Executive Director)	(appointed on 21 August 2007)
Mr. Zhang Jijing	(Executive Director)	

Two meetings were held in the year. The committee discussed the election and re-election of directors and the appointment of Mr. Kong Dan.

INVESTMENT COMMITTEE

The objective of the committee is to make proposals to the Board on the Company's and the Group's investment policy as it considers necessary or appropriate from time to time, to review and consider acquisitions and investments (and divestments) in any company, business or joint venture by the Group where the value of such acquisitions or investments (or divestments) involve, individually or in aggregate, a consideration of US$100,000,000 or more ("**Investment Transaction(s)**"), to make recommendations to the Board in respect of Investment Transactions, and to consult with the Board on the committee's proposals relating to Investment Transactions.

The committee does not have decision making powers and its role is to make recommendations to the Board. The committee is responsible for leading the process in reviewing and considering Investment Transactions, making recommendations to the Board and proposing changes or revisions to the terms or the basis on which the Group intends to enter into an Investment Transaction.

The committee is authorised by the Board to obtain such external tax, accounting, financial and legal or other independent professional advice.

Members of the committee are:

Mr. Kwok Peter Viem	(Executive Director)	(Chairman) (resigned on 21 August 2007)
Mr. Ma Ting Hung	(Executive Director)	(resigned on 21 August 2007)
Mr. Mi Zengxin	(Executive Director)	(Chairman) (appointed on 21 August 2007)
Mr. Sun Xinguo	(Executive Director)	
Mr. Zeng Chen	(Executive Director)	
Mr. Zhang Jijing	(Executive Director)	
Mr. Tang Kui	(Non-executive Director)	(appointed on 21 August 2007 and resigned on 1 April 2008)
Mr. Wong Kim Yin	(Non-executive Director)	(appointed on 1 April 2008)
Ms. Yap Chwee Mein	(alternate to Mr. Wong Kim Yin)	(appointed on 1 April 2008)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	(appointed on 21 August 2007)

The functions of the committee were generally conducted by the Board but, with the appointment of a non-executive director and an independent non-executive director as member of the committee and the adoption of the new terms of reference in August 2007, meetings of the committee will now be held and conducted on a formal basis.

AUDIT COMMITTEE

The purpose of the committee is to establish formal and transparent arrangements for considering how the Board applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors.

The committee reports to the Board any suspected fraud and irregularities, failure of internal control or suspected infringements of laws, rules and regulations which come to its attention and are of sufficient importance to warrant the attention of the Board. It is authorised by the Board to obtain outside legal or other independent professional advice and to invite the attendance of outsiders with relevant experience and expertise if it considers this necessary. The committee is provided with sufficient resources to discharge its duties.

Members of the committee are:

Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	(Chairman)
Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
Mr. Ngai Man	(Independent Non-executive Director)	

The members of the committee possess appropriate professional qualifications and/or experience in financial matters. None of the committee members is or was a partner of the existing external auditors.

The committee meets as and when required to discharge its responsibilities, and at least twice in each financial year. Two meetings were held in the year and all members attended the meetings. The committee reviewed, together with the senior management and the external auditors, the financial statements for the year ended 31 December 2006 and the financial statements for the six months ended 30 June 2007, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control systems.

The minutes are kept by the company secretary. Drafts of minutes are sent to committee members for comment within a reasonable time after each meeting.

The committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for the Company for 2008.

ATTENDANCE AT MEETINGS OF THE BOARD AND THE BOARD COMMITTEES

		Number of meetings during the year Attended / Eligible to attend			
		Board	Remuneration committee	Nomination committee	Audit committee
Executive directors:					
Mr. Kwok Peter Viem	(resigned on 21 August 2007)	5 / 5		2 / 2	
Mr. Kong Dan	(appointed on 21 August 2007)	1 / 2		N/A	
Mr. Mi Zengxin		7 / 7			
Mr. Shou Xuancheng		7 / 7			
Mr. Sun Xinguo		7 / 7	3 / 3		
Ms. Li So Mui		7 / 7			
Mr. Qiu Yiyong		6 / 7			
Mr. Zeng Chen		7 / 7			
Mr. Zhang Jijing		7 / 7		2 / 2	
Non-executive directors:					
Mr. Ma Ting Hung		7 / 7	3 / 3		
Mr. Tang Kui	(appointed on 21 August 2007 and resigned on 1 April 2008)	2 / 2			
Independent non-executive directors:					
Mr. Fan Ren Da, Anthony		7 / 7	3 / 3	1 / 2	2 / 2
Mr. Ngai Man		7 / 7	3 / 3	2 / 2	2 / 2
Mr. Tsang Link Carl, Brian		7 / 7	3 / 3	2 / 2	2 / 2

FINANCIAL REPORTING

The directors acknowledge their responsibilities for preparing the financial statements for the Group. The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.

The Board aims at presenting a balanced, clear and comprehensive assessment of the Group's performance, position and prospects. Management provides such explanation and information to the directors to enable the Board to make informed assessments of the financial and other matters put before the Board for approval.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditors' report on pages 47 and 48 of this annual report.

INTERNAL CONTROLS

The Board has overall responsibility for maintaining a sound and effective system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management, to safeguard shareholders' investment and the Group's assets.

The internal control system is designed to provide reasonable, but not absolute, assurance. The system aims to manage, instead of eliminate, risks of failure in achieving the Company's objectives.

The chief financial officer reports to the audit committee twice a year on key findings regarding internal controls. The audit committee, in turn, communicates any material issues to the Board.

During the year, the Board conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries.

AUDITORS' REMUNERATION

Ernst & Young were re-appointed by shareholders at the 2006 annual general meeting held on 27 June 2007 as the Company's external auditors until the next annual general meeting. They are primarily responsible for providing audit services in connection with annual financial statements of the Group for the year ended 31 December 2007.

For the year under review, the total remuneration in respect of statutory audit services amounted to HK$12,080,000 and in respect of non-audit services amounted to HK$704,000.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

To enhance transparency, the Company endeavours to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings and other general meetings to communicate with shareholders and encourage their participation.

A separate resolution is proposed for each substantially separate issue at a general meeting, including the re-election of a director. The chairman of the Board and the chairman of each of the board committees attend and answer questions at the annual general meeting. The chairman of the independent board committee is available to answer questions at any general meeting to approve a connected transaction.

The Company ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Company's bye-laws. Each circular to shareholders containing a notice convening a general meeting contains the procedures for and the rights of shareholders to demand a poll. The chairman of the meeting explains the poll procedures at the commencement of the meeting. The representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast. In relation to votes taken by way of a poll, results are published on the websites of the Stock Exchange and the Company.

The Company is committed to providing clear and reliable information on the performance of the Group to shareholders through the interim and annual reports. The Company's website offers timely and updated information of the Group.

The Company holds press conferences and briefing meetings with investment analysts from time to time particularly following the announcement of financial results. Management also participates in investor conferences, one-on-one meetings, forums, luncheons, conference calls and non-deal road shows which enable the Company to better understand investors' concerns and expectations.

The Company maintains effective two-way communications with shareholders and other investors whose feedback is valuable to the Company in enhancing corporate governance, management and competitiveness. Comments and suggestions are welcome and can be sent to the principal place of business of the Company for the attention of the Head of Investor Relations or e-mailed to "ir@citicresources.com".

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in notes 1 and 18 to the financial statements. During the year, the Group had completed the following transactions:

(a) the issue of US$1,000,000,000 6.75% senior notes due 2014;

(b) the acquisition of an additional 8.37% equity in Macarthur Coal, a company listed on the ASX and engaged in the operation, exploration, development and mining of coal;

(c) the acquisition of a 90% interest in Tincy Group Energy Resources Limited, a company which holds the right to explore, develop and operate the Hainan-Yuedong Block; and

(d) the acquisition of Renowned Nation Limited, a company which principally holds a 47.3% equity interest in JSC Karazhanbasmunai, a joint stock company formed under the laws of Kazakhstan, and is engaged in the development, production and sale of oil in the Karazhanbas oilfield, Kazakhstan.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2007 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 49 to 156.

The directors do not recommend the payment of any dividend in respect of the year.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 157. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements, respectively.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in notes 38 and 39 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws/articles of association or the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 40(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2007, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay off its debts as and when they fall due. The Company's share premium account, with a balance of HK$4,843,817,000 as at 31 December 2007, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$2,142,000 (2006: HK$295,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 46.8% of the total sales for the year and sales to the largest customer included therein amounted to 19.2%. Purchases from the Group's five largest suppliers accounted for 26.4% of the total purchases for the year and purchases from the largest supplier included therein amounted to 6.0%.

The Group's largest customer for the year ended 31 December 2007 was CITIC Metal Company Limited ("**CITIC Metal**"), a company established in the PRC and wholly-owned by CITIC Group, the ultimate holding company of the Company.

Save as aforesaid, none of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own 5% or more of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive directors:

Mr. Kwok Peter Viem	(resigned on 21 August 2007)
Mr. Kong Dan	(appointed on 21 August 2007)
Mr. Mi Zengxin	
Mr. Shou Xuancheng	
Mr. Sun Xinguo	
Ms. Li So Mui	
Mr. Qiu Yiyong	
Mr. Zeng Chen	
Mr. Zhang Jijing	

Non-executive directors:

Mr. Ma Ting Hung	(re-designated on 21 August 2007)
Mr. Tang Kui	(appointed on 21 August 2007 and resigned on 1 April 2008)
Mr. Wong Kim Yin	(appointed on 1 April 2008)
Ms. Yap Chwee Mein	(appointed on 1 April 2008 as alternate to Mr. Wong Kim Yin)

Independent non-executive directors:

Mr. Fan Ren Da, Anthony
Mr. Ngai Man
Mr. Tsang Link Carl, Brian

The independent non-executive directors are not appointed for a specific term and all of the directors, including executive directors, are subject to retirement by rotation and re-election at annual general meetings in accordance with the Company's bye-laws.

In accordance with bye-laws 86(2) of the Company's bye-laws, Mr. Kong Dan and Mr. Wong Kim Yin will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-laws 87(1) and (2) of the Company's bye-laws, Mr. Shou Xuancheng, Mr. Sun Xinguo, Mr. Qiu Yiyong and Mr. Zhang Jijing will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received an annual confirmation of independence from each of the independent non-executive directors. The Company is of the view that all the independent non-executive directors meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules and as at the date of this report still considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors and the senior management of the Company are set out on pages 20 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

During the year, no director had a material beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, the interests and short positions of the directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they were deemed or taken to have such provision of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code and which have been notified to the Company and the Stock Exchange were as follows:

Interests in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of ordinary shares of HK$0.05 each held	Interest in underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
Mr. Kong Dan	Directly beneficially owned	—	20,000,000	0.38
Mr. Mi Zengxin	Directly beneficially owned	—	10,000,000	0.19
Mr. Shou Xuancheng	Directly beneficially owned	7,000,000	—	0.13
Mr. Sun Xinguo	Directly beneficially owned	10,000,000	—	0.19
Ms. Li So Mui	Directly beneficially owned	1,000,000	4,000,000	0.10
Mr. Qiu Yiyong	Directly beneficially owned	10,000,000	—	0.19
Mr. Zeng Chen	Directly beneficially owned	—	10,000,000	0.19
Mr. Zhang Jijing	Family	28,000	—	—
Mr. Zhang Jijing	Directly beneficially owned	—	10,000,000	0.19
Mr. Ma Ting Hung	Directly beneficially owned	111,966,000	—	2.13

Long positions in share options of the Company

Name of director	Number of options directly beneficially owned
Mr. Kong Dan	20,000,000
Mr. Mi Zengxin	10,000,000
Ms. Li So Mui	4,000,000
Mr. Zeng Chen	10,000,000
Mr. Zhang Jijing	10,000,000
	54,000,000

Interests in ordinary shares and underlying shares of an associated corporation of the Company

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Number of shares/equity derivatives held	Nature of interest	Exercise period of share options	Exercise price per share HK$	Percentage of the total issued share capital of the associated corporation
Mr. Kong Dan	CITIC International Financial Holdings Limited	Associated corporation	Share options	400,000	Directly beneficially owned	17 November 2005 to 16 November 2013	3.540	0.08
				400,000		06 April 2006 to 05 April 2014	3.775	
				400,000		13 June 2007 to 12 June 2015	2.925	
				400,000		18 May 2008 to 17 May 2016	4.275	
				1,600,000		06 July 2009 to 05 July 2017	6.570	
				1,600,000		06 July 2010 to 05 July 2017	6.570	
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	385,402 (1)	Family	N/A	N/A	0.45

Note:

(1) The shares disclosed above are held by the spouse of Mr. Zeng Chen. Accordingly, Mr. Zeng Chen is deemed to be interested in the 385,402 shares.

In addition to the above, one of the directors has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed herein and so far as is known to the directors:

(a) as at 31 December 2007, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;

(b) as at 31 December 2007, none of the directors was a director or employee of a company which has an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;

(c) as at 31 December 2007, none of the directors or their associates was materially interested in any subsisting contract or arrangement which is significant in relation to the businesses of the Group taken as a whole; and

(d) as at 31 December 2007, none of the directors or their associates had any interest in a business apart from the businesses of the Group which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' and chief executive's interests in shares and underlying shares" above and in the section "share option scheme" below, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 39 to the financial statements.

The following table discloses movements in the Company's share options during the year:

	Number of share options								
Name and category of participant	At 1 January 2007	Granted during the year [(1)]	Exercised during the year [(2)]	Lapsed during the year	Forfeited during the year	At 31 December 2007	Date of grant [(3)]	Exercise period	Exercise price per share [(4)] HK$
Directors of the Company									
Mr. Kong Dan	—	20,000,000	—	—	—	20,000,000	07-03-2007	07-03-2008 to 06-03-2012	3.072
Mr. Mi Zengxin	10,000,000	—	—	—	—	10,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Shou Xuancheng	10,000,000	—	(10,000,000)	—	—	—	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Sun Xinguo	5,000,000	—	(5,000,000)	—	—	—	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Sun Xinguo	5,000,000	—	(5,000,000)	—	—	—	28-12-2005	28-12-2006 to 27-12-2010	1.060
Ms. Li So Mui	5,000,000	—	(1,000,000)	—	—	4,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Qiu Yiyong	10,000,000	—	(10,000,000)	—	—	—	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Zeng Chen	5,000,000	—	—	—	—	5,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Zeng Chen	5,000,000	—	—	—	—	5,000,000	28-12-2005	28-12-2006 to 27-12-2010	1.060
Mr. Zhang Jijing	10,000,000	—	—	—	—	10,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.080
Mr. Ma Ting Hung	50,000,000	—	(50,000,000)	—	—	—	02-06-2005	02-06-2007 to 01-06-2010	1.080
	115,000,000	20,000,000	(81,000,000)	—	—	**54,000,000**			

Name and category of participant	Number of share options: At 1 January 2007	Granted during the year (1)	Exercised during the year (2)	Lapsed during the year	Forfeited during the year	At 31 December 2007	Date of grant (3)	Exercise period	Exercise price per share (4) HK$
Eligible participants	10,700,000	—	(7,700,000)	—	—	3,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.080
	50,000,000	—	(50,000,000)	—	—	—	02-06-2005	02-06-2007 to 01-06-2010	1.080
	60,700,000	—	(57,700,000)	—	—	**3,000,000**			
	175,700,000	20,000,000	(138,700,000)	—	—	**57,000,000**			

Notes:

(1) The closing price of the Company's shares immediately before the date on which the options were granted during the year was HK$3.07.

(2) The weighted average closing price of the Company's shares immediately before the exercise dates of the share options was HK$4.85.

(3) The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(4) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The following table discloses movements in the Company's subsidiary share options during the year:

Name and category of participant	Number of share options: At 1 January 2007	Granted during the year	Exercised during the year	Lapsed during the year	Forfeited during the year	At 31 December 2007	Exercise period	Exercise price per share HK$
Directors of the Company								
Mr. Zeng Chen	166,668	—	(166,668)	—	—	—	19-06-2005 to 18-06-2007	0.350
Directors of the Company's subsidiary	320,000	—	(320,000)	—	—	—	19-06-2005 to 18-06-2007	0.350
Eligible participants	216,666	—	(216,666)	—	—	—	19-06-2003 to 18-06-2007	0.200
	333,332	—	(333,332)	—	—	—	19-06-2004 to 18-06-2007	0.250
	400,002	—	(400,002)	—	—	—	19-06-2005 to 18-06-2007	0.300
	950,000	—	(950,000)	—	—	—		
	1,436,668	—	(1,436,668)	—	—	—		

The directors have estimated the values of the share options granted during the year, calculated using the Black-Scholes model as at the date of grant of the options:

Grantee	Number of share options granted during the year	Theoretical value of share options HK$
Mr. Kong Dan	20,000,000	15,240,000

The Black-Scholes model is a generally accepted method of valuing options, using the weighted average assumptions as described below. The expected life of an option was derived from historical exercise experience. The significant assumptions used in the calculation of the values of the share options were exercise price of HK$3.072, volatility of 48.26% and a risk-free interest rate of 4.001%. The measurement dates used in the valuation calculations were the dates on which the options were granted.

The values of the share options calculated using the Black-Scholes model are subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the directors, the persons or entities who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

The Company

Name of shareholder	Nature of Interest	Number of ordinary shares of HK$0.05 each held as long positions	Percentage of the total issued share capital of the Company
CITIC Group	Corporate	2,740,594,381 (1)	52.13
CITIC Projects Management (HK) Limited	Corporate	1,990,180,588 (2)	37.85
Keentech Group Limited	Corporate	1,990,180,588 (3)	37.85
CITIC Australia Pty Limited	Corporate	750,413,793 (4)	14.28
Temasek Holdings (Private) Limited	Corporate	587,450,000 (5)	11.17
Temasek Capital (Private) Limited	Corporate	385,450,000 (6)	7.33
Seletar Investments Pte. Ltd.	Corporate	385,450,000 (7)	7.33
Baytree Investments (Mauritius) Pte. Ltd.	Corporate	385,450,000 (8)	7.33
UBS AG	Beneficial owner/ interest of corporation controlled by UBS AG	316,944,646	6.03

Name of shareholder	Nature of Interest	Interests in ordinary shares of HK$0.05 each pursuant to short positions	Percentage of the total issued share capital of the Company
UBS AG	Beneficial owner/ person having security interest in shares/ interest of corporation controlled by UBS AG	75,251,586	1.43

Notes:

(1) The figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited ("**CITIC Projects**") and CITIC Australia Pty Limited ("**CA**"). CITIC Group is a company established in the PRC.

(2) The figure represents an attributable interest of CITIC Projects through its interest in Keentech Group Limited ("**Keentech**"). CITIC Projects, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Group.

(3) Keentech, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects.

(4) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Group.

(5) The figure represents an attributable interest of Temasek Holdings (Private) Limited ("**Temasek Holdings**") through it interest in Temasek Capital (Private) Limited ("**Temasek Capital**") and Tembusu Capital Pte. Ltd. Temasek Holdings is a company incorporated in Singapore.

(6) The figure represents an attributable interest of Temasek Capital through its interest in Seletar Investments Pte. Ltd. ("**Seletar**"). Temasek Capital, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Holdings.

(7) The figure represents an attributable interest of Seletar through its interest in Baytree Investments (Mauritius) Pte. Ltd. ("**Baytree**"). Seletar, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Capital.

(8) Baytree, a company incorporated in Mauritius, is a direct wholly-owned subsidiary of Seletar.

Other members of the Group

Name of shareholder	Name of subsidiary	Percentage of issued share capital
CITIC United Asia Investments Limited (1)	CITIC Dameng Holdings Limited	20

Note:

(1) CITIC United Asia Investments Limited, a company incorporated in Hong Kong Special Administrative Region of the PRC, is an indirect wholly-owned subsidiary of CITIC Group.

Save as disclosed herein and so far as is known to the directors, as at 31 December 2007, no person had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of the continuing connected transactions which are subject to waivers previously granted by the Stock Exchange (the "**Continuing Connected Transactions**") are set out in note 47 to the financial statements.

For the year ended 31 December 2007, the Continuing Connected Transactions have not exceeded their applicable approved annual caps.

(a) The aggregate sales of iron ore by CITIC Australia Commodity Trading Pty. Ltd. ("**CACT**") to CITIC Metal have not exceeded HK$2,574,000,000. The prices paid by CITIC Metal in respect of its purchase of iron ore from CACT were determined on an arm's length basis and with reference to prevailing market prices.

(b) The aggregate purchases of sulphuric acid and steam by the Manganese Company from 大新桂南化工有限責任公司 (Daxin Guinan Chemical Industrial Limited) ("**Daxin Guinan**") have not exceeded RMB41,900,000. The prices paid by the Manganese Company in respect of its purchase of sulphuric acid and steam were determined on an arm's length basis and with reference to prevailing market prices.

(c) The aggregate sales of sulphur, materials, water and electricity by the Manganese Company to Daxin Guinan have not exceeded RMB23,400,000. The prices charged by the Manganese Company in respect of its sale of sulphur, materials, water and electricity were determined on an arm's length basis and with reference to prevailing market prices.

(d) The aggregate sales of natural discharge manganese dioxide by the Manganese Company to Guangxi Dameng have not exceeded RMB5,300,000. The prices charged by the Manganese Company in respect of its sale of natural discharge manganese dioxide were determined on an arm's length basis and with reference to prevailing market prices.

(e) The aggregate purchases of electrolytic manganese metal by the Manganese Company from 廣西桂林大錳錳業投資有限責任公司 (Guangxi Guilin Dameng Manganese Investment Co., Ltd.) ("**Guangxi Guilin Dameng**") have not exceeded RMB62,000,000. The prices paid by the Manganese Company in respect of its purchase of electrolytic manganese metal were determined on an arm's length basis and with reference to prevailing market prices.

(f) The aggregate sales of manganese carbonate powder and metallurgical manganese powder by the Manganese Company to Guangxi Guilin Dameng have not exceeded RMB12,260,000. The prices charged by the Manganese Company in respect of its sale of manganese carbonate powder and metallurgical manganese powder were determined on an arm's length basis and with reference to prevailing market prices.

(g) No mine selection, powder milling and manganese carbonate powder processing services was provided to Guangxi Guilin Dameng by the Manganese Company during the year.

(h) No negative plate was purchased by the Manganese Company from 廣西柳州大錳機電設備制造有限公司 (Guangxi Liuzhou Dameng Machinery & Electronic Equipment Manufacturer Co., Ltd.) ("**Guangxi Liuzhou**") during the year.

(i) The aggregate sales of metallurgical manganese ore and second grade manganese sand by the Manganese Company to Guangxi Liuzhou have not exceeded RMB17,100,000. The prices charged by the Manganese Company in respect of its sale of metallurgical manganese ore and second grade manganese sand were determined on an arm's length basis and with reference to prevailing market prices.

(j) The aggregate purchases of packaging bags by the Manganese Company from 南寧市電池廠 (Nanning Battery Plant) ("**Nanning Battery Plant**") have not exceeded RMB8,200,000. The prices paid by the Manganese Company in respect of its purchase of packaging bags were determined on an arm's length basis and with reference to prevailing market prices.

The transactions referred to in paragraph (a) above were entered into pursuant to a cooperation agreement dated 5 April 2007 (the "**Cooperation Agreement**") between CACT and CITIC Metal. CITIC Metal is a wholly-owned subsidiary of CITIC Group which is an associate of two substantial shareholders in the Company, Keentech and CA. The entering into of the Cooperation Agreement was announced by the Company on 13 April 2007.

The transactions referred to in paragraphs (b) and (c) were entered into pursuant to a contract dated 15 November 2007 (the "**Daxin Guinan Contract**") between the Manganese Company and Daxin Guinan. Daxin Guinan is an associate of Guangxi Dameng, a substantial shareholder of the Manganese Company. The entering into of the Daxin Guinan Contract was announced by the Company on 20 November 2007.

The transactions referred to in paragraph (d) were entered into pursuant to a contract dated 15 November 2007 (the "**Guangxi Dameng Contract**") between the Manganese Company and Guangxi Dameng. Guangxi Dameng is a substantial shareholder in the Manganese Company. The entering into of the Guangxi Dameng Contract was announced by the Company on 20 November 2007.

The transactions referred to in paragraphs (e) and (f) were entered into pursuant to a contract dated 15 November 2007 (the "**Guangxi Guilin Dameng Contract**") between the Manganese Company and Guangxi Guilin Dameng. Guangxi Guilin Dameng is an associate of Guangxi Dameng. The entering into of the Guangxi Guilin Dameng Contract was announced by the Company on 20 November 2007.

The transactions referred to in paragraph (i) were entered into pursuant to a contract dated 15 November 2007 (the "**Guangxi Liuzhou Contract**") between the Manganese Company and Guangxi Liuzhou. Guangxi Liuzhou is an associate of Guangxi Dameng. The entering into of the Guangxi Liuzhou Contract was announced by the Company on 20 November 2007.

The transactions referred to in paragraph (j) were entered into pursuant to a contract dated 15 November 2007 (the "**Nanning Battery Plant Contract**") between the Manganese Company and Nanning Battery Plant. Nanning Battery Plant is an associate of Guangxi Dameng. The entering into of the Nanning Battery Plant Contract was announced by the Company on 20 November 2007.

The contracts described above are collectively the "**Continuing Connected Transaction Contracts**".

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the Continuing Connected Transaction Contracts on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditors of the Company stating that the continuing connected transactions:

(i) have received the approval of the Company's board of directors;

(ii) have been entered into in accordance with the Continuing Connected Transaction Contracts; and

(iii) have not exceeded their respective approved annual caps set out above for the year ended 31 December 2007.

In respect of the continuing connected transactions, the Company has complied with the disclosure requirements under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors of the Company.

The audit committee has reviewed this annual report with management of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Kong Dan
Chairman

Hong Kong, 18 April 2008

Independent Auditors' Report

ERNST & YOUNG
安永會計師事務所

To the shareholders of CITIC Resources Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of CITIC Resources Holdings Limited set out on pages 49 to 156, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

18 April 2008

HK$'000

Consolidated Income Statement

	Notes	2007	2006 (restated)
REVENUE	5	**10,007,656**	6,835,161
Cost of sales		**(8,576,552)**	(6,306,331)
Gross profit		**1,431,104**	528,830
Other income and gains	5	**430,672**	283,245
Selling and distribution costs		**(103,132)**	(68,302)
Administrative expenses		**(310,118)**	(214,910)
Other operating expenses, net		**(190,629)**	(62,319)
Finance costs	9	**(542,583)**	(150,355)
Share of profit of an associate		**15,698**	—
PROFIT BEFORE TAX	6	**731,012**	316,189
Tax	10	**(209,630)**	(70,152)
PROFIT FOR THE YEAR		**521,382**	246,037
ATTRIBUTABLE TO:			
Shareholders of the Company	11	**282,777**	200,815
Minority interests		**238,605**	45,222
		521,382	246,037
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12		
Basic		**HK 5.65 cents**	HK 4.65 cents
Diluted		**HK 5.61 cents**	HK 4.61 cents
DIVIDEND PER SHARE		**Nil**	Nil

HK$'000

Consolidated Balance Sheet

	Notes	2007	2006 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	13	**22,187,440**	2,194,250
Prepaid land lease premiums	14	**72,451**	58,353
Goodwill	17	**341,512**	341,512
Other intangible assets	15	**142,038**	135,701
Other assets	16	**549,295**	555,983
Interest in an associate	21	**1,164,472**	—
Available-for-sale investments	22	**201,206**	845,936
Prepayments, deposits and other receivables	23	**78,860**	16,346
Loan receivable	26	**3,222**	21,615
Deferred tax assets	37	**156,735**	204,005
Total non-current assets		**24,897,231**	4,373,701
CURRENT ASSETS			
Inventories	24	**1,126,642**	800,007
Accounts receivable	27	**1,619,666**	1,252,081
Prepayments, deposits and other receivables	23	**745,518**	1,867,396
Loan receivable	26	**18,393**	17,327
Equity investments at fair value through profit or loss	28	**2,430**	1,974
Derivative financial instruments	32	**8,608**	16,380
Due from related companies	25	**119,600**	51,486
Due from the ultimate holding company	25	**—**	34,320
Other assets	16	**70,125**	62,945
Tax recoverable		**92,295**	—
Cash and bank balances	29	**2,074,457**	850,744
Total current assets		**5,877,734**	4,954,660
CURRENT LIABILITIES			
Accounts payable	30	**613,991**	533,788
Tax payable		**408,984**	47,108
Accrued liabilities and other payables	31	**653,313**	306,789
Derivative financial instruments	32	**102,366**	286,920
Due to a minority shareholder	33	**—**	38,174
Due to related companies	25	**9,674**	—
Bank and other loans	34	**2,238,916**	1,588,022
Bond obligations	35	**356,868**	—
Provisions	36	**52,313**	53,738
Total current liabilities		**4,436,425**	2,854,539
NET CURRENT ASSETS		**1,441,309**	2,100,121
TOTAL ASSETS LESS CURRENT LIABILITIES		**26,338,540**	6,473,822

HK$'000

Consolidated Balance Sheet

	Notes	2007	2006 (restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**26,338,540**	6,473,822
NON-CURRENT LIABILITIES			
Bank and other loans	34	**1,963,188**	2,214,540
Bond obligations	35	**7,635,991**	—
Deferred tax liabilities	37	**9,173,110**	519,933
Derivative financial instruments	32	**86,756**	41,063
Provisions	36	**246,612**	117,549
Other payables		**73,324**	75,648
Total non-current liabilities		**19,178,981**	2,968,733
NET ASSETS		**7,159,559**	3,505,089
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	38	**262,894**	215,909
Reserves	40(a)	**5,808,569**	3,009,434
		6,071,463	3,225,343
Minority interests		**1,088,096**	279,746
TOTAL EQUITY		**7,159,559**	3,505,089

Sun Xinguo
Director

Li So Mui
Director

HK$'000

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company											
	Notes	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Available-for-sale investment revaluation reserve	Hedging reserve	Share option reserve	Reserve funds	Retained profits/ (accumulated losses)	Subtotal	Minority interests	Total equity
At 1 January 2006		215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	12,680	–	(45,855)	2,941,773	25,634	2,967,407
Exchange realignment		–	–	–	5,802	–	–	–	–	–	5,802	2,016	7,818
Net gains on cash flow hedges #		–	–	–	–	–	72,915	–	–	–	72,915	–	72,915
Change in fair value of available-for-sale investments #		–	–	–	–	(23,507)	–	–	–	–	(23,507)	–	(23,507)
Total income and expense recognised directly in equity		–	–	–	5,802	(23,507)	72,915	–	–	–	55,210	2,016	57,226
Profit for the year		–	–	–	–	–	–	–	–	200,815	200,815	45,222	246,037
Total income and expense for the year		–	–	–	5,802	(23,507)	72,915	–	–	200,815	256,025	47,238	303,263
Acquisition of interests in subsidiaries by minority shareholders	41(d)	–	–	–	–	–	–	–	–	–	–	213,432	213,432
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(6,558)	(6,558)
Issue of new shares upon exercise of share options	40(b)	65	1,625	–	–	–	–	(286)	–	–	1,404	–	1,404
Equity-settled share option arrangements		–	–	–	–	–	–	26,141	–	–	26,141	–	26,141
At 31 December 2006		215,909	2,563,587*	65,527*	(1,038)*	267,279*	(79,416)*	38,535*	–*	154,960*	3,225,343	279,746	3,505,089

HK$'000

Consolidated Statement of Changes in Equity

		Attributable to shareholders of the Company											
	Notes	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Available-for-sale investment revaluation reserve	Hedging reserve	Share option reserve	Reserve funds (note 40 (a))	Retained profits	Subtotal	Minority interests	Total equity
At 1 January 2007													
As previously reported		215,909	2,563,587	65,527	(1,038)	267,279	(79,416)	38,535	–	154,960	3,225,343	279,746	3,505,089
Opening adjustments	21	–	–	–	(5,045)	(320,668)	–	–	–	76,109	(249,604)	–	(249,604)
As restated		215,909	2,563,587	65,527	(6,083)	(53,389)	(79,416)	38,535	–	231,069	2,975,739	279,746	3,255,485
Exchange realignment		–	–	–	303,819	–	–	–	–	–	303,819	5,071	308,890
Net gains on cash flow hedges #	32	–	–	–	–	–	136,232	–	–	–	136,232	–	136,232
Change in fair value of available-for-sale investments #	22	–	–	–	–	64,199	–	–	–	–	64,199	–	64,199
Total income and expense recognised directly in equity		–	–	–	303,819	64,199	136,232	–	–	–	504,250	5,071	509,321
Profit for the year		–	–	–	–	–	–	–	–	282,777	282,777	238,605	521,382
Total income and expense for the year		–	–	–	303,819	64,199	136,232	–	–	282,777	787,027	243,676	1,030,703
Acquisition of interests in subsidiaries by minority shareholders	41(a) to (c)	–	–	–	–	–	–	–	–	–	–	618,892	618,892
Dividends paid to minority shareholders		–	–	–	–	–	–	–	–	–	–	(54,218)	(54,218)
Share of reserves of an associate		–	–	–	–	(577)	1,169	–	–	–	592	–	592
Issue of new shares	38, 40(b)	40,050	2,132,410	–	–	–	–	–	–	–	2,172,460	–	2,172,460
Share issue expenses	38, 40(b)	–	(34,610)	–	–	–	–	–	–	–	(34,610)	–	(34,610)
Issue of new shares upon exercise of share options	38, 40(b)	6,935	182,430	–	–	–	–	(39,669)	–	–	149,696	–	149,696
Equity-settled share option arrangements	38, 40(b)	–	–	–	–	–	–	20,559	–	–	20,559	–	20,559
Transfer from retained profits		–	–	–	–	–	–	–	20,340	(20,340)	–	–	–
At 31 December 2007		262,894	4,843,817 *	65,527 *	297,736 *	10,233 *	57,985 *	19,425 *	20,340 *	493,506 *	6,071,463	1,088,096	7,159,559

* These reserve accounts comprise the consolidated reserves of HK$5,808,569,000 (2006: HK$3,009,434,000) in the consolidated balance sheet.

\# Amounts net of deferred tax impact.

HK$'000

Consolidated Cash Flow Statement

	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**731,012**	316,189
Adjustments for:			
Interest income	5	**(342,174)**	(144,810)
Interest income from CITIC Group	5	**(3,096)**	—
Dividend income from available-for-sale listed investments	5	**(15,670)**	(55,115)
Gain on disposal of coal exploration interests	5	**(7,358)**	—
Gain on disposal of available-for-sale listed investments	5	**—**	(5,235)
Gain on conversion of available-for-sale listed investments	5	**—**	(17,502)
Equity-settled share option expenses	6	**20,559**	26,158
Depreciation	6	**248,952**	92,560
Amortisation	6	**77,632**	68,113
Loss on disposal/write-off of items of property, plant and equipment	6	**6,586**	4,568
Provision/(write-back of provision) for impairment of items of property, plant and equipment	6	**65,598**	(4,893)
Provision for long service and leave payments	6	**906**	6,715
Provision for impairment of accounts receivable	6	**5,126**	1,816
Provision for inventories	6	**27,731**	1,515
Provision for rehabilitation cost	6	**13,808**	8,554
Provision for abandonment cost	6	**1,556**	112
Unrealised losses/(gains) on embedded derivatives		**(36,466)**	111,667
Unrealised foreign exchange losses		**33,646**	25,777
Warranty income, net	6	**—**	(14,908)
Finance costs	9	**542,583**	150,355
Share of profit of an associate		**(15,698)**	—
Excess over the cost of a business combination	5	**(11,933)**	—
Write-off of payable	5	**(13,443)**	—
		1,329,857	571,636
Decrease/(increase) in inventories		**7,491**	(302,729)
Increase in accounts receivable		**(73,608)**	(502,396)
Increase in prepayments, deposits and other receivables		**(123,413)**	(59,723)
Increase in amounts due from related companies		**(68,114)**	(51,486)
Decrease in amounts due from ultimate holding company		**34,320**	—
Increase/(decrease) in accounts payable		**(42,373)**	313,906
Decrease in accrued liabilities and other payables		**(20,398)**	(116,872)
Increase/(decrease) in an amount due to a minority shareholder/related companies		**(28,500)**	38,174
Decrease in provisions		**(11,451)**	—
Cash generated/(used in) from operations		**1,003,811**	(109,490)
Australian income tax paid		**(126,158)**	(144,835)
Kazakhstan income tax paid		**(26,655)**	—
PRC income tax paid		**(12,061)**	(623)
Net cash inflow/(outflow) from operating activities		**838,937**	(254,948)

HK$'000

Consolidated Cash Flow Statement

	Notes	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	5	**342,174**	142,403
Interest received from CITIC Group		**67,600**	—
Dividends received from available-for-sale listed investments	5	**15,670**	55,115
Purchases of items of property, plant and equipment	13	**(527,085)**	(173,368)
Purchase of other intangible assets	15	**(377)**	(32)
Purchases of prepaid land lease premiums	14	**(310)**	—
Purchases of available-for-sale investments	22	**(4,377)**	—
Proceeds from disposal of items of property, plant and equipment		**34,255**	21,632
Proceeds from disposal of available-for-sale listed investments		**—**	31,221
Net cash inflow/(outflow) from acquisition of the subsidiaries	41(a) to (d)	**(7,844,081)**	148,230
Acquisition of additional equity interest in an associate	21	**(757,358)**	—
Repayment of loan receivable	26	**17,327**	15,990
Net cash outflow from acquisition of the Seram Interest	41(e)	**—**	(757,723)
Deposit paid for potential investment projects	23	**—**	(1,560,000)
Payments of interest, legal and professional fees and other charges incurred in relation to potential investment projects		**—**	(35,177)
Net cash outflow from investing activities		**(8,656,562)**	(2,111,709)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital, net of expenses	38	**2,287,546**	1,404
Proceeds from issue of bonds		**7,621,666**	—
Dividends paid to minority shareholders		**(54,218)**	(6,558)
New bank and other loans		**6,098,247**	6,019,860
Repayment of bank and other loans		**(6,409,437)**	(4,183,162)
Interest paid		**(520,063)**	(137,025)
Finance charges paid		**(4,561)**	(3,652)
Interest paid for earnest money		**(64,504)**	—
Net cash inflow from financing activities		**8,954,676**	1,690,867
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,137,051**	(675,790)
Cash and cash equivalents at beginning of year		**850,744**	1,519,595
Effect of foreign exchange rate changes, net		**86,662**	6,939
CASH AND CASH EQUIVALENTS AT END OF YEAR		**2,074,457**	850,744
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	29	**757,871**	310,258
Non-pledged time deposits with original maturity of less than three months when acquired	29	**1,316,586**	540,486
		2,074,457	850,744

HK$'000

Balance Sheet

	Notes	2007	2006
NON-CURRENT ASSETS			
Property, plant and equipment	13	**426**	—
Interests in subsidiaries	18	**5,053,089**	2,382,642
Prepayments, deposits and other receivables	23	**3,508**	5,527
Total non-current assets		**5,057,023**	2,388,169
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	**5,362**	1,674,413
Bank balances	29	**747,114**	22,690
Total current assets		**752,476**	1,697,103
CURRENT LIABILITIES			
Accrued liabilities and other payables		**25,240**	76,706
Bank loans, unsecured	34	**234,000**	343,200
Total current liabilities		**259,240**	419,906
NET CURRENT ASSETS		**493,236**	1,277,197
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,550,259**	3,665,366
NON-CURRENT LIABILITIES			
Bank loans, unsecured	34	**936,000**	1,170,000
NET ASSETS		**4,614,259**	2,495,366
EQUITY			
Issued capital	38	**262,894**	215,909
Reserves	40(b)	**4,351,365**	2,279,457
TOTAL EQUITY		**4,614,259**	2,495,366

Sun Xinguo
Director

Li So Mui
Director

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, 30/F, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

Following the acquisition of Tincy Group Energy Resources Limited ("**Tincy Group**"), Renowned Nation Limited and its subsidiaries (the "**RNL Group**") and Guangxi Qinzhou Guixin Ferroalloy Co., Ltd. ("**Guixin Ferroalloy**"), as detailed in note 41(a) to (c), the Group is principally engaged in the following businesses:

(a) the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;

(b) the operation of coal mining and the sale of coal in Australia;

(c) the export of various commodity products such as alumina, aluminium ingots, iron ore and steel; 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 operation of manganese mining and the sale of refined manganese products in the People's Republic of China (the "**PRC**");

(e) the exploration, development, production and the sale of naphtha and high sulphur fuel oil produced from the Seram Island Non-Bula Block, Indonesia;

(f) the exploration, development and operation of the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province, the PRC (the "**Hainan-Yuedong Block**"); and

(g) the exploration, development, production and sale of oil in the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan ("**Karazhanbas oilfield**").

On 23 November 2007, CITIC Dameng Mining Industries Limited (the "**Manganese Company**"), a 48% owned subsidiary of the Group, entered into an agreement (the "**S&P Agreement**") with Future Idea Investment Limited, a third party company, to acquire a 51% indirect interest in Compagnie Industrielle ET Commerciale Des Mines De Hua Zhou (Gabon) ("**Compagnie Industrielle**") at a consideration of US$15,880,000 (HK$123,864,000). Compagnie Industrielle holds certain pre-operating exploration and mining rights in Gabon, Western Africa. Pursuant to the S&P Agreement, the Manganese Company has an option to withdraw from this transaction if the final approval of the exploration and mining rights are not successfully obtained prior to 30 June 2008 or within 30 days after the commencement of mining operations. This transaction is currently expected to be completed soon.

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

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, 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. 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 (collectively referred to as the "**Group**") for the year ended 31 December 2007. 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.

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 interpretations has had no material effect on these financial statements.

HKFRS 7	Financial Instruments: Disclosures
HKAS 1 Amendment	Capital Disclosures
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

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

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 7 Financial Instruments: Disclosures

This 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. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(b) Amendment to HKAS 1 Presentation of Financial Statements — Capital Disclosures

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 49 to the financial statements.

(c) HK(IFRIC)-Int 8 Scope of HKFRS 2

This interpretation requires HKFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Company has only issued equity instruments to the Group's employees in accordance with the Company's share option scheme, the interpretation has had no effect on these financial statements.

(d) HK(IFRIC)-Int 9 Reassessment of Embedded Derivatives

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group has not changed the terms of such contracts, the interpretation has had no material impact on the financial position or results of operations of the Group.

(e) HK(IFRIC)-Int 10 Interim Financial Reporting and Impairment

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

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.

HKFRS 2 Amendment	Share-based Payment – Vesting Conditions and Cancellation [4]
HKFRS 3 (Revised)	Business Combination [5]
HKFRS 8	Operating Segments [4]
HKAS 23 (Revised)	Borrowing Costs [4]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements [5]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions [1]
HK(IFRIC)-Int 12	Service Concession Arrangements [2]
HK(IFRIC)-Int 13	Customer Loyalty Programmes [3]
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction [2]

1 Effective for annual periods beginning on or after 1 March 2007
2 Effective for annual periods beginning on or after 1 January 2008
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 January 2009
5 Effective for annual periods beginning on or after 1 July 2009

The amendment to HKFRS 2 clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based arrangement.

HKFRS 3 (Revised) amends the definitions of a business and a business combination and additional guidance was added for identifying when a group of assets constitutes a business. It also clarifies how the acquirer makes any classifications, designations or assessments for the identifiable assets acquired and liabilities assumed in a business combination.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group expects to adopt HKFRS 8 from 1 January 2009.

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard is unlikely to have any financial impact on the Group.

HKAS 27 has been revised to add a new term "non-controlling interest" to replace the term "minority interest", and require that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity measures any gain or loss arising on the loss of control of a subsidiary.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

HK(IFRIC)-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. HK(IFRIC)-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. HK(IFRIC)-Int 12 also addresses how an operator shall apply existing HKFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

HK(IFRIC)-Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

HK(IFRIC)-Int 14 addresses how to assess the limit under HKAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, HK(IFRIC)-Int 13 and HK(IFRIC)-Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

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 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Financial Instruments: Recognition and Measurement, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities

A jointly-controlled entities is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are accounted for by proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the consolidated financial statements on a line-by-line basis. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the assets transferred.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. The Group's equity voting rights in Macarthur Coal Limited ("**Macarthur Coal**") is less than 20%. However, the Group is able to exercise significant influence over the company and the investment is accounted for as an associate of the Group.

The Group's interest in an associate is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of an associate is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred.

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. The Group performs its annual impairment test of goodwill as at 31 December.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

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.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries (previously referred to as negative goodwill), after reassessment, is recognised immediately in the consolidated income statement.

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 and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is 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, but 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(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.

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. 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 property, plant and equipment are estimated to have the following useful lives:

Leasehold improvements	10 – 12 years or over the unexpired lease terms, whichever is shorter
Motor vehicles, plant, machinery, tools and equipment	5 – 26 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Residual values, useful lives and the 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 progress represents 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 when completed and ready for use.

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 betterment 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 potential economic reserves in areas where major capital expenditure will be required before production could begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

Oil and gas properties are stated at cost less accumulated depreciation and depletion. The depreciation and depletion of oil and gas properties with a life longer than or equal to the licence life is estimated on a unit-of-production basis, in the proportion of actual production for the period to the total estimated remaining reserves of the field. The remaining reserves figure is the amount estimated up to the licence expiration date plus the production for the period. Oil and gas properties with a useful life less than the licence life is calculated based on a straight-line basis over each asset’s estimated useful life that ranges from 3 to 10 years. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

The Group estimates future dismantlement costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement required in accordance with the current legislation and industry practices. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free in effect when the liability is initially recognised. No market-risk premium has been included in the calculation of asset retirement obligation balances since no reliable estimate can be made.

Capital works

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

(a) such costs are expected to be recouped through successful development and production of the areas or by its sale; or

(b) 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 assets 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.

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 assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivatives is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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 consolidated income statement. The net fair value gain or loss recognised in the consolidated income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

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.

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 less any allowance for impairment. 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.

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. Interest and dividends earned are reported as interest income and dividend income, respectively, and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the consolidated income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

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 by adjusting the allowance account. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

In relation to accounts and other 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 and significant changes in the technological, market economic or legal environment that have an adverse effect on 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.

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. A provision for impairment is made for available-for-sale investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. 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:

(a) the rights to receive cash flows from the asset have expired;

(b) 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

(c) 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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 and bond obligations)

Financial liabilities including bank and other loans and bond obligations 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. The related interest expense is recognised within "finance costs" in the consolidated income statement.

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

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 swaps 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

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

(a) 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

(b) 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedging (continued)

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 immediately 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 the costs of crude oil and exported goods held for re-sale which are determined 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.

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 that are readily convertible into known amounts of cash, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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 has been classified under long term liabilities. The associated cost is capitalised and the liability 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:

(a) 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

(b) in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures and an associate, 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:

(a) 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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

(b) in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures and an associate, 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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**").

In situations where equity instruments are issued and some or all of the goods or services received by the Group as consideration cannot be specifically identified, the unidentifiable goods or services are measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received at the grant date.

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 the Black-Scholes option pricing model, further details of which are given in note 39 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 condition**"), 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 condition, 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payment transactions (continued)

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.

Ownership-based remuneration is provided to employees via the CITIC Australia Trading Limited ("**CATL**") director option plan and the employee option plan.

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 on or after 1 January 2005

The fair value of the 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 the 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 premium account. The market value of any shares issued to employees for no cash consideration under the employee share option scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension schemes (continued)

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.

The Group's jointly-controlled entities, with operations domiciled in Kazakhstan, pay certain post retirement insurance, which represent their contribution to the post retirement benefits of their employees.

In accordance with the Law of the Republic of Kazakhstan "Pension provisioning in the Republic of Kazakhstan" effective from 1 January 1998 which replaced the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulation accounts. The accumulating pension funds comprise the compulsory pension contributions of 10% from employees' income subject to a maximum statutory limit.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

The functional currencies of certain overseas subsidiaries, jointly-controlled assets and entities and an associate 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 the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative 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, jointly-controlled assets and entities 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, jointly-controlled assets and entities 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 ESTIMATE

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

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:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATE (continued)

Judgements (continued)

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 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 39 to the financial statements. Where the actual outcome of the number of exercisable options 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.

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 2007 was HK$341,512,000 (2006: HK$341,512,000). More details are given in note 17 to the financial statements.

Oil and gas reserves 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 reserves and mining revenues and expenses. Actual amounts could differ from those estimates and assumptions. More details are given in notes 13, 36 and 41 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 mines 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, iron ore and steel; 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 Indonesia, the PRC and Kazakhstan; 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 transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

HK$'000

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 2007 and 2006.

Group

Year ended 31 December 2007	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
Segment revenue:							
Sales to external customers	1,761,416	169,895	5,873,555	1,684,457	518,333	—	10,007,656
Other income	9,635	7,436	7,680	7,002	3,580	13,443	48,776
	1,771,051	177,331	5,881,235	1,691,459	521,913	13,443	10,056,432
Segment results	210,997	14,645	152,686	439,017	221,766	(33,929)	1,005,182
Interest income and unallocated gains							381,896
Unallocated expenses							(129,181)
Profit from operating activities							1,257,897
Unallocated finance costs							(542,583)
Share of profit of an associate	—	15,698	—	—	—	—	15,698
Profit before tax							731,012
Tax							(209,630)
Profit for the year							521,382
Assets and liabilities							
Segment assets	2,493,820	106,106	1,285,740	1,556,915	21,458,955	14,776	26,916,312
Interest in an associate	—	1,164,472	—	—	—	—	1,164,472
Unallocated assets							2,694,181
Total assets							30,774,965
Segment liabilities	473,965	68,781	164,888	354,835	669,178	3,836	1,735,483
Unallocated liabilities							21,879,923
Total liabilities							23,615,406
Other segment information:							
Depreciation and amortisation	130,163	11,407	1,774	45,351	123,911	11,221	323,827
Unallocated amounts							2,757
							326,584
Impairment losses recognised in the income statement	28,427	—	—	3,448	—	33,723	65,598
Other non-cash expenses	16,790	—	1,517	24,547	621	—	43,475
Unallocated amounts							4,746
							48,221
Capital expenditure	88,865	66,628	2,991	248,828	113,035	—	520,347
Unallocated amounts							7,115
							527,462

HK$'000

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

Group

Year ended 31 December 2006 (restated)	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
Segment revenue:							
Sales to external customers	1,602,930	274,752	4,405,869	538,006	13,604	—	6,835,161
Other income	37,039	120	9,756	15,193	5,637	—	67,745
	1,639,969	274,872	4,415,625	553,199	19,241	—	6,902,906
Segment results	108,340	76,756	111,025	65,759	15,847	(11,980)	365,747
Interest income and 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
Assets and liabilities							
Segment assets	2,351,007	157,624	1,379,843	941,984	841,030	55,195	5,726,683
Unallocated assets							3,601,678
Total assets							9,328,361
Segment liabilities	596,365	62,113	258,892	162,748	260,650	28,788	1,369,556
Unallocated liabilities							4,453,716
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

HK$'000

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 years ended 31 December 2007 and 2006.

Group

Year ended 31 December 2007	Hong Kong	PRC	Australia	Europe	North America	Kazakhstan	Other Asian countries	Others	Consolidated
Segment revenue:									
Sales to external customers	–	4,015,092	1,928,766	1,980,642	179,452	197,160	1,642,888	63,656	10,007,656
Other segment information:									
Segment assets	878,116	4,268,366	4,998,022	270,695	37,834	19,238,990	1,078,315	4,627	30,774,965
Capital expenditure	2,155	249,326	163,256	–	–	68,092	44,633	–	527,462
Year ended 31 December 2006 (restated)									
Segment revenue:									
Sales to external customers	–	3,305,764	827,015	1,850,518	315,187	–	494,481	42,196	6,835,161
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

HK$'000

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:

		2007	2006 (restated)
Revenue			
Sale of goods:			
Aluminium smelting		**1,761,416**	1,602,930
Coal		**169,895**	274,752
Import and export of commodities		**5,873,555**	4,405,869
Manganese		**1,684,457**	538,006
Crude oil		**518,333**	13,604
		10,007,656	6,835,161
Other income and gains			
Interest income		**342,174**	144,810
Handling service fees		**8,164**	7,121
Dividend income from available-for-sale listed investments		**15,670**	55,115
Gain on disposal of coal exploration interests		**7,358**	—
Gain on disposal of available-for-sale listed investments		**—**	5,235
Insurance claim income		**—**	25,996
Gain on conversion of available-for-sale listed investments	42(b)	**—**	17,502
Interest income from CITIC Group	47(b)	**3,096**	—
Excess over the cost of a business combination	41(c)	**11,933**	—
Write-off of payable		**13,443**	—
Sale of scraps		**7,878**	11,891
Others		**20,956**	15,575
		430,672	283,245
		10,438,328	7,118,406

HK$'000

6. PROFIT BEFORE TAX

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

	Notes	2007	2006 (restated)
Cost of inventories sold *		**8,576,552**	6,306,331
Depreciation	13	**248,952**	92,560
Amortisation of the ESA	16	**70,108**	62,930
Amortisation of other intangible assets	15	**5,969**	4,235
Amortisation of prepaid land lease premiums	14	**1,555**	948
Minimum lease payments under operating leases on land and buildings		**11,651**	8,504
Auditors' remuneration		**12,080**	7,369
Employee benefits expense (including directors' remuneration — note 7):			
Wages and salaries		**107,492**	95,218
Equity-settled share option expenses		**20,559**	26,158
Pension scheme contributions		**715**	289
Provision for long service and leave payments		**906**	6,715
		129,672	128,380
Loss on disposal/write-off of items of property, plant and equipment **		**6,586**	4,568
Provision/(write-back of provision) for impairment of items of property, plant and equipment **		**65,598**	(4,893)
Exchange losses, net **		**86,485**	53,883
Provision for inventories		**27,731**	1,515
Provision for impairment of accounts receivable **		**5,126**	1,816
Provision for rehabilitation cost		**13,808**	8,554
Provision for abandonment cost		**1,556**	112
Warranty income, net ** #		**—**	(14,908)

* Cost of inventories sold for the year ended 31 December 2007 included an amount of HK$469,178,111 (2006: HK$331,693,257), 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.

** 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 of HK$19,412,000 incurred on conversion of the Group's 40% participating interest in Kongnan Block within the Dagang Oilfield in the PRC (the "**Dagang Participating Interest**") into common shares of Ivanhoe Energy Inc. and a 3-year non-interest-bearing unsecured loan of US$7,386,135 (HK$57,612,000). More details are given in note 47(c) to the financial statements.

HK$'000

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007	2006
Fees:		
Executive directors and non-executive directors	**728**	860
Independent non-executive directors	**690**	567
	1,418	1,427
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**9,735**	11,910
Bonuses	**3,130**	2,865
Share option benefits	**20,559**	24,618
Pension scheme contributions	**380**	322
	33,804	39,715
	35,222	41,142

During the year, a director was granted share options, in respect of his services to the Group, under the share option scheme of the Company, further details of which are set out in note 39 to the financial statements. The fair value of such options, which has been recognised in 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:

	2007	2006
Fan Ren Da, Anthony	**230**	200
Ngai Man	**230**	167
Tsang Link Carl, Brian	**230**	200
	690	567

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

HK$'000

7. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share option benefits	Pension scheme contributions	Total remuneration
2007						
Executive directors:						
Kong Dan	50	—	—	11,429	—	11,479
Mi Zengxin	138	—	—	—	—	138
Shou Xuancheng	—	1,938	600	—	12	2,550
Sun Xinguo	—	1,938	600	—	12	2,550
Li So Mui	—	2,206	750	—	12	2,968
Qiu Yiyong	138	—	—	—	—	138
Zeng Chen	138	2,096	954	—	328	3,516
Zhang Jijing	138	—	—	—	—	138
Kwok Peter Viem #	—	768	113	4,565	8	5,454
Ma Ting Hung *	—	789	113	4,565	8	5,475
Non-executive directors:						
Tang Kui	63	—	—	—	—	63
Ma Ting Hung *	63	—	—	—	—	63
	728	9,735	3,130	20,559	380	34,532
2006						
Executive directors:						
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	2,025	915	1,597	262	5,014
Zhang Jijing	215	—	—	1,283	—	1,498
	860	11,910	2,865	24,618	322	40,575

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

Resigned on 21 August 2007

* Re-designated as non-executive director on 21 August 2007

HK$'000

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included five (2006: five) directors, details of whose remuneration are set out in note 7 above.

9. FINANCE COSTS

	Group	
	2007	2006
Interest expense on bank and other loans repayable:		
Within one year	**111,266**	85,452
In the second to fifth years, inclusive	**62,300**	64,773
Beyond five years	**16,201**	9,697
Fixed rate senior notes, net	**330,296**	—
Total interest expense on financial liabilities not at fair value through profit or loss	**520,063**	159,922
Amortisation of fixed rate senior notes	**14,392**	—
Less: Interest capitalised	**—**	(22,897)
	534,455	137,025
Other finance charges:		
Increase in discounted amounts of provision arising from the passage of time	**1,562**	7,673
Others *	**6,566**	5,657
	542,583	150,355

* Included amortisation of up-front fees of HK$2,004,600 (2006: HK$2,004,600).

10. TAX

	Group	
	2007	2006
Current – Hong Kong	**—**	—
Current – Elsewhere		
Charge for the year	**189,579**	103,072
Overprovision in prior years	**(2,467)**	(4,533)
Deferred – note 37	**22,518**	(28,387)
Total tax charge for the year	**209,630**	70,152

The statutory tax rate for Hong Kong profits tax is 17.5% (2006: 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 (2006: Nil).

10. TAX (continued)

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% (2006: 30%) on the estimated assessable profits arising in Australia during the year.

For the year ended 31 December 2007, the corporate tax rates applicable to the subsidiaries and jointly-controlled entities established and operating in the PRC, Indonesia and Kazakhstan are 33% (2006: 33%), 30% (2006: 30%) and 30% respectively.

Certain PRC subsidiaries of the Group are subject to a full corporate income tax exemption for the two years and a 50% reduction in the succeeding three years, commencing from the first profitable year.

Under the new PRC Corporate Income Tax Law (the "**New Corporate Income Tax Law**") and its Implementation Rules (effective on 1 January 2008), the PRC corporate income tax rates for domestic and foreign-invested enterprises (including Sino-foreign equity joint ventures) are unified to 25%. Sino-foreign equity joint ventures which were established before the New Corporate Income Tax Law was promulgated and have been entitled to the above income tax holiday can continue to enjoy the existing tax holiday until its expiry, subject to a five-year period restriction. Consequently, certain PRC subsidiaries of the Group can continue to enjoy their tax holiday, commencing from their respective first profitable year and expiring within five years from 1 January 2008.

The Group's subsidiary owning participating interest in oil and gas properties in Indonesia is subject to branch tax at the effective rate of 14%.

In accordance with the subsoil use contract, the Group's jointly-controlled entities with operation domiciled in Kazakhstan shall pay excess profit tax (the "**EPT**") on its profit after corporate income tax each year, pursuant to the Tax Code of Kazakhstan. The EPT shall be paid on a basis of the cumulative real internal rate of return (the "**IRR**") exceeding 20%. The IRR is calculated based on the after-tax cash flow (the "**ATCF**") and by further discounting using the published oil machinery and equipment index. The ATCF shall be calculated as the cumulative gross income less all expenses relating to petroleum operations, including transporting expenses, operating costs, capital expenditures and all taxes. The EPT is paid at progressive rates from 4% to 30% of the profit after corporate income tax, as shown in the table below:

IRR	EPT rate	Effective EPT rate
20% - 22%	4%	2.8%
22% - 24%	8%	5.6%
24% - 26%	12%	8.4%
26% - 28%	18%	12.6%
28% - 30%	24%	16.8%
More than 30%	30%	21.0%

HK$'000

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	
	2007	2006
Profits before tax	**731,012**	316,189
Tax at statutory rate of 17.5%	**127,927**	55,333
Higher tax rates on profits arising elsewhere	**167,268**	47,483
Lower tax rate/tax holiday or concessions for specific provinces or local authorities	**(115,789)**	(25,638)
Adjustments in respect of current tax of previous periods	**(2,467)**	(4,533)
Income not subject to tax	**(61,322)**	(25,819)
Expenses not deductible for tax	**120,538**	23,300
Tax losses utilised from previous periods	**(26,525)**	(6,815)
Increase in unutilised tax losses carried forward	**–**	6,841
Tax charge at the Group's effective rate	**209,630**	70,152

The share of tax attributable to associate amounting to HK$7,450,000 (2006: Nil) and is included in ''Share of profit of an associate" on the face of the consolidated income statement.

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong and the PRC in aggregate of HK$82,490,000 (2006: aggregate of HK$69,569,000) 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 as they have arisen in companies that have been loss-making for some time.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2007 includes a loss of HK$189,467,000 (2006: loss of HK$152,093,000) (note 40(b)) which has been dealt with in the financial statements of the Company.

HK$'000

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.

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

	2007	2006
Earnings		
Profit attributable to ordinary shareholders of the Company, used in the basic earnings per share calculation	**282,777**	200,815

	Number of shares	
	2007	2006
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**5,008,380,271**	4,317,072,600
Effect of dilution		
– weighted average number of ordinary shares:		
Share options	**30,706,963**	43,138,686
	5,039,087,234	4,360,211,286

HK$'000

13. PROPERTY, PLANT AND EQUIPMENT

Group – 31 December 2007

	Note	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Construction in progress and construction material	Furniture and fixtures	Buildings and structures	Capital works	Total
Cost:										
At beginning of year		657,254	5,857	4,329	1,134,226	109,735	6,558	426,193	90,694	2,434,846
Additions		45,960	323	34	108,593	262,730	5,484	19,201	84,760	527,085
Disposals/write-off		–	(1,237)	–	(20,318)	–	(932)	(18,780)	(2,393)	(43,660)
Acquisition of subsidiaries	41(a) to (c)	18,761,865	–	–	129,121	618,565	21,976	32,455	–	19,563,982
Transfers		276,306	–	–	22,607	(340,356)	(3,595)	45,038	–	–
Exchange realignment		(3,154)	1,181	143	246,871	7,898	204	88,566	17,017	358,726
At 31 December 2007		19,738,231	6,124	4,506	1,621,100	658,572	29,695	592,673	190,078	22,840,979
Accumulated depreciation and impairment:										
At beginning of year		3,323	–	1,611	171,684	–	731	41,002	22,245	240,596
Depreciation provided during the year		119,890	–	538	93,130	–	3,838	26,587	4,969	248,952
Disposals/write-off		–	–	–	(8,601)	–	(505)	(1,071)	–	(10,177)
Transfers		(389)	–	–	1,593	–	209	(1,413)	–	–
Impairment		–	–	–	54,330	6,997	–	4,271	–	65,598
Exchange realignment		(577)	–	278	77,288	–	115	26,776	4,690	108,570
At 31 December 2007		122,247	–	2,427	389,424	6,997	4,388	96,152	31,904	653,539
Net book value:										
At 31 December 2007		19,615,984	6,124	2,079	1,231,676	651,575	25,307	496,521	158,174	22,187,440

Note: As at 31 December 2007, the property, plant and equipment of HK$374,735,000 (2006: HK$62,252,000) were pledged against the bank loans as further detailed in note 34(a) to the financial statements. Freehold land of the Group is located in Australia.

During the year ended 31 December 2007, the directors of the Company considered that certain machinery, tools and equipment were impaired following an explosion at the Group's spent pot lining plant in Australia resulting in the inability to process spent pot lining. The assets and machinery of Dongguan Xinlian Wood Products Company Limited (''**Dongguan Xinlian**'') were frozen by the Shenzhen Intermediate People's Court due to the litigation explained in note 43(a). Accordingly, an impairment provision of HK$56,290,000 was made on these assets, machinery, tools and equipment in 2007.

HK$'000

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Group – 31 December 2006

	Notes	Oil and gas properties (restated)	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Construction in progress and construction material	Furniture and fixtures	Buildings and structures	Capital works	Total (restated)
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)
Acquisition of subsidiaries	41(d)	—	—	—	117,990	69,172	2,524	122,199	3,996	315,881
Acquisition of the Seram Interest	41(e)	649,279	—	—	—	—	2,067	—	—	651,346
Transfers		—	—	—	15,891	(36,440)	—	20,549	—	—
At 31 December 2006		657,254	5,857	4,329	1,134,226	109,735	6,558	426,193	90,694	2,434,846
Accumulated depreciation and impairment:										
At beginning of year		—	—	867	125,389	—	238	21,048	7,499	155,041
Depreciation 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		653,931	5,857	2,718	962,542	109,735	5,827	385,191	68,449	2,194,250

HK$'000

13. PROPERTY, PLANT AND EQUIPMENT (continued)

Company – 31 December 2007

	Motor vehicles and equipment
Cost:	
At beginning of year	—
Additions	**541**
At 31 December 2007	**541**
Accumulated depreciation and impairment:	
At beginning of year	—
Provided during the year	**115**
At 31 December 2007	**115**
Net book value:	
At 31 December 2007	**426**
At 31 December 2006	—

14. PREPAID LAND LEASE PREMIUMS

	Group	
	2007	2006
Carrying amount at 1 January	**59,616**	—
Acquisition of subsidiaries (note 41(c) and (d))	**11,105**	60,564
Addition	**310**	—
Amortisation	**(1,555)**	(948)
Exchange realignment	**4,545**	—
Carrying amount at 31 December	**74,021**	59,616
Current portion included in prepayments, deposits and other receivables	**(1,570)**	(1,263)
Non-current portion	**72,451**	58,353

The leasehold land is held under a long-term lease and is situated in the PRC. Leasehold land of HK$52,347,000 (2006: HK$1,300,000) is pledged for certain bank loans as further detailed in note 34(a) to the financial statements.

HK$'000

15. OTHER INTANGIBLE ASSETS

	Group	
	2007	2006
Mining rights		
Cost:		
At beginning of year	**139,936**	—
Additions	**377**	32
Acquisition of subsidiaries (note 41(a) and (d))	**4,220**	139,904
Exchange realignment	**7,911**	—
At 31 December	**152,444**	139,936
Accumulated amortisation:		
At beginning of year	**4,235**	—
Provided during the year	**5,969**	4,235
Exchange realignment	**202**	—
At 31 December	**10,406**	4,235
Net carrying amount at 31 December	**142,038**	135,701

As at 31 December 2007, mining right of HK$119,518,000 (2006: HK$135,701,000) was pledged against a bank loan of the Group, as further detailed in note 34(a) to the financial statements.

The mining right of HK$17,641,00 will expire in October 2008. As at the date of this annual report, management is in the process of applying for an extension of the mining right and management is confident that the extension will be successfully obtained.

16. OTHER ASSETS

	Group	
	2007	2006
Cost:		
At beginning of year	**792,244**	737,311
Exchange realignment	**90,369**	54,933
At 31 December	**882,613**	792,244
Accumulated amortisation:		
At beginning of year	**173,316**	105,068
Provided during the year	**70,108**	62,930
Exchange realignment	**19,769**	5,318
At 31 December	**263,193**	173,316
Net book value:		
At 31 December	**619,420**	618,928
Non-current portion	**549,295**	555,983
Current portion	**70,125**	62,945
	619,420	618,928

Other assets represent the amounts paid for the ESA.

HK$'000

17. GOODWILL

	Group	
	2007	2006
Cost and carrying amount:		
At beginning and end of year	**341,512**	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 (2006: HK$316,830,000); and
- import and export of commodities segment of HK$24,682,000 (2006: 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 9.5% (2006: 9.6%).

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 CATL, the listed vehicle of the import and export of commodities segment in Australia, as at 31 December 2007.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
Unlisted shares, at cost	**173,133**	173,134
Due from subsidiaries	**6,009,896**	2,822,924
Due to subsidiaries	**(370,128)**	(1,716)
	5,812,901	2,994,342
Impairment	**(759,812)**	(611,700)
	5,053,089	2,382,642

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

18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Investment holding
Starbest Venture Limited	British VirginIs lands/ Hong Kong	US$1	100	Investment holding
Star Elite Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Resources Finance (2007) Limited *	British Virgin Islands/ Hong Kong	US$1	100	Financing
Indirectly held				
Nusoil Manufacturing Limited	British Virgin Islands/ 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
Global Enterprises (HK) Limited	Hong Kong	HK$2	100	Provision of management services
Maxpower Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Toplight Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Richfirst Holdings Limited	British Virgin Islands/ PRC	US$100	100	Investment holding
Cogent Assets Limited	British Virgin Islands/ Hong Kong	US$2	100	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Group Smart Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Highkeen Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Petrochemical Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Petrochemical Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Resources Australia Pty Limited	State of Victoria, Australia	A$199,019,212	100	Investment holding
CITIC Portland Holdings Pty Limited	State of Victoria, Australia	A$196,791,454	100	Investment holding
CITIC Australia (Portland) Pty Limited	State of Victoria, Australia	A$45,675,117	100	Aluminium smelting
CITIC Portland Surety Pty Limited	State of Victoria, Australia	A$1	100	Investment holding
CITIC (Portland) Nominees I Pty Limited (note (b))	State of Victoria, Australia	A$2	100	Investment holding
CITIC (Portland) Nominees II Pty Limited (note (b))	State of Victoria, Australia	A$2	100	Investment holding
CITIC Nominees Pty Limited Partnership	State of Victoria, Australia	A$6,693,943	100	Investment holding
CITIC Nominees Pty Limited	State of Victoria, Australia	A$2	100	Investment holding
CITIC Portland Finance I Pty Limited	State of Victoria, Australia	A$2	100	Financing

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Australia Trading Limited (note (c))	State of Victoria, Australia	A$7,635,440	76.35	Investment holding
CITIC Australia Commodity Trading Pty Limited	State of Victoria, Australia	A$500,002	76.35	Import and export of commodities and manufactured goods
CITIC Tyres & Wheels Pty Limited	State of Victoria, Australia	A$100	76.35	Import of tyres and alloy wheels
CITIC Batteries Pty Limited	State of Victoria, Australia	A$2	76.35	Dormant
CITIC Australia Coal Pty Limited	State of Victoria, Australia	A$6,589,637	100	Investment holding
CITIC Australia Coal Exploration Pty Limited	State of Victoria, Australia	A$2,845,375	100	Exploration, development and mining of coal
CITIC Australia Coppabella Pty Limited	State of Victoria, Australia	A$5,000,002	100	Mining and production of coal
CITIC Australia Moorvale West Pty Limited	State of Victoria, Australia	A$2	100	Exploration and development of coal mines
CITIC Olive Downs Pty Limited	State of Victoria, Australia	A$99,958	100	Exploration and development of coal mines
CITIC West Walker Pty Limited	State of Victoria, Australia	A$91,812	100	Exploration and development of coal mines

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC West Rolleston Pty Limited	State of Victoria, Australia	A$196,390	100	Exploration and development of coal mines
CITIC West/North Burton Pty Limited	State of Victoria, Australia	A$34,238	100	Exploration and development of coal mines
CITIC Capricorn Pty Limited	State of Victoria, Australia	A$9,549	100	Exploration and development of coal mines
CITIC Bowen Basin Pty Limited	State of Victoria, Australia	A$378,353	100	Exploration and development of coal mines
CITIC Nickel Pty Ltd	State of Victoria, Australia	A$2	100	Investment holding
CITIC Nickel Australia Pty Limited	State of Victoria, Australia	A$1	100	Exploration and development of nickel mines
CITIC Nickel International Pty Limited	State of Victoria, Australia	A$1	100	Exploration and development of nickel mines
Beijing Qian Quan Investment Consultant Limited # +	PRC	RMB1,243,173	100	Consulting
Beijing Yi Xin Mei Cheng Commercial Information Consulting Co. Ltd. # +	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	76.35	Investment holding

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
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 (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 Materials Co., Ltd. (廣西斯達特錳材料有限公司) +	PRC	RMB24,280,000	34.16	Manufacture and sale of manganese products
Guangxi Nanning Kuanguang Industry & Trade Co., Ltd. (廣西南寧寬廣工貿有限責任公司) +	PRC	RMB1,000,000	36.96	Provision of transportation services
Tiandeng Dameng Ferroalloy Co., Ltd. (天等縣大錳鐵合金有限公司) +	PRC	RMB6,000,000	28.8	Manufacture and sale of ferroalloy products
Guangxi Daxin Dabao Ferroalloy Co., Ltd. (廣西大新縣大寶鐵合金有限公司) +	PRC	RMB2,680,000	28.8	Ferroalloy smelting
Guangxi Qinzhou Guixin Ferroalloy Co., Ltd. (廣西欽州市桂鑫冶金有限公司) * +	PRC	RMB30,000,000	33.6	Manufacture and sale of chromium alloy

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Indonesia Energy Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Seram Energy Limited	British Virgin Islands/ Indonesia	US$1	100	Investment holding
CITIC New Highland Petroleum Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Haiyue Energy Limited (note (e)) *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Tincy Group Energy Resources Limited *	Hong Kong/ PRC	HK$10,000,000	90	Exploration, development and operation of oilfield
CITIC Oil and Gas Holdings Limited (note (f))	British Virgin Islands/ Hong Kong	US$100	100	Investment holding
Renowned Nation Limited ("**RNL**") *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
KBM Energy Limited ("**KEL**") *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Netherlands Energy Coöperatief U.A. *	Netherlands/ Hong Kong	Euro100	100	Investment holding

* Acquired, established or incorporated during the year.
\# Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.
^ Sino-foreign equity joint venture registered under PRC law.
\+ Limited liability company registered under the PRC law.

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.

18. INTERESTS IN SUBSIDIARIES (continued)

Notes:

(a) 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**") and the market value of its shares as at 31 December 2007 was A$58,521,000 (HK$402,390,000) (2006: A$49,093,000 (HK$303,002,000)).

(d) The Manganese Company, Guangxi Start Manganese Materials Co., Ltd., Guangxi Nanning Kuanguang Industry & Trade Co., Ltd., Tiandeng Dameng Ferroalloy Co., Ltd. and Guangxi Daxin Dabao Ferroalloy Co., Ltd. (collectively referred to as the "**Manganese Group**") are subsidiaries of CITIC Dameng Investments Limited, a 80% indirectly owned subsidiary of the Company. Accordingly, they are accounted for as subsidiaries by virtue of the Company's control over them. The Manganese Group acquired a 70% equity interest in Guixin Ferroalloy during the year. The acquisition was completed on 8 February 2007 (note 41(c)).

(e) On 10 October 2007, CITIC Haiyue Energy Limited ("**CITIC Haiyue**") completed the acquisition of a 90% interest in Tincy Group, a company which holds the right to explore, develop and operate the Hainan-Yuedong Block (note 41(b)).

(f) On 12 December 2007, CITIC Oil & Gas Holdings Limited completed the acquisition of RNL, a company which principally holds a 47.3% equity interest in JSC Karazhanbasmunai, a joint stock company formed under the laws of Kazakhstan, and is engaged in the development, production and sale of oil in the Karazhanbas oilfield (note 41(a)).

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES

At 31 December 2007, the Group's jointly-controlled entities are primarily engaged in the exploration, development, production and sale of oil in Kazakhstan. Particulars of the jointly-controlled entities are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held				
CITIC Canada Energy Limited *	Canada	US$1	50	Investment holding
CITIC Canada Petroleum Limited ("**CCPL**") *	Canada	US$96,377,881	50	Investment
JSC Karazhanbasmunai ("**KBM**") *	Kazakhstan	Ordinary share: 2,045,035,000 Tenge Preference share: 116,077,000 Tenge	47.3	Exploration, development, production and sale of oil
Argymak TransService LLP ("**ATS**") *	Kazakhstan	200,000 Tenge	50	Provision of transportation services and other oilfield related logistic services
Tulpar Munai Service LLP ("**TMS**") *	Kazakhstan	100,000 Tenge	50	Provision of oil well drilling, construction and workover services
CITIC Services Inc. *	United States of America	US$1,000	50	Provision of management services

* Acquired during the year.

HK$'000

19. INTERESTS IN JOINTLY-CONTROLLED ENTITIES (continued)

The following table illustrates the summarised financial information of the Group's proportionate share of the jointly-controlled entities, which was proportionately consolidated by the Group as at 31 December 2007 and for the year then ended.

	2007	2006
Proportionate share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	14,640,628	—
Current assets	1,610,397	—
Current liabilities	(7,835,339)	—
Non-current liabilities	(7,262,044)	—
Net assets	1,153,642	—
Proportionate share of the jointly-controlled entities' results:		
Revenue	197,160	—
Other income	1,245	—
	198,405	—
Total expenses	(102,954)	—
Tax	(51,475)	—
Profit after tax	43,976	—

20. INTERESTS IN JOINTLY-CONTROLLED ASSETS

At 31 December 2007, the Group held interests in the following joint ventures:

(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;

HK$'000

20. INTERESTS IN JOINTLY-CONTROLLED ASSETS (continued)

(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;

(l) 51% participating interest in the Seram Island Non-Bula Block production sharing contract (the "**Seram Interest**"). Details of the acquisition of the participating interest in this oilfield are included in note 41(e) to the financial statements; and

(m) the Production Sharing Contract dated 24 February 2004 for the exploration, development and operation of the Hainan-Yuedong Block.

The jointly-controlled assets as detailed in (c) to (k) above 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 member firm of the Ernst & Young global network. The audited financial statements issued by the auditors of these jointly-controlled assets up to 31 December 2007 have been used for the purpose of preparation of the consolidated financial statements of the Group.

The Group's interests in the net assets employed in the Portland Aluminium Smelter joint venture are included in the consolidated balance sheet under the classifications shown below:

	2007	2006
Non-current assets	**2,440,457**	2,200,182
Current assets	**175,537**	146,986
Current liabilities	**(243,355)**	(318,611)
Non-current liabilities	**(195,010)**	(92,210)
Share of net assets employed in the Portland Aluminium Smelter joint venture	**2,177,629**	1,936,347

HK$'000

20. INTERESTS IN JOINTLY-CONTROLLED ASSETS (continued)

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

	2007	2006
Non-current assets	**718,420**	853,295
Current assets	**321,664**	203,556
Current liabilities	**(32,941)**	(49,604)
Non-current liabilities	**(59,437)**	(100,483)
Share of net assets employed in the Seram Interest	**947,706**	906,764

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

	2007	2006
Non-current assets	**294,275**	68,602
Current assets	**130,154**	94,123
Current liabilities	**(30,916)**	(43,599)
Non-current liabilities	**(14,625)**	(14,696)
Share of net assets employed in the remaining jointly-controlled assets	**378,888**	104,430

HK$'000

21. INTEREST IN AN ASSOCIATE

	Group	
	2007	2006
Share of net assets	**1,164,472**	—

Particulars of the Group's associate are as follows:

Name	Registered ordinary share capital	Place of incorporation	Percentage of equity interest attributable to the Group	Principal activities
Macarthur Coal #	A$246,343,000	Australia	19.99%	Operation, exploration, development and mining of coal

\# Not audited by Ernst & Young Hong Kong or other member firm of the Ernst & Young global network.

Macarthur Coal has a different reporting date to the Group, being 30 June compared to 31 December.

As at 31 December 2006, the Group had an 11.62% equity interest in Macarthur Coal, a public company listed on the ASX, which had been accounted for as an available-for-sale investments of the Group and was carried at fair value with changes recognised directly in equity. On 6 July 2007, the Group completed the acquisition of an additional 8.37% equity interest in Macarthur Coal at a consideration of A$112,923,000 (HK$757,358,000), which was then accounted for as an associate of the Group.

The Group accounted for this step acquisition prospectively from 1 January 2007 by reverting the Group's original cost and the related fair value changes for its investment in Macarthur Coal and applied equity accounting in the previous periods based on the Group's ownership percentage in Macarthur Coal in those periods. The resulting share of post acquisition profits or losses net of any dividends receivable, and any changes in fair value of the underlying investments since the acquisition of the first tranche was adjusted through retained earnings.

Subsequent to the balance sheet date, Macarthur Coal has issued additional shares for the acquisition of assets. The Group's shareholding in Macarthur Coal has been diluted from 19.99% to 17.66%.

HK$'000

21. INTEREST IN AN ASSOCIATE (continued)

The effects of the above are summarised below:

Effect on the consolidated balance sheet

At 1 January 2007

	Increase/ (decrease) Total
Assets	
Interest in an associate	**348,013**
Available-for-sale listed investments	**(739,349)**
	(391,336)
Liabilities/Equity	
Deferred tax liabilities	**(141,732)**
Exchange fluctuation reserve	**(5,045)**
Available-for-sale investment revaluation reserve	**(320,668)**
Retained profits	**76,109**
	(391,336)

The following table illustrates the summarised financial information of Macarthur Coal extracted from its financial statements for the six months ended 31 December 2007:

	2007	2006
Assets	**4,481,412**	—
Liabilities	**1,680,543**	—
Revenues	**946,095**	—
Profit	**88,319**	—

HK$'000

22. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007	2006
Non-current listed equity investments, at fair value:		
Australia	**109,703**	770,538
Canada	**87,126**	75,398
	196,829	845,936
Unlisted equity investments, at fair value	**4,377**	—
	201,206	845,936
The cost of the above investments were:		
Australia	**32,794**	296,344
Canada	**130,013**	130,013
	162,807	426,357

During the year, the gain on fair value of the Group's available-for-sale investments of HK$86,686,000 (2006: loss of HK$10,175,000) and related deferred tax liability of HK$22,487,000 (2006: HK$13,332,000) amounted to HK$64,199,000 were credited directly into equity (2006: HK$23,507,000 debited directly from equity).

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

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Current portion

The 2006 balance included an amount of US$200,000,000 (HK$1,560,000,000) which was paid as earnest money for the investment project in Kazakhstan. This amount was capitalised into the cost of investments upon completion of the acquisition of the RNL Group during the current year. Further details of which are set out in note 41(a) to the financial statements.

The 2006 balance also included 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. Out of which, HK$77,884,794 were capitalised into the cost of investments upon completion of the related investment projects in the current year. The remaining amounts are intended to be capitalised into the cost of 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.

An amount of HK$51,000 (2006: HK$2,066,000) included in the current portion represents an amount due from fellow subsidiaries of the Group. The balances are unsecured, interest-free and have no fixed terms of repayment.

The 2007 balance mainly included an amount of HK$70,095,000 which was paid as deposit for purchase of property, plant and equipment.

HK$'000

24. INVENTORIES

	Group	
	2007	2006 (restated)
Raw materials	**552,496**	184,149
Work in progress	**89,908**	124,512
Finished goods	**484,238**	491,346
	1,126,642	800,007

25. DUE FROM/(TO) RELATED COMPANIES/THE ULTIMATE HOLDING COMPANY

The amounts due from/(to) related companies and the ultimate holding company of the Group are unsecured, interest-free and repayable on demand. Included in the Group's total amount due from related companies is an amount due from a minority shareholder of the Group of HK$29,217,000 (2006: Nil). The carrying values of the amounts due from/(to) related companies and the ultimate holding company approximate to their fair values.

The maximum outstanding balances during the year due from related companies, the ultimate holding company and a minority shareholder were HK$101,996,000 (2006: HK$51,486,000), HK$34,320,000 (2006: HK$34,320,000) and HK$75,599,000 (2006: Nil), respectively.

26. LOAN RECEIVABLE

The Group's loan receivable arose from the conversion of the Dagang Participating Interest into common shares of Ivanhoe Energy Inc. (the "**Ivanhoe Shares**") and a three-year non-interest-bearing unsecured loan of US$7,386,135 (HK$57,612,000) in 2006.

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

An analysis of the loan receivable as at the balance sheet date, based on the remaining periods to its contractual maturity date, is as follows:

	Group	
	2007	2006
Repayable:		
Within three months	**4,493**	4,235
Three months to one year	**13,900**	13,092
One year to five years	**3,222**	21,615
	21,615	38,942
Portion classified as current assets	**(18,393)**	(17,327)
Portion classified as non-current assets	**3,222**	21,615

HK$'000

27. ACCOUNTS RECEIVABLE

	Group	
	2007	2006 (restated)
Trade receivables	**1,588,464**	1,238,545
Notes receivable	**40,767**	18,522
Impairment	**(9,565)**	(4,986)
	1,619,666	1,252,081

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

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	
	2007	2006 (restated)
Within one month	**1,365,118**	955,608
One to two months	**203,292**	255,889
Two to three months	**12,115**	17,794
Over three months	**39,141**	22,790
	1,619,666	1,252,081

The movements in provision for impairment of accounts receivable are as follows:

	Group	
	2007	2006
At 1 January	**4,986**	3,170
Impairment losses recognised (note 6)	**5,126**	1,816
Exchange realignment	**(547)**	—
At 31 December	**9,565**	4,986

HK$'000

27. ACCOUNTS RECEIVABLE (continued)

Included in the above provision for impairment of accounts receivable is a provision for individually impaired accounts receivable of HK$9,565,000 with an aggregate carrying amount of HK$9,565,000. The individually impaired accounts receivable relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the accounts receivable that are not considered to be impaired is as follows:

	Group	
	2007	2006
Neither past due nor impaired	**1,609,040**	1,221,645
One to three months past due	**4,615**	15,679
Over three months past due	**6,011**	14,757
	1,619,666	1,252,081

Receivables that were neither past due nor impaired relate to a large number of diversified customers in respect of whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Included in the Group's total accounts receivable is an amount due from the Group's fellow subsidiary of HK$1,516,000 (2006: HK$235,785,000), which is repayable on similar credit terms to those offered to other customers of the Group.

28. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2007	2006
Current unlisted equity investments, at fair value:		
Australia	**2,430**	1,974

The above equity investments at 31 December 2006 and 2007 were classified as held for trading.

HK$'000

29. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	2007	2006	**2007**	2006
Cash and bank balances	**757,871**	310,258	**4,740**	1,955
Time deposits *	**1,316,586**	540,486	**742,374**	20,735
	2,074,457	850,744	**747,114**	22,690

* Time deposits of HK$54,592,000 (2006: HK$75,528,000) and HK$54,357,000 (2006: HK$15,372,000) of the Group and of the Company, respectively, as at 31 December 2007 were placed with CITIC Ka Wah Bank Limited.

Cash at banks 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 bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. 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$255,952,000 and HK$2,233,000, respectively (2006: HK$116,755,000 and HK$2,310,000) and the cash and bank balances of the Group denominated in Tenge amounted to HK$18,062,000 (2006: Nil). The RMB and Tenge are not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations and the National Bank of the Republic of Kazakhstan, the Group is permitted to exchange RMB and Tenge for other currencies through banks authorised to conduct foreign exchange business.

30. ACCOUNTS PAYABLE

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

	Group	
	2007	2006
Within one month	**581,630**	455,696
One to two months	**15,534**	58,416
Two to three months	**2,520**	5,284
Over three months	**14,307**	14,392
	613,991	533,788

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

HK$'000

31. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in the total balance was an amount of HK$6,565,000 (2006: HK$7,210,000) due to CITIC Group, the ultimate holding company of the Company, which represents an interest expense payable on loans totalling US$39,000,000 (HK$304,179,000) that had been advanced by CITIC Group (note 34(g)).

32. DERIVATIVE FINANCIAL INSTRUMENTS

Group

	2007	
	Assets	**Liabilities**
Forward currency contracts and currency options	**6,931**	—
Forward commodity contracts	—	**20,933**
Interest rate swaps and options	**1,677**	—
Derivative financial instruments — embedded derivative	—	**168,189**
	8,608	**189,122**
Portion classified as non-current:		
Derivative financial instruments — embedded derivative	—	**(86,756)**
Current portion	**8,608**	**102,366**

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

The Group is the 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.

HK$'000

32. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Forward currency contracts and currency options — 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 in note 2.4 to the financial statements.

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

		2007		2006	
		Weighted average exchange rate	**Contractual amount**	Weighted average exchange rate	Contractual amount
Forward contracts:					
(i)	Sell A$/Buy US$				
	Less than 3 months	**0.8862**	**149,794**	0.7681	303,625
(ii)	Buy A$/Sell US$				
	Less than 3 months	**0.8372**	**124,724**	0.7312	68,849
	In 3 to 12 months, inclusive	**0.8667**	**10,314**	0.7137	58,548
	In 1 to 2 years, inclusive	**—**	**—**	0.7134	6,413
(iii)	Buy Euro/Sell US$				
	Less than 3 months	**1.4198**	**4,882**	—	—
Currency options:					
(i)	Put US$ option sell				
	Less than 3 months	**—**	**—**	0.7700	40,081
(ii)	Variable forward plus options				
	Less than 3 months	**0.8700**	**15,471**	—	—
	In 3 to 12 months, inclusive	**0.8700**	**46,413**	—	—

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 consolidated balance sheet by the related amount in equity.

32. 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:

	2007			2006		
	Quantity hedged (MT)	**Average price per tonne HK$**	**Contractual amount HK$'000**	Quantity hedged (MT)	Average price per tonne HK$	Contractual amount HK$'000
Aluminium forward (sold):						
Less than 3 months	**3,050**	**16,903**	**51,542**	5,600	15,733	88,883
In 3 to 12 months, inclusive	**5,850**	**16,786**	**98,176**	15,750	16,988	267,581
In 1 to 2 years, inclusive	**2,450**	**19,188**	**47,011**	6,700	15,444	102,340
In 2 to 5 years, inclusive	**—**	**—**	**—**	450	14,680	6,604

Interest rate swap contracts and options — cash flow hedges

The Group has entered into interest rate swaps to hedge against unfavourable movements in interest rates payable on floating rate borrowings. The Group is obliged to pay interest at fixed rates and receive interest at floating rates on the notional principal of the swaps, 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 swaps are set by reference to Bank Bill Swap reference rate and for US$ denominated swaps are set by reference to London Interbank Offered Rate ("**LIBOR**").

HK$'000

32. 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 six-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:

	2007		2006	
	Weighted average rate %	**Notional amount**	Weighted average rate %	Notional amount
US$ interest rate swap				
Less than 1 year	**3.58**	**296,400**	3.58	23,400
In 2 to 5 years, inclusive	**—**	**—**	3.58	296,400

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 sales and the expected future purchases were assessed to be highly effective and a net gain, before deferred tax, of HK$227,061,000 was included in the hedging reserve as follows:

	2007
Total fair value gains included in the hedging reserve	**227,061**
Transfers from the hedging reserve and recognised in the consolidated income statement	**(33,646)**
Deferred tax	**(57,183)**
Net gains on cash flow hedges	**136,232**

Derivative financial instruments – embedded derivative

The pricing mechanism used in the ESA between the Group and its suppliers include a component that is subject to variability of the aluminium prices. It has identified that an embedded derivative exists and the derivative component has been separated from its host agreement. The embedded derivative is revalued at each balance sheet date with its fair value gain or loss recognised in the consolidated income statement.

HK$'000

33. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder was unsecured, interest-free and repayable on demand. Its carrying amount approximated to its fair value. The outstanding balance was fully repaid in 2007.

34. BANK AND OTHER LOANS

		Group	
	Notes	**2007**	2006
Bank loans — secured * # (Note)	(a)	**1,210,720**	878,650
Bank loans — unsecured #	(b)	**2,522,840**	2,465,035
Unsecured loan from Transport Infrastructure Corridor *	(c)	**6,448**	6,815
Unsecured loan from Exploration Permit for coal *	(d)	**6,125**	6,242
Unsecured loans from former minority shareholders ^	(e)	**11,862**	11,862
Unsecured loans from minority shareholders ^	(f)	**139,930**	61,930
Unsecured loan from CITIC Group #	(g)	**304,179**	327,003
Unsecured loans from 广西金孟锰业有限公司 ^	(h)	**—**	45,025
		4,202,104	3,802,562

	Company	
	2007	2006
Bank loans — unsecured #	**1,170,000**	1,513,200

* Fixed rate
\# Floating rate
^ Interest-free

Note: Includes the effects of a related interest rate swap as further detailed in note 32 to the financial statements.

34. BANK AND OTHER LOANS (continued)

Notes:

(a) The secured bank loans of HK$1,210,720,000 include mainly:

(i) a US$76,000,000 (HK$592,758,000) loan due on 31 December 2008 (extendable in accordance with the terms of the Portland Aluminium Smelter joint venture), which was interest-bearing at LIBOR and is secured by a 22.5% participating interest in Portland Aluminium Smelter joint venture;

(ii) a loan of RMB430,000,000 (HK$447,917,000) with due dates from 20 January 2008 to 31 March 2014, which are interest-bearing at rates ranging from 6.12% to 8.96% per annum and are secured by property, plant and equipment of HK$80,727,000 (2006: HK$62,252,000), prepaid land lease premiums of HK$52,347,000 (2006: HK$1,300,000), mining right of HK$119,518,000 (2006: HK$135,701,000) and a guarantee provided by a minority shareholder; and

(iii) a loan of 2,631,562,500 Tenge (HK$170,045,000) due on 1 July 2011, which is interest-bearing at 11.8% and is secured by property, plant and equipment of KBM in an amount of 4,550,000,000 Tenge (HK$294,008,000).

(b) The unsecured bank loans of HK$2,522,840,000 include mainly a term loan of US$150,000,000 (HK$1,170,000,000), which are interest-bearing at LIBOR plus 0.7%. Subsequent to the balance sheet date on 23 January 2008, the loan was refinanced with new financial covenants to match the latest development of the Company.

The unsecured bank loans also include (1) trade finance facilities of A$129,808,606 (HK$892,563,975) which were interest-bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited; and (2) a bank loan borrowed by KBM of 6,121,000,000 Tenge (HK$395,522,000) which is interest-bearing at 9.5% and due on 12 April 2009.

The loans of RMB60,000,000 (HK$62,500,000) with due dates from 20 January 2008 to 20 November 2008 were interest-bearing at rates ranging from 7.29% to 7.47% per annum.

(c) The loan was obtained from the State Government of Queensland, Australia. The loan is unsecured, interest-bearing at 6.69% per annum and repayable in equal quarterly instalments by 30 September 2012.

(d) The loan was obtained from the manager of the Coppabella and Moorvale coal mines joint venture. The loan is unsecured, interest-bearing at 6% per annum and repayable in equal annual instalments by 11 December 2013.

(e) The loans were obtained from the former minority shareholders (details of which are set out in note 43(a)). The loans are unsecured, interest-free and not repayable within one year.

(f) The unsecured loans from minority shareholders include:

The loan of HK$61,930,000 was obtained from a minority shareholder of CITIC Dameng Holdings 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.

The loan of US$10,000,000 (HK$78,000,000) was obtained from Far Great Investments Limited ("**Far Great**") (a minority shareholder of Tincy Group). The loan is unsecured, interest-free and repayable on 31 May 2008.

(g) The loan of US$39,000,000 (HK$304,179,000) was granted by CITIC Group, the ultimate holding company of the Group. The loan is unsecured, interest-bearing at LIBOR plus 1.5% per annum and repayable in equal annual instalments by 7 September 2012.

(h) The loans in 2006 were obtained from 广西金孟錳业有限公司. The loans were unsecured and interest-free, and were fully repaid in 2007.

HK$'000

34. BANK AND OTHER LOANS (continued)

	Group	
	2007	2006
Bank loans repayable:		
Within one year or on demand	**2,143,225**	1,495,017
In the second year	**730,531**	833,648
In the third to fifth years, inclusive	**783,189**	1,015,020
Beyond five years	**76,615**	—
	3,733,560	3,343,685
Other loans repayable:		
Within one year	**2,092**	46,796
In the second year	**2,217**	1,878
In the third to fifth years, inclusive	**7,089**	6,335
Beyond five years	**1,175**	3,073
	12,573	58,082
Loans from former minority shareholders:		
Beyond one year	**11,862**	11,862
Loans from minority shareholders:		
Within one year	**78,000**	—
Beyond one year	**61,930**	61,930
	139,930	61,930
Loan from CITIC Group:		
Within one year	**15,599**	46,209
In the second year	**15,599**	38,999
In the third to fifth years, inclusive	**46,797**	116,998
Beyond five years	**226,184**	124,797
	304,179	327,003
Total bank and other loans	**4,202,104**	3,802,562
Portion classified as current liabilities	**(2,238,916)**	(1,588,022)
Non-current portion	**1,963,188**	2,214,540

	Company	
	2007	2006
Bank loans repayable:		
Within one year or on demand	**234,000**	343,200
In the second year	**234,000**	234,000
In the third to fifth years, inclusive	**702,000**	936,000
Total bank and other loans	**1,170,000**	1,513,200
Portion classified as current liabilities	**(234,000)**	(343,200)
Non-current portion	**936,000**	1,170,000

HK$'000

34. 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 interest rate p.a. (%)	Carrying amounts 2007	Carrying amounts 2006	Fair values 2007	Fair values 2006
Unsecured loans from Transport Infrastructure Corridor	7.911	**5,234**	5,788	**6,250**	5,923
Unsecured loans from Exploration Permit for coal	7.871	**5,247**	5,498	**5,782**	5,506
Unsecured loan from CITIC Group	4.798	**288,580**	280,794	**315,260**	289,509
Unsecured bank loans	4.505	**936,000**	1,170,000	**942,443**	1,176,820
Secured bank loans	10.058	**121,460**	592,785	**175,707**	593,662
Unsecured bank loans	7.779 - 10.000	**397,458**	6,863	**394,295**	6,955
Other secured bank loans	7.560 - 7.830	**135,417**	79,020	**134,566**	81,091
Unsecured loans from former minority shareholders	7.740	**11,862**	11,862	**11,730**	11,557
Unsecured loan from a minority shareholder	7.740	**61,930**	61,930	**61,241**	59,755
		1,963,188	2,214,540	**2,047,274**	2,230,778

Company

	Effective interest rate p.a. (%)	Carrying amounts 2007	Carrying amounts 2006	Fair values 2007	Fair values 2006
Unsecured bank loans	4.505	**936,000**	1,170,000	**942,443**	1,176,820

HK$'000

35. BOND OBLIGATIONS

	Notes	Group 2007	2006
Senior notes, listed in Singapore	(a)	**7,635,991**	—
Bonds, listed in Kazakhstan	(b)	**356,868**	—
Total bond obligations		**7,992,859**	—
Portion classified as current liabilities		**(356,868)**	—
Non-current portion		**7,635,991**	—

Notes:

(a) On 17 May 2007, CITIC Resources Finance (2007) Limited ("**CR Finance**"), a direct wholly-owned subsidiary of the Company, completed the issuance of US$1,000,000,000 senior notes (the "**Notes**") at the issue price of 99.726%. The Notes bear interest at the rate of 6.75% per annum and the interest is payable semi-annually. The obligations of CR Finance under the Notes are irrevocably and unconditionally guaranteed by the Company and will mature on 15 May 2014.

The Notes shall become immediately due and payable in the case of an event of default, and are subject to redemption on the occurrence of certain events.

As at 31 December 2007, the fair value of the Notes was estimated at US$944,500,000 (HK$7,367,100,000), which was determined based on the closing market price of the Notes on that date.

(b) The bonds are 11,100,000 non-callable coupon bonds in the aggregate amount of 11.1 billion Tenge issued and registered with the Kazakhstan Stock Exchange in December 2003 with a five-year maturity. The bonds bear interest at a rate of 8% per annum during the first six months of their tenor and a floating rate for the rest of their tenor by referring to the inflation index as reported by the Agency of Statistics of the Republic of Kazakhstan. The maximum floating rate is capped at 14%. The interest is payable semi-annually.

As at 31 December 2007, the fair value of the bonds was estimated at HK$369,327,000, which was determined based on the closing market price of the bonds on that date.

36. PROVISIONS

Group

	Long service and leave payments	Provision for rehabilitation cost	Provision for abandonment cost	Total
At 1 January 2007	56,192	90,301	24,794	171,287
Acquisition of subsidiaries (note 41(a))	—	—	106,055	106,055
Additions	906	13,808	1,556	16,270
Payment	(11,451)	—	—	(11,451)
Increase due to passage of time	—	1,562	—	1,562
Exchange realignment	6,453	8,729	20	15,202
At 31 December 2007	52,100	114,400	132,425	298,925
Portion classified as current liabilities	(51,687)	(626)	—	(52,313)
Non-current portion	413	113,774	132,425	246,612

HK$'000

37. DEFERRED TAX

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

Deferred tax liabilities — 2007

	Accelerated tax depreciation	Fair value adjustments	Total
At 1 January 2007	450,402	69,531	519,933
Opening adjustment (note 21)	(141,732)	—	(141,732)
As restated	308,670	69,531	378,201
Acquisition of subsidiaries (note 41(a) to (c))	8,684,566	—	8,684,566
Deferred tax charged/(credited) to the consolidated income statement during the year (note 10)	(6,422)	2,415	(4,007)
Deferred tax debited to equity during the year	—	79,670	79,670
Exchange realignment	30,043	4,637	34,680
Gross deferred tax liabilities at 31 December 2007	9,016,857	156,253	9,173,110

Deferred tax assets — 2007

	Losses available for offset against future taxable profit
At 1 January 2007	204,005
Acquisition of a subsidiary (note 41(c))	6,589
Deferred tax charged to the consolidated income statement during the year (note 10)	(26,525)
Deferred tax offset against other tax payable	(28,636)
Exchange realignment	1,302
Gross deferred tax assets at 31 December 2007	156,735
Net deferred tax liabilities at 31 December 2007	9,016,375

HK$'000

37. DEFERRED TAX (continued)

Deferred tax liabilities — 2006

	Accelerated tax depreciation	Fair value adjustments	Total
At 1 January 2006	430,687	40,298	470,985
Acquisition of subsidiaries (note 41(d))	3,465	7,788	11,253
Deferred tax credited to the consolidated income statement during the year (note 10)	(14,363)	(15,458)	(29,821)
Deferred tax debited to equity during the year	—	30,461	30,461
Exchange realignment	30,613	6,442	37,055
Gross deferred tax liabilities at 31 December 2006	450,402	69,531	519,933

Deferred tax assets — 2006

	Losses available for offset against future taxable profit (restated)
At 1 January 2006	11,188
Acquisition of the Seram Interest (note 41(e))	197,251
Deferred tax charged to the consolidated income statement during the year (note 10)	(1,434)
Deferred tax debited to equity during the year	(4,484)
Exchange realignment	1,484
Gross deferred tax assets at 31 December 2006	204,005
Net deferred tax liabilities at 31 December 2006	315,928

38. SHARE CAPITAL

Shares

	2007	2006
Authorised:		
10,000,000,000 (2006: 6,000,000,000) ordinary shares of HK$0.05 each	**500,000**	300,000
Issued and fully paid:		
5,257,884,381 (2006: 4,318,184,381) ordinary shares of HK$0.05 each	**262,894**	215,909

38. SHARE CAPITAL (continued)

During the year, the movements in share capital were as follows:

(a) On 9 February 2007, the Company entered into a placing and subscription agreement with United Star International Inc. ("**USI**") as subscriber, 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 (the "**USI Subscription Shares**") at a price of HK$2.46 per share. The transaction was completed on 28 February 2007. The total consideration of the USI Subscription Shares, before issuance expenses, amounted to HK$1,402,200,000 and was paid in cash on the completion date. Further details of the transaction are set out in the announcement of the Company dated 9 February 2007.

(b) On 9 February 2007, the Company entered into the subscription agreement with Keentech Group Limited ("**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 "**Keentech Subscription Shares**") at a price of HK$2.46 per share. The transaction, completed on 19 April 2007, constituted a connected transaction under the Listing Rules. The total consideration of the Keentech Subscription Shares, before issuance expenses, 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) On 15 June 2007, the Company entered into the subscription agreement with Ellington Investments Pte. Ltd. ("**Ellington**"), an indirect wholly-owned subsidiary of Temasek Holdings (Private) Limited, pursuant to which Ellington has conditionally agreed to subscribe for, and the Company agreed to issue, 101,000,000 new ordinary shares of the Company of HK$0.05 each (the "**Temasek Subscription Shares**") at a price of HK$4.46 per share. The transaction was completed on 3 July 2007 and the total consideration of the Temasek Subscription Shares, before issuance expenses, of HK$450,460,000 was paid in cash on the completion date.

(e) The subscription rights attaching to 133,700,000 and 5,000,000 share options were exercised at a subscription price of HK$1.08 and HK$1.06 per share, respectively, resulting in the issuance of 138,700,000 ordinary shares of HK$0.05 each for a total cash consideration, before issuance expenses, of HK$149,696,000. The proceeds are used for the Group's normal daily operation.

38. SHARE CAPITAL (continued)

A summary of transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

	Notes	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Share option reserve HK$'000	Total HK$'000
At 1 January 2006		4,316,884,381	215,844	2,561,962	12,663	2,790,469
Share options exercised	40(b)	1,300,000	65	1,625	(286)	1,404
Equity-settled share options arrangements	40(b)	—	—	—	26,158	26,158
At 31 December 2006 and 1 January 2007		**4,318,184,381**	**215,909**	**2,563,587**	**38,535**	**2,818,031**
Share subscription:						
USI Subscription Shares	(a)	**570,000,000**	**28,500**	**1,373,700**	**—**	**1,402,200**
Keentech Subscription Shares	(b)	**130,000,000**	**6,500**	**313,300**	**—**	**319,800**
Temasek Subscription Shares	(d)	**101,000,000**	**5,050**	**445,410**	**—**	**450,460**
Share options exercised	(e)	**138,700,000**	**6,935**	**182,430**	**(39,669)**	**149,696**
Equity-settled share options arrangements	40 (b)	**—**	**—**	**—**	**20,559**	**20,559**
		5,257,884,381	**262,894**	**4,878,427**	**19,425**	**5,160,746**
Share issue expenses		**—**	**—**	**(34,610)**	**—**	**(34,610)**
At 31 December 2007		**5,257,884,381**	**262,894**	**4,843,817**	**19,425**	**5,126,136**

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 39 to the financial statements.

39. 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 2004.

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 exercise of all outstanding options granted and yet to 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.

39. 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 of Hong Kong Limited (the "**Stock Exchange**") as stated in the Stock Exchange's daily quotation sheet on the date of 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.

The following share options were outstanding under the Scheme during the year:

	2007		2006	
	Weighted average exercise price per share HK$	**Number of options '000**	Weighted average exercise price per share HK$	Number of options '000
At 1 January	**1.079**	**175,700**	1.079	177,000
Granted during the year	**3.072**	**20,000**	—	—
Exercised during the year	**1.079**	**(138,700)**	1.080	(1,300)
At 31 December	**1.777**	**57,000**	1.079	175,700

The weighted average share price at the date of exercise for share options exercised during the year was HK$4.834 (2006: HK$1.809)

39. SHARE OPTION SCHEME (continued)

The exercise prices and exercise periods of the share options outstanding as at that balance sheet date are as follows:

2007

Number of options '000	Exercise price per share * HK$	Exercise period
32,000	**1.080**	**02/06/2006 - 01/06/2010**
5,000	**1.060**	**28/12/2006 - 27/12/2010**
20,000	**3.072**	**07/03/2008 - 06/03/2012**
57,000		

2006

Number of options '000	Exercise price per share * HK$	Exercise period
65,700	1.080	02/06/2006 - 01/06/2010
100,000	1.080	02/06/2007 - 01/06/2010
10,000	1.060	28/12/2006 - 27/12/2010
175,700		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

On 7 March 2007, the Company granted share options under the New Scheme to Mr. Kong Dan, the director of the Company, in respect of 20,000,000 shares in the Company at the exercise price of HK$3.072 per share. The closing price of the shares at the date of grant was HK$3.13 per share.

The fair value of the share options granted during the year was HK$15,240,000 (HK$0.762 each) of which the Group recognised a share option expense of HK$11,429,000 during the year ended 31 December 2007. There was no share option granted during the year ended 31 December 2006.

39. SHARE OPTION SCHEME (continued)

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2007
Dividend yield (%)	0
Volatility (%)	48.26
Risk-free interest rate (%)	4.001
Expected life of options (year)	2

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

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

The 138,700,000 share options exercised during the year resulted in the issuance of 138,700,000 new ordinary shares of the Company of HK$0.05 each and new share capital of HK$6,935,000 and share premium of HK$182,430,000 (before issue expenses), as further detailed in note 38 to the financial statements.

At the balance sheet date, the Company had 57,000,000 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 57,000,000 additional ordinary shares of the Company, additional share capital of HK$2,850,000 and share premium of HK$98,450,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 57,000,000 share options outstanding under the Scheme, which represented 1.08% of the Company's shares in issue as at that date.

40. 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 52 and 53 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.

Pursuant to the relevant laws and regulations for Sino-foreign joint venture enterprises, a portion of the profits of the Group's subsidiaries which are established in the PRC has been transferred to reserve funds which are restricted as to use.

HK$'000

40. RESERVES (continued)

(b) Company

	Share premium account	Contributed surplus	Exchange fluctuation reserve	Share option reserve	Accumulated losses	Total
As at 1 January 2006	2,561,962	172,934	—	12,663	(343,506)	2,404,053
Issue of new shares upon exercise of share options (note 38)	1,625	—	—	(286)	—	1,339
Equity-settled share options arrangements (note 38)	—	—	—	26,158	—	26,158
Loss for the year	—	—	—	—	(152,093)	(152,093)
At 31 December 2006 and 1 January 2007	**2,563,587**	**172,934**	**—**	**38,535**	**(495,599)**	**2,279,457**
Exchange realignment	**—**	**—**	**255**	**—**	**—**	**255**
Issue of new shares	**2,132,410**	**—**	**—**	**—**	**—**	**2,132,410**
Share issue expenses	**(34,610)**	**—**	**—**	**—**	**—**	**(34,610)**
Issue of new shares upon exercise of share options (note 38)	**182,430**	**—**	**—**	**(39,669)**	**—**	**142,761**
Equity-settled share options arrangements (note 38)	**—**	**—**	**—**	**20,559**	**—**	**20,559**
Loss for the year	**—**	**—**	**—**	**—**	**(189,467)**	**(189,467)**
At 31 December 2007	**4,843,817**	**172,934**	**255**	**19,425**	**(685,066)**	**4,351,365**

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 payment 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 profits should the related options expire or be forfeited.

41. BUSINESS COMBINATION

(a) On 30 April 2007, the Group conditionally agreed to acquire from CITIC Group the entire issued share capital of RNL, and thereby the Kazakhstan Interests (as defined below), and the benefit of certain indebtedness owing by KEL to CITIC Group (the "**Kazakhstan Transaction**").

Further details of the Kazakhstan Transaction are set out in the circular of the Company dated 12 June 2007 and the announcement of the Company dated 12 December 2007.

The **Kazakhstan Interests** comprise interests in 50% of the issued voting shares of KBM (which represents 47.3% of the total issued shares of KBM) and 50% of the participation rights in each of ATS and TMS. KBM, ATS and TMS operate the oil and oil related businesses and activities in Kazakhstan. KBM is engaged in the development, production and sale of oil and holds the right to explore, develop, produce and sale of oil in the Karazhanbas oilfield until 2020. ATS is engaged in the provision of transportation services and other oilfield related logistics services. TMS is engaged in the provision of oil well drilling, construction and workover services.

The Kazakhstan Transaction, completed on 12 December 2007, constituted a connected and very substantial acquisition under the Listing Rules. The purchase consideration in respect of the Kazakhstan Transaction is US$1,030,610,001 (HK$8,038,448,000). The purchase consideration was settled by a deposit of US$200,000,000 (HK$1,560,000,000) paid by the Group to CITIC Group in 2006 (note 23), cash payment of US$830,610,001 (HK$6,478,448,000) paid by the Group to CITIC Group upon completion of the Kazakhstan Transaction and other directly attributable costs of HK$110,284,000 recorded as prepayments prior to the date of completion of the Kazakhstan Transaction. In addition, certain indebtedness of RNL in an aggregate amount of US$100,000,000 (HK$779,800,000) due to CITIC Group became part of liabilities of the Group. RNL's indebtedness to CITIC Group was settled by the Group immediately after the completion of the Kazakhstan Transaction.

HK$'000

41. BUSINESS COMBINATION (continued)

(a) (continued)

The fair values of the identifiable assets and liabilities of the RNL Group as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition	Previous carrying amount
Net assets acquired:			
Property, plant and equipment	13	17,524,854	14,533,560
Other intangible assets	15	4,220	4,220
Inventories		345,030	345,030
Accounts receivable		296,368	296,368
Prepayments, deposits and other receivables		478,060	478,060
Tax recoverable		98,159	98,159
Cash and bank balances		420,276	420,276
Accounts payable		(106,136)	(106,136)
Tax payable		(345,112)	(345,112)
Accrued liabilities and other payables		(128,124)	(128,124)
Bank and other loans		(569,576)	(569,576)
Bond obligations		(356,801)	(356,801)
Provisions	36	(106,055)	(106,055)
Deferred tax liabilities	37	(8,153,612)	(6,625,061)
Minority interests		(473,019)	(394,452)
		8,928,532	7,544,356
Satisfied by:			
Cash		7,258,248	
Deposit paid in 2006	23	1,560,000	
Professional fees paid		110,284	
		8,928,532	

An analysis of the net outflow of cash and cash equivalents in respect of the Kazakhstan Transaction is as follows:

	2007
Cash consideration paid	**(7,258,248)**
Cash and bank balances acquired	**420,276**
Net outflow of cash and cash equivalents in respect of the Kazakhstan Transaction	**(6,837,972)**

HK$'000

41. BUSINESS COMBINATION (continued)

(a) (continued)

Since the completion of the Kazakhstan Transaction, RNL Group has contributed HK$197,160,000 to the Group's revenue and HK$37,120,000 to the consolidated profit attributable to shareholders of the Company for the year ended 31 December 2007.

The following unaudited proforma consolidated financial information reflects the results of the operations of the Group for the year ended 31 December 2007, as if the Kazakhstan Transaction described above had completed on 1 January 2007 and the Notes had been issued on 1 January 2007.

	Proforma financial results of the Group for the year ended 31 December 2007 (unaudited)
Total revenue	**12,819,816**
Profit before tax	**1,380,707**
Profit after tax attributable to shareholders of the Company	**423,591**
Earnings per share	
– Basic	**HK 8.46 cents**
– Diluted	**HK 8.41 cents**

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.

(b) On 1 May 2007, CITIC Haiyue, an indirect wholly-owned subsidiary of the Company, acquired an option to purchase 90% of the issued shares of Tincy Group from Far Great. Tincy Group holds the right to explore, develop and operate, until 2034, the Hainan-Yuedong Block.

On 28 September 2007, CITIC Haiyue exercised the option by entering into a sale and purchase agreement with Far Great and its shareholders to purchase 90% of the issued shares of Tincy Group for a consideration of US$148,183,648 (HK$1,155,832,000), subject to adjustments as provided for in such agreement. The transaction was completed on 10 October 2007 and the purchase consideration was in the form of cash. As at 31 December 2007, the purchase consideration of US$125,145,813 (HK$976,131,341) and directly attributable cost of HK$41,122,463 were settled by the Group, and the remaining purchase consideration of US$23,037,835 (HK$179,700,659) and other directly attributable cost of HK$5,590,998 were recorded by the Group as other payables as at 31 December 2007.

HK$'000

41. BUSINESS COMBINATION (continued)

(b) (continued)

The fair values of the identifiable assets and liabilities of Tincy Group as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition	Previous carrying amount
Net assets acquired:			
Property, plant and equipment	13	1,987,381	151,821
Prepayments, deposits and other receivables		46	46
Cash and bank balances		251	251
Accrued liabilities and other payables		(45,793)	(45,793)
Bank and other loans		(78,000)	(78,000)
Deferred tax liabilities	37	(527,724)	—
Minority interests		(133,616)	(2,833)
		1,202,545	25,492

Satisfied by:	
Cash	1,017,254
Other payables	185,291
	1,202,545

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of Tincy Group is as follows:

	2007
Cash consideration paid	**(1,017,254)**
Cash and bank balances acquired	**251**
Net outflow of cash and cash equivalents in respect of the acquisition of Tincy Group	**(1,017,003)**

Since its acquisition, Tincy Group has not contributed any revenue to the Group as the principal field within the Hainan-Yuedong Block is still in the appraisal and development stage.

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.

HK$'000

41. BUSINESS COMBINATION (continued)

(c) On 8 February 2007, the Group acquired an effective 33.6% indirect interest in Guixin Ferroalloy which is engaged in the manufacture and sale of high-carbon chromium alloy in the PRC. The purchase consideration was in the form of cash, with HK$16,667,000 (RMB16,000,000) paid by the Group upon the completion of the acquisition.

The fair values of the identifiable assets and liabilities of Guixin Ferroalloy as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition**	**Previous carrying amount**
Net assets acquired:			
Property, plant and equipment	13	51,747	46,227
Prepaid land lease premiums	14	11,105	3,008
Deferred tax assets	37	6,589	—
Inventories		16,827	16,827
Accounts receivable		2,208	2,208
Prepayments, deposits and other receivables		11,099	11,099
Cash and bank balances		27,561	27,561
Accounts payable		(16,440)	(16,440)
Tax payable		(390)	(390)
Accrued liabilities and other payables		(47,469)	(47,469)
Bank and other loans		(18,750)	(18,750)
Deferred tax liabilities	37	(3,230)	—
Minority interests		(12,257)	(7,164)
		28,600	16,717
Excess over the cost of a business combination recognised in the consolidated income statement	5	(11,933)	
Satisfied by cash		16,667	

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

	2007
Cash consideration paid	**(16,667)**
Cash and bank balances acquired	**27,561**
Net inflow of cash and cash equivalents in respect of the acquisition of Guixin Ferroalloy	**10,894**

HK$'000

41. BUSINESS COMBINATION (continued)

(c) (continued)

Since its acquisition, Guixin Ferroalloy contributed HK$269,343,202 to the Group's revenue and HK$5,433,204 to the consolidated profit for the year ended 31 December 2007.

Had the acquisition 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$277,335,011 and HK$8,509,588, respectively.

(d) 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 the form of cash, consideration amount of RMB300,000,000 (HK$288,500,000) to the Manganese Company 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 Group as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition**	**Previous carrying 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 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	37	(11,253)	(3,465)
Bank and other loans		(11,114)	(11,114)
Minority interests		(213,432)	(202,191)
		305,670	288,808
Satisfied by deposits paid in 2005		305,670	

HK$'000

41. BUSINESS COMBINATION (continued)

(d) (continued)

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

	2006
Cash consideration paid	—
Cash and bank balances acquired	148,230
Net inflow of cash and cash equivalents in respect of the acquisition of the Manganese Group	148,230

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

Had the combination taken place on 1 January 2006, the revenue of the Group and the profit of the Group for the year ended 31 December 2006 would have been HK$7,529,736,000 and HK$252,978,000, respectively.

HK$'000

41. BUSINESS COMBINATION (continued)

(e) On 22 November 2006, the Group acquired the Seram Interest. The purchase consideration for the acquisition was in the 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 Seram Interest as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	**Fair value recognised on acquisition** (restated)	**Previous carrying amount**
Net assets acquired:			
Oil and gas properties	13	649,279	639,920
Furniture and fixtures	13	2,067	2,067
Deferred tax assets	37	197,251	243,549
Inventories		75,611	75,611
Prepayments, deposits and 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		(24,682)	(24,682)
Long-term other payables		(81,398)	(81,398)
		874,952	911,891

Satisfied by:	
Cash	757,723
Accrued liabilities and other payables	117,229
	874,952

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the Seram Interest is as follows:

	2006
Cash consideration paid	757,723
Cash and bank balances acquired	—
Net outflow of cash and cash equivalents in respect of the acquisition of the Seram Interest	(757,723)

HK$'000

41. BUSINESS COMBINATION (continued)

(e) (continued)

The purchase price allocation set out above has been determined following 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 during the current year. Restatement adjustments to the initial accounting within the twelve months of the acquisition date for this business combination have been recognised in these financial statements . Oil and gas properties and deferred tax assets have been restated to reflect the change retrospectively and the effects of which are summarised below:

Effect on the consolidated balance sheet

At 1 January 2007	**Increase/ (decrease)**
Assets	
Oil and gas properties	(197,251)
Deferred tax assets	197,251
	—

At 31 December 2007	**Increase/ (decrease)**
Assets	
Oil and gas properties	**(197,251)**
Deferred tax assets	**122,451**
	(74,800)
Liabilities/Equity	
Other tax payable	**(28,636)**
Retained earnings	**(46,164)**
	(74,800)

Effect on the consolidated income statement for the year ended 31 December 2007

Increase in deferred tax expense	**46,164**
Total decrease in profit	**46,164**

42. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Major non-cash transactions

(a) On 6 July 2007, the Group completed the acquisition of an additional 8.37% equity interest in Macarthur Coal, which became an associate of the Group after the acquisition. As a result, the Group's investment in Macarthur Coal, which was previously accounted for as an available-for-sale investment with a carrying amount of HK$739,349,000 was reclassified to interest in an associate upon the completion of the acquisition.

(b) During the year ended 31 December 2006, Mount Gibson Iron Limited ("**Mount Gibson**"), a third party, acquired Aztec Resources Limited, an available-for-sale 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 investments of HK$17,502,000 (note 5).

(c) 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 at 31 December 2006 in aggregate of HK$50,939,000.

43. 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 (the "**Guangdong High Court**").

In August 2003, certain members of the Plaintiff's management team were sentenced to imprisonment for creating forged documents, including those presented by them in relation to the Claim. Despite this, the Guangdong High Court 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 a further appeal to the State Supreme Court requesting the withdrawal of the Second Judgement and a decision that Dongguan Xinlian was not liable to the Plaintiff in respect of the Second Judgement. In December 2004, the Guangdong High Court overturned the Second Judgement and issued a decision that it would re-hear the case.

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

43. 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. Although the Guangdong High Court acknowledged the criminal liabilities of certain members of the Plaintiff's management team (including forging the contracts connected to the Claim), the Guangdong High Court 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 to the State Supreme Court 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.

In November 2006, the Supreme People's Procuratorate of the PRC confirmed the grounds of the petition and filed the protest with the State Supreme Court for retrial. In February 2007, the State Supreme Court issued a written civil ruling to retry the case. The hearing was set for October 2007 but the Plaintiff did not attend. A new date for the hearing has not been fixed at the date of this annual report.

In March 2007, the Group's legal advisers re-confirmed the conflicts and discrepancies with regard to the Second Judgement and the Third Judgement.

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 2007.

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. Accordingly, no provision is considered necessary.

(b) In September 2005, Thomas de Shazo ("**de Shazo**") filed a summons and complaint (the "**Complaint**") in the Southern District of Texas in the United States District Court against CCPL, Ecolo Investments Limited, Aequitas Energy, S.A., Novomundo Trading Ltd., Hashim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The United States Federal Court dismissed de Shazo's claim in March 2007 and de Shazo appealed in April 2007. De Shazo is claiming an amount of US$200 million and an additional punitive damage. Oral argument in respect of the appeal were heard by the United States Courts of Appeals in March 2008. The opinion and judgement from the court is still pending.

The directors of the Group believe that there are no grounds for such claim to succeed and as such, no provision has been made as at 31 December 2007.

43. LITIGATION (continued)

(c) During 2005, the taxation authority of Kazakhstan conducted a tax audit on the accounting records of KBM (acquired by the Group on 12 December 2007 and the Group's equity interest is 47.3%) for the three years ended 31 December 2004. In December 2005, as a result of the tax audit, KBM received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional taxes in the amount of HK$432,066,000 (6,686,552,000 Tenge) as well as penalties and fines of HK$319,822,000 (4,949,490,000 Tenge) (the "**Tax Claim**"). In July 2006, KBM received a favourable decision from the Astana City court. In September 2006, KBM received a favourable decision from the Collegiums of Judges of Astana City. In December 2007, the General Prosecutor issued a protest against the court decision under this case in favour of the Tax Committee. On 16 January 2008, according to the resolution of the Supervisory Collegium of the Supreme Court, the protest of the General Prosecutor was partially satisfied, and an amount of HK$7,332,000 (113,464,000 Tenge) was accrued by KBM in the current year financial statements. As of 16 January 2008, this case was finally closed.

During 2007, KBM's books and records have been audited by the Kazakhstan tax authorities with regard to the calculation and accrual of withholding tax from the source of payment for the years 2002-2006. As a result, KBM received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional tax of HK$15,818,000 (244,790,000 Tenge) and penalty of HK$6,335,000 (98,032,000 Tenge).

In 2007, KBM's books have also been audited by the Kazakhstan tax authorities with regards to the calculation and accrual of excess profits tax for the years 2002-2004. As a result, KBM received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional tax of HK$761,292,000 (11,781,577,000 Tenge), fines of HK$380,646,000 (5,890,789,000 Tenge) and penalty of HK$445,278,000 (6,891,013,000 Tenge).

On 11 March 2008, KBM has appealed against the excess profits tax claims to Astana city court. The outcome of this appeal remains uncertain as of the date of this annual report. However, KBM believes that the case will be ruled in its favour.

KBM believes that it has paid or accrued all taxes that are applicable. Where practice concerning the provision of taxes is unclear, KBM has accrued tax liabilities based on management's best estimate. KBM's policy is to accrue contingencies in the accounting period in which a loss is deemed probable and the amount is reasonably determinable. Because of the uncertainties associated with the Kazakhstan tax system, the ultimate amount of taxes, penalties and interest, if any, may be in excess of the amount expensed to date and accrued as at 31 December 2007. Although such amounts are possible and may be material, it is the opinion of the KBM's management that these amounts are either not probable, not reasonably determinable, or both.

44. CONTINGENT LIABILITY

As at 31 December 2007, the Notes issued by CR Finance, a direct wholly-owned subsidiary of the Company, are irrevocably and unconditionally guaranteed by the Company.

HK$'000

45. OPERATING LEASE ARRANGEMENTS

At 31 December 2007, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2007	2006
Within one year	**15,829**	12,883
In the second to fifth years, inclusive	**14,389**	16,803
Beyond five years	**949**	9,848
	31,167	39,534

46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, the Group had the following capital expenditure commitments:

	Group	
	2007	2006
Contracted, but not provided for:		
Capital expenditure in respect of infrastructure and acquisition of property, plant and equipment	**514,872**	—
Authorised, but not contracted for:		
Minimum work programme for the year 2008	**855,693**	—

In addition, the Group's share of the jointly-controlled assets' own capital commitments, which are not included in the above, is as follows:

	Group	
	2007	2006
Contracted, but not provided for		
Capital expenditure in respect of infrastructure and acquisition of property, plant and equipment	**200,290**	27,445

Save as the aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2006: Nil).

HK$'000

47. 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)

	Notes	Group 2007	2006
Fellow subsidiaries:			
Sale of products	(i)	**1,919,389**	1,378,446
Related companies:			
Sale of products	(i)	**45,676**	—
Purchases of goods	(ii)	**84,130**	—
Minority shareholder:			
Sale of products	(i)	**3,294**	—

(i) The sales were made on normal commercial terms and conditions offered to the major customers of the Group.

(ii) The purchase from the related companies were made according to the published prices and conditions offered by the related companies to their major customers.

(b) Interest income from CITIC Group

During the year ended 31 December 2007, the Group received interest income from CITIC Group on earnest money (note 23) relating to the investment in the RNL Group which amounted to HK$67,600,000. This amount was used to pay the interest incurred by the Group on bank loans to finance the payment of the earnest money to CITIC Group. The net interest income of HK$3,096,000, after netting off the related bank interest expense of HK$64,504,000, was recorded as interest income in the consolidated income statement (note 5).

(c) Warranty income resulting from the conversion of 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 loss of HK$19,412,000 suffered by the Company in respect of the conversion of the Dagang Participating Interest by Richfirst Holdings Limited into Ivanhoe Shares. As a result of a delay in conversion, a loss arose from the reduction in the number of Ivanhoe Shares converted due to the appreciation in the price of Ivanhoe Shares 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 25). The outstanding amount was settled in 2007.

HK$'000

47. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (continued)

(d) During the year, the Group has paid rental charges of HK$2,563,000 (2006: HK$2,814,000) to 99 King Street Property Management Pty. Ltd., a subsidiary of CITIC Group.

(e) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had an outstanding balance due to its minority shareholder of HK$38,174,000 in 2006. Details of the advances are included in note 33 to the financial statements.

(ii) Details of the Group's receivables from its fellow subsidiary, related companies and the ultimate holding company of HK$1,516,000 and HK$51,000 (2006: HK$235,785,000 and HK$2,066,000), HK$119,600,000 (2006: HK$51,486,000) and nil (2006: HK$34,320,000), respectively, as at the balance sheet date, are included in notes 27 and 25 to the financial statements.

(iii) Details of the Group's loans from the Company's former minority sharesholders, minority shareholders and the ultimate holding company are included in note 34 to the financial statements.

48. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

2007 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Available-for-sale financial assets	Total
Available-for-sale investments	—	—	201,206	201,206
Accounts receivables	—	1,619,666	—	1,619,666
Financial assets included in prepayments, deposits and other receivables	—	67,359	—	67,359
Loan receivable	—	21,615	—	21,615
Equity investments at fair value through profit or loss	2,430	—	—	2,430
Derivative financial instruments	8,608	—	—	8,608
Due from related companies	—	119,600	—	119,600
Cash and bank balances	—	2,074,457	—	2,074,457
	11,038	3,902,697	201,206	4,114,941

HK$'000

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2007 **Group**

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Due to related companies	—	9,674	9,674
Accounts payable	—	613,991	613,991
Financial liabilities included in accrued liabilities and other payables	—	101,933	101,933
Derivative financial instruments	189,122	—	189,122
Bank and other loans	—	4,202,104	4,202,104
Bond obligations	—	7,992,859	7,992,859
	189,122	12,920,561	13,109,683

2006 **Group**

Financial assets

	Financial assets at fair value through profit or loss – held for trading	Loans and receivables	Available-for-sale financial assets	Total
Available-for-sale investments	—	—	845,936	845,936
Accounts receivables	—	1,252,081	—	1,252,081
Financial assets included in prepayments, deposits and other receivables	—	12,284	—	12,284
Loan receivable	—	38,942	—	38,942
Equity investments at fair value through profit or loss	1,974	—	—	1,974
Derivative financial instruments	16,380	—	—	16,380
Due from related companies	—	51,486	—	51,486
Due from the ultimate holding company	—	34,320	—	34,320
Cash and bank balances	—	850,744	—	850,744
	18,354	2,239,857	845,936	3,104,147

HK$'000

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2006 — **Group**

Financial liabilities

	Financial liabilities at fair value through profit or loss – held for trading	Financial liabilities at amortised cost	Total
Accounts payable	—	533,788	533,788
Financial liabilities included in accrued liabilities and other payables	—	14,263	14,263
Derivative financial instruments	327,983	—	327,983
Due to a minority shareholder	—	38,174	38,174
Bank and other loans	—	3,802,562	3,802,562
	327,983	4,388,787	4,716,770

Company

Financial assets

	2007 Loans and receivables	2006 Loans and receivables
Due from subsidiaries	**6,009,896**	2,822,924
Financial assets included in prepayments, deposits and other receivables	**3,119**	2,672
Bank balances	**747,114**	22,690
	6,760,129	2,848,286

Company

Financial liabilities

	2007 Financial liabilities at amortised cost	2006 Financial liabilities at amortised cost
Due to subsidiaries	**370,128**	1,716
Financial liabilities included in accrued liabilities and other payables	**25,192**	73
Bank loans, unsecured	**1,170,000**	1,513,200
	1,565,320	1,514,989

HK$'000

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, bond obligations, 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 accounts receivable and accounts payable, 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 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 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 rate costs using a mix of fixed and variable rate debts with respect to the prevailing interest rate environment. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, 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 swaps are designed to hedge the underlying debt obligations. Long-term notes issued at fixed coupon expose the Group to fair value interest rate risk. At 31 December 2007, after taking into account the effect of the interest rate swaps, 68% (2006: 9%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably determined possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's and the Company's equity.

	Group			Company	
	Increase/ (decrease) in basis points %	Increase/ (decrease) in profit before tax	Increase/ (decrease) in equity	Increase/ (decrease) in basis points %	Increase/ (decrease) in equity
2007					
US$	**(1)**	**(1,298)**	**(1,298)**	**(1)**	**79**
US$	**1**	**1,298**	**1,298**	**1**	**(79)**
2006					
US$	(1)	24	24	(1)	(379)
US$	1	(24)	(24)	1	379

HK$'000

49. 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 will assess the respective exposure of each of its operating units and enter into an appropriate amount of forward contracts to hedge that part of the exposure. 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 also the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably determined possible change in the United States dollar exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in US$ rate %	Increase in profit before tax	Increase/ (decrease) in equity
2007			
If US$ weakens against A$	**(10)**	**14,023**	**(61,348)**
If US$ strengthens against A$	**10**	**(11,472)**	**50,078**
2006			
If US$ weakens against A$	(10)	33,724	(26,799)
If US$ strengthens against A$	10	(27,601)	23,009

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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, other receivables 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. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by industry sector. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's accounts receivable are widely dispersed in different sectors and industries.

Further quantitative data in respect of the Group's exposure to credit risk arising from accounts receivable are disclosed in note 27 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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. The Group generally seeks to keep minimal cash balances and the surplus is used to extinguish debt to reduce financing costs and improve return to shareholders of the Company. 21.3% of the Group's debts would mature in less than one year as at 31 December 2007 (2006: 41.8%) based on the carrying value of borrowings reflected in the financial statements.

HK$'000

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows:

Group

2007	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Due to related companies	9,674	—	—	—	—	9,674
Accounts payable	581,630	15,534	16,827	—	—	613,991
Financial liabilities included in accrued liabilities and other payables	—	101,933	—	—	—	101,933
Derivative financial instruments	—	—	29,981	113,903	45,238	189,122
Bank and other loans	—	—	2,238,916	1,659,214	303,974	4,202,104
Bond obligations	—	—	356,868	—	7,635,991	7,992,859
	591,304	117,467	2,642,592	1,773,117	7,985,203	13,109,683

2006	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Accounts payable	455,696	58,416	19,676	—	—	533,788
Financial liabilities included in accrued liabilities and other payables	—	14,263	—	—	—	14,263
Derivative financial instruments	—	—	157,170	84,299	86,514	327,983
Due to a minority shareholder	38,174	—	—	—	—	38,174
Bank and other loans	—	—	1,588,022	2,086,670	127,870	3,802,562
	493,870	72,679	1,764,868	2,170,969	214,384	4,716,770

HK$'000

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the balance sheet date was as follows: (continued)

Company

2007	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Due to subsidiaries	370,128	—	—	—	—	370,128
Financial liabilities included in accrued liabilities and other payables	25,192	—	—	—	—	25,192
Bank loans, unsecured	—	—	234,000	936,000	—	1,170,000
	395,320	—	234,000	936,000	—	1,565,320

2006	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Over 5 years	Total
Due to subsidiaries	1,716	—	—	—	—	1,716
Financial liabilities included in accrued liabilities and other payables	73	—	—	—	—	73
Bank loans, unsecured	—	343,200	—	1,170,000	—	1,513,200
	1,789	343,200	—	1,170,000	—	1,514,989

HK$'000

49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 2006.

The Group monitors capital using a gearing ratio, which is total debt divided by the total capital. The Group's current objective is to gradually lower the gearing ratio to below 100%. Total debt includes bank and other loans and bond obligations. Capital includes equity attributable to shareholders of the Company. The gearing ratios as at the balance sheet dates were as follows:

	Group	
	2007	2006
Bank and other loans	**4,202,104**	3,802,562
Bond obligations	**7,992,859**	—
Total debt	**12,194,963**	3,802,562
Capital	**6,071,463**	3,225,343
Gearing ratio	**200.9%**	117.9%

50. COMPARATIVE AMOUNTS

As further explained in notes 21 and 41(e) to the financial statements, certain opening and prior year adjustments have been made. In addition, reclassification adjustment has been made to reduce revenue and cost of sales in 2006 by HK$668,267,000 to reflect the substance of a financing arrangement relating to sale and repurchase of aluminium ingot, and certain comparative amounts have been restated to conform with the current year's presentation and accounting treatment.

51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 18 April 2008.

HK$'000

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2007	2006 (restated)	2005	2004	2003
Revenue	**10,007,656**	6,835,161	5,786,386	3,610,791	24,535
Profit/(loss) before tax	**731,012**	316,189	342,157	59,725	(52,005)
Tax	**(209,630)**	(70,152)	(110,642)	(52,322)	—
Profit/(loss) for the year	**521,382**	246,037	231,515	7,403	(52,005)
Attributable to:					
Shareholders of the Company	**282,777**	200,815	221,703	4,772	(52,005)
Minority interests	**238,605**	45,222	9,812	2,631	—
	521,382	246,037	231,515	7,403	(52,005)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December				
	2007	2006 (restated)	2005	2004	2003
Non-current assets	**24,897,231**	4,373,701	3,080,713	2,699,246	94,770
Current assets	**5,877,734**	4,954,660	2,939,314	2,999,004	1,135,268
Total assets	**30,774,965**	9,328,361	6,020,027	5,698,250	1,230,038
Current liabilities	**4,436,425**	2,854,539	1,437,385	1,369,385	47,686
Non-current liabilities	**19,178,981**	2,968,733	1,615,235	1,672,332	11,862
Total liabilities	**23,615,406**	5,823,272	3,052,620	3,041,717	59,548
Minority interests	**1,088,096**	279,746	25,634	19,693	—
	6,071,463	3,225,343	2,941,773	2,636,840	1,170,490

Reserve Quantities Information

PROVEN OIL RESERVES (UNAUDITED)

	Indonesia	PRC	Kazakhstan	Total
As at 1 January 2007	2.5	—	—	2.5
Acquisition of subsidiaries	—	5.7	170.8	176.5
Revision	1.8	—	—	1.8
Production	(0.7)	—	(0.3)	(1.0)
As at 31 December 2007	3.6	5.7	170.5	179.8

The above figures represent the Group's net interest in the reserves held through subsidiaries and joint ventures.