# BIGGER, STRONGER AND READY TO GROW

2010 ANNUAL REPORT

五礦資源有限公司
MINMETALS RESOURCES LIMITED


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Processing operations at Century, Queensland.

2010 ANNUAL REPORT

## CONTENTS

Concentrate loading at Golden Grove, Western Australia.
Aluminium coils at North China Aluminium, Zhuozhou, China.

# GROWING A GLOBAL BUSINESS

Minmetals Resources, with the acquisition of MMG, has transformed itself into a significant upstream diversified base metals company. Minmetals Resources is set to become bigger and more profitable by maximising its returns from discovering, acquiring, developing and sustainably operating resource projects around the world. Minmetals Resources is now one of the world's largest producers of zinc and a substantial producer of copper, lead, gold and silver.

**Mining operations at Sepon, Lao PDR.**
**Finished copper rod at Changzhou Jinyuan Copper, Changzhou, China.**

# GROWING A STRONGER FUTURE

In the short term, the acquisition of MMG has increased cash flow and profitability. Long term vision is for ambitious growth led by an experienced management team. Minmetals Resources will now focus its growth on becoming an international, diversified, upstream base metals producer with copper, zinc, lead, nickel and alumina/bauxite production. The company is well positioned for strong growth in line with this strategy.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Chairman**
LI Fuli (Non-Executive Director)

**Vice Chairman**
HAO Chuanfu (Executive Director)

**Executive Directors**
Andrew MICHELMORE
(Chief Executive Officer)

David LAMONT
(Chief Financial Officer)

LI Liangang

**Non-Executive Directors**
JIAO Jian

XU Jiqing

WANG Lixin

**Independent Non-Executive Directors**
TING Leung Huel, Stephen, FCCA, FCPA (Practising), ACA, FTIHK

LOONG Ping Kwan

Peter CASSIDY

## AUDIT COMMITTEE

**Chairman**
TING Leung Huel, Stephen, FCCA, FCPA (Practising), ACA, FTIHK

**Members**
XU Jiqing

LOONG Ping Kwan

Peter CASSIDY

## REMUNERATION AND NOMINATION COMMITTEE

**Chairman**
Peter CASSIDY

**Members**
JIAO Jian

WANG Lixin

TING Leung Huel, Stephen, FCCA, FCPA (Practising), ACA, FTIHK

LOONG Ping Kwan

## SAFETY, HEALTH, ENVIRONMENT AND COMMUNITY COMMITTEE

**Chairman**
Peter CASSIDY

**Members**
Andrew MICHELMORE

JIAO Jian

## DISCLOSURE COMMITTEE

**Members**
Andrew MICHELMORE

David LAMONT

Nick MYERS

Bruce LOVEDAY

LEUNG Suet Kam, Lucia, FCIS, FCS

## COMPANY SECRETARY

LEUNG Suet Kam, Lucia, FCIS, FCS

## LEGAL ADVISER

Deacons, Hong Kong

## AUDITOR

PricewaterhouseCoopers
Certified Public Accountants

## SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## PRINCIPAL BANKERS

Bank of China Limited

China Development Bank Corporation

CITIC Bank International Limited

Industrial and Commercial Bank of China Limited

Standard Chartered Bank (Hong Kong) Limited

Westpac Banking Corporation

## REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

12th Floor, China Minmetals Tower
79 Chatham Road South
Tsimshatsui, Kowloon
Hong Kong

## MMG HEAD OFFICE

Level 23, 28 Freshwater Place
Southbank Victoria 3006
Australia

## WEBSITES

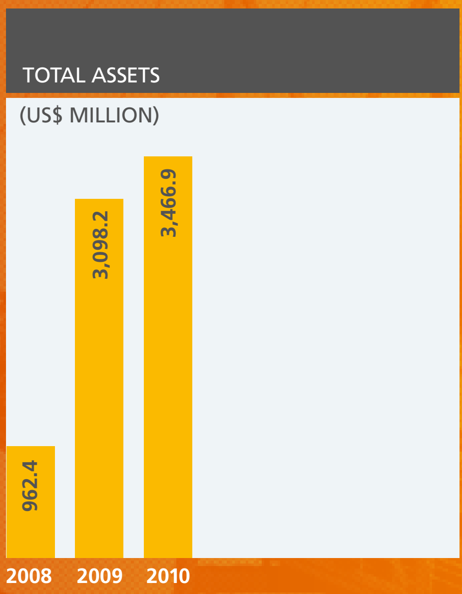
www.minmetalsresources.com
www.mmg.com

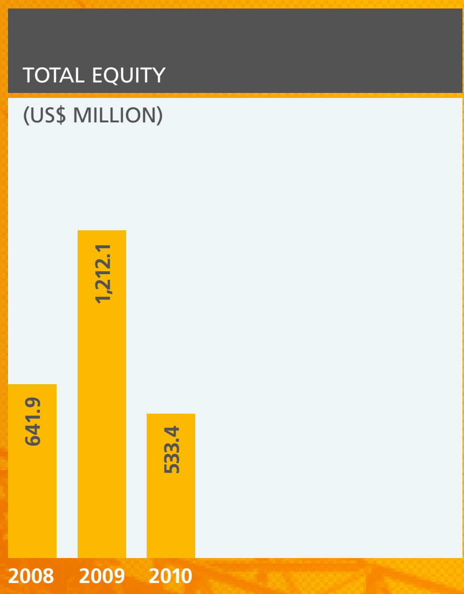
## SHARE LISTING

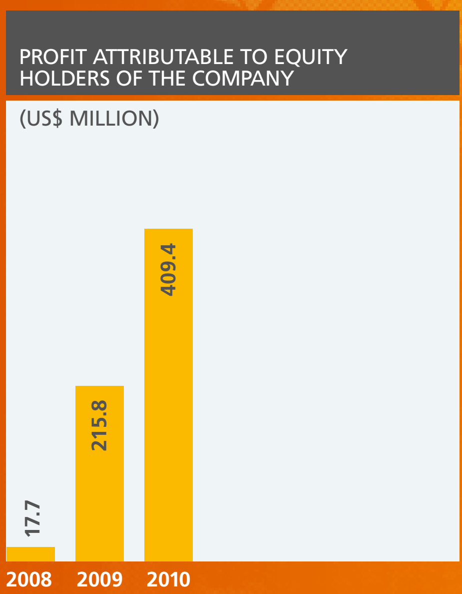
The Stock Exchange of Hong Kong Limited
Stock Code: 1208

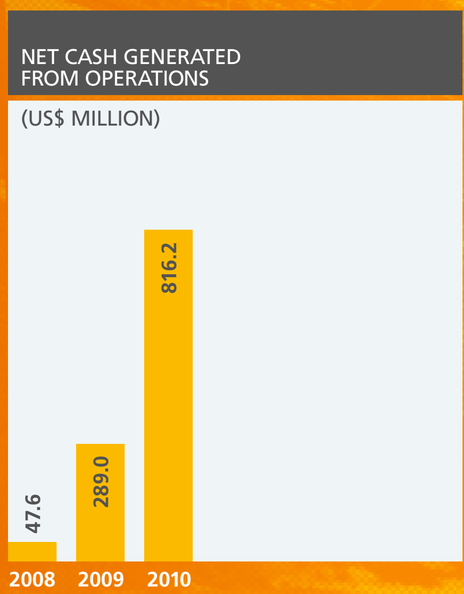
***Additional Shareholder Information***

*The Chinese version of the Annual Report is prepared based on the English version. If there is any inconsistency between the English and Chinese version of the 2010 Annual Report, the English text shall prevail.*




# FINANCIAL HIGHLIGHTS

# CHAIRMAN'S REVIEW

## RESULTS

On 31 December 2010, following overwhelming support from shareholders at the Minmetals Resources Limited (the Company) extraordinary general meeting (EGM) on 9 December, the Company completed the acquisition of the Minerals and Metals Group (MMG) business from China Minmetals Non-Ferrous Metals Company Limited (CMN). The Company's reported consolidated financial results for 2010 include MMG's performance and thus reflect both the past year and also the exciting future facing the Company.

Overall, the Company generated net profit after tax of US$430.4 million on revenues of US$3.6 billion. The Chief Executive Officer's Report will analyse this excellent result in more detail.

## BOARD AND SENIOR MANAGEMENT

Following the acquisition of MMG, we made a number of changes to both our Board of Directors and senior management.

Mr Andrew Michelmore and Mr David Lamont joined the Board as Executive Directors.

Mr Michelmore has been appointed as Chief Executive Officer (CEO) of the Company, and Mr Lamont as the Chief Financial Officer (CFO). Mr Jiao Jian, President of CMN, joined the Board as a Non-Executive Director, and Dr Peter Cassidy also joined the Board, as an Independent Non-Executive Director.

Mr Hao Chuanfu, formerly President of the Company, remains an Executive Director and has also been appointed as the Vice-Chairman of the Board.

Mr Li Dongsheng, an Independent Non-Executive Director, resigned from the Board, as have Madame Shen Ling and Mr Zong Qingsheng (both formerly Non-Executive Directors), and Mr Zhan Wei, formerly an Executive Director.

I wish to record my thanks to those Directors who have recently resigned for their contribution to the Company over the years and, in particular, for their efforts in enabling the acquisition of MMG to be completed.

## BUSINESS STRATEGY

In my letter that was included in the Shareholder Circular for the EGM last December, I invited shareholders to vote in favour of the acquisition of MMG in order to support the creation of a powerful new force in international resources mining, and to transform the Company from a commodities trading-focused group into a leading, international, diversified upstream base metals group.

With the support of shareholders and considerable effort from our management team, the transformation of the Company is now underway.

The Company has great aspirations and your Board and management believe that the decision to shift the focus of the Company's business upstream will enhance shareholder value over the years to come.

The Company has undertaken a strategic review of its businesses and has determined that certain assets are not core to its strategy. As such, all the businesses of MMR that are included in the Fabrication and Trading segments (not including the Mincenco bauxite joint venture in Jamaica) will be divested in an orderly manner during the course of 2011. A more detailed discussion of the plans for transforming the Company is presented in the CEO's Review.

## CAPITAL STRUCTURE

The Company funded the acquisition of MMG through a combination of cash, debt, and the issuance of new ordinary shares and perpetual sub-ordinated convertible securities (PSCS) to CMN. Immediately following the completion of the acquisition, CMN indirectly owned approximately 2.2 billion ordinary shares (approximately equal to 75% of the Company's expanded ordinary share base) and approximately 1.6 billion PSCS.

At the December EGM, shareholders also granted the Company a Specific Mandate to issue up to 2.7 billion new shares to raise up to US$1.6 billion for the purpose of repaying the debt incurred in acquiring MMG, and to provide a stronger funding base for the future (Specific Mandate). The Specific Mandate must be exercised by 31 July 2011.

CMN has publicly stated that it intends to maintain its ownership of the Company's ordinary shares at between 51% – 75% of issued ordinary shares and that, should the Company exercise some or all of the Specific Mandate, it would convert some or all of its PSCS to ensure its shareholding remained within the indicated range.

The Company intends to exercise some or all of the Specific Mandate before 31 July 2011, subject to market conditions. The Company has not yet determined the amount of capital it will seek to raise but, because of stronger cash flow resulting from improved commodity prices and good production levels, the capital to be raised is likely to be less than the amount mandated. In any event, the Company will undertake one capital raising only. If it does not exercise the full amount of the Specific Mandate, that unused portion will lapse.

## BUSINESS REVIEW

2010 was a challenging year for the Company's traditional businesses. Strong underlying operating conditions were largely offset by currency volatility and, in particular, a weak US dollar.

The MMG businesses, on the other hand, produced very strong financial results, reflecting very strong commodity prices (especially copper), tight cost control and production levels that equalled or exceeded forecasts.

The performance of all the businesses is analysed in more detail in this report.

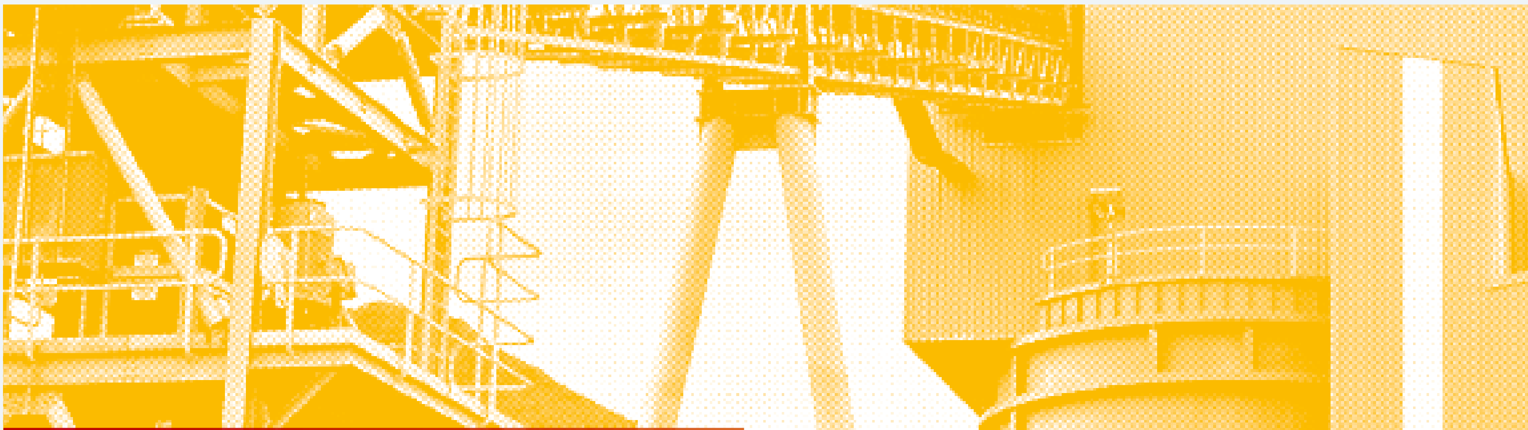
## OUTLOOK

The Company is ready to grow and create value for its shareholders. With the acquisition of MMG, we have taken a very important step in the transformation of the Company into an international, diversified, upstream base metals business. We have the strategic vision, the will and the management team to enable us to be successful in the dynamic upstream mining industry, and I look forward to reporting our progress to shareholders in the future.

On behalf of the Board, I would like to thank shareholders for their continuing loyalty and their support of the acquisition of MMG. All our employees deserve credit for their wholehearted commitment to the Company and, in particular, for their ability to continue to function effectively while taking on the additional burden of planning and executing the acquisition of MMG.

**LI FULI**
CHAIRMAN

Hong Kong, 28 March 2011



# CHIEF EXECUTIVE OFFICER'S REVIEW

## INTRODUCTION

As a result of acquiring MMG, the Company has commenced an exciting process of transformation, and I am honoured to have the opportunity to lead the Company as it realises its strategic objective of building an international, diversified, upstream base metals mining company.

The transformation of the Company will be further progressed during 2011 through:

- a program of strategic divestments of assets that are assessed as not being core to the Company's future;
- progressing existing development projects (including the Dugald River zinc/lead project in Queensland, Australia) that will build the Company's strength and earnings potential; and
- restructuring the Company's balance sheet and expanding its presence in global capital markets by executing some or all of the Specific Mandate to raise capital that was approved by shareholders at the EGM of 9 December 2010.

The Company will keep shareholders fully informed about developments as and when they occur throughout the year.

## RESULTS FOR 2010

As the acquisition of MMG was completed on 31 December 2010, the Company's financial results reflect the full year performance of the MMG assets, in addition to our existing assets. Please note that comparison of the Company's 2010 results to prior periods is difficult due to the substantial change that occurred to the Company's structure at the end of the year.

Earnings Before Interest and Tax for the year was US$560.0 million, and Net Profit After Tax for the year was US$430.4 million. After deducting profit attributable to non-controlling interests, Net Profit attributable to the Company shareholders was US$409.4 million.

This result was achieved on consolidated revenue of US$3,582.1 million and Earnings Before Interest, Tax Depreciation and Amortisation (EBITDA) of US$878.5 million. The results reflect a very strong performance delivered by the MMG assets.

## PERFORMANCE BY SEGMENT

The Company has defined seven key operating segments for the purpose of managing and reporting its results. The business of the Group before the acquisition of MMG is reported in two segments (Fabrication and Trading), while the MMG assets are reported in five segments comprising one for each of MMG's operating mines (Century, Sepon, Golden Grove, Rosebery) with all other activities (including exploration and projects under development) in a fifth segment.

The following table summarises financial performance by segment and in total for 2010:

| US$ MILLION | REVENUE* | EBITDA | EBIT |
|---|---|---|---|
| TRADING | 1,353.7 | 42.5 | 34.4 |
| FABRICATION | 259.5 | 13.7 | 4.1 |
| **TRADING AND FABRICATION OPERATIONS** | **1,613.2** | **56.2** | **38.5** |
| CENTURY | 711.4 | 356.2 | 136.7 |
| SEPON | 596.7 | 358.6 | 343.7 |
| GOLDEN GROVE | 391.3 | 192.4 | 155.6 |
| ROSEBERY | 220.5 | 104.5 | 78.8 |
| **MMG MINING OPERATIONS** | **1,919.9** | **1,011.7** | **714.8** |
| OTHER OPERATIONS | 49.0 | (189.4) | (193.3) |
| **GROUP** | **3,582.1** | **878.5** | **560.0** |

*Revenue includes revenue from external parties and from related parties.

Following a strategic review of its businesses, MMR has determined that certain assets are not core to its strategy. As such, the businesses that comprise the Fabrication and Trading segments (not including the Mincenco bauxite joint venture in Jamaica) will be divested in an orderly manner during the course of 2011. The Company expects to receive good prices for these businesses, and the proceeds will be used to further strengthen the balance sheet and provide further growth capacity.

In 2010, the MMG assets generated 53.6% of the Group's revenue and excluding the impact of business acquisition expenses of US$86.4 million, 93.9% of adjusted Group EBITDA of US$964.9 million and 93.8% of adjusted Group EBIT of US$646.4 million. The strong performance of the MMG assets was driven by three key factors:

- strong production volumes;
- effective cost control and site management; and
- rising commodity prices.

Because these were not owned by the Company in previous years, and because the Company is transforming itself into an international, diversified, upstream base metals company building on its MMG assets, it is appropriate to discuss the operating philosophies and standards, as well as the performance, of these assets in more detail.

## MMG

MMG acknowledges that its ability to produce outstanding performance is based on many factors, including its:

- commitment to achieving the highest standards in workplace safety and environmental management;
- relationships with all stakeholders, including employees, local communities, customers, suppliers, governments and investors;
- market awareness;
- focus on technical excellence; and
- preparedness to act quickly and decisively.

MMG is also a member of the International Council on Mining and Metals (ICMM) and adheres to the high standards of that organisation.

While all of these factors are critically important to the operation of a successful business, none is more important than workplace health and safety. The Company will do all it can to ensure our employees and contractors are not injured at work.

MMG is committed to this objective and, over the 2010 year, achieved reductions in both its Total Reportable Injury Frequency Rate (TRIFR) and its Lost Time Injury Frequency Rate (LTIFR). These internationally recognised measurement standards measure, respectively, the number of reportable injuries per million hours worked, and the number of injuries that result in the employee or contractor being unfit for work, per million hours worked.

Over the course of 2010, MMG's TRIFR fell from 6.3 to 4.7, and its LTIFR fell from 1.0 to 0.3. While both these results are promising, the Company will, and must strive for further improvements.

## CENTURY

The Century mine is located at Lawn Hill in Northern Queensland, Australia. It is a large, open pit zinc/lead/silver mine that in 2010 produced:

- 510,590 tonnes of zinc in concentrate;
- 38,793 tonnes of lead in concentrate; and
- 3,071,323 ounces of silver in concentrate.

Century's zinc production is equivalent to slightly over 4% of the world's annual zinc production, making it one of the world's top three zinc mines.

The ore mined at Century is processed into concentrate on site and then transferred as slurry 304 kilometres by pipeline to the Company's port facilities at Karumba on the Gulf of Carpentaria. From there it is exported principally to various smelters owned by Nyrstar in Australia, Europe and North America. Nyrstar has a life-of-mine contract over Century's production.

The ore body at Century appears to be discrete and, unless further discoveries of ore resources are made, Century's production will begin to decline from 2014.

## SEPON

The Company's Sepon operation is located in Savannakhet Province in the Lao People's Democratic Republic (Laos). Sepon is a highly prospective area, offering especially high grades of copper ore. Sepon comprises two distinct operations, where copper and gold are mined and processed separately.

In 2010, Sepon produced 64,241 tonnes of copper cathode and 104,547 ounces of gold.

Copper has been produced at Sepon since 2005 using a Solvent Extraction/Electro-Winning (SX/EW) process, with the output being copper cathode. The copper processing plant at Sepon has recently been upgraded to a nameplate capacity of 80,000 tonnes of cathode per annum.

Gold production at Sepon commenced in 2002. The initial gold oxide ore body is not expected to last long into the future, but the Company has a substantial resource of primary gold (gold sulphide). A preferred production process for handling the primary gold ore is still being defined and the Mineral Resource is therefore not yet able to be included in the Ore Reserves. However, the operation is confident that it will finalise a production approach for primary gold in the near future.

# CHIEF EXECUTIVE OFFICER'S REVIEW CONTINUED

Truck loading at Century, Queensland.

The copper produced at Sepon is mostly supplied to customers in Vietnam and Thailand, while the gold produced is shipped to the Perth Mint in Australia for refining.

Based on the current mine plan, the Sepon copper operation will continue until at least 2022.

## GOLDEN GROVE

Based in the mid-west of Western Australia, Golden Grove is a polymetallic mine producing zinc, lead, copper, gold and silver in concentrate form. In 2010, production levels achieved at Golden Grove were:

- 73,264 tonnes of zinc in concentrate;
- 33,525 tonnes of copper in concentrate;
- 7,746 tonnes of lead in concentrate;
- 36,304 ounces of gold in concentrate; and
- 1,902,539 ounces of silver in concentrate.

Golden Grove's output is typically sold into the spot market each year. The mine has healthy levels of Mineral Resources and a long history of converting Mineral Resources into Ore Reserves. The Company has demonstrated its confidence in the future of Golden Grove by investing in a new tailings storage facility that will add 15 years of storage capacity.

## ROSEBERY

Rosebery, on the West Coast of Tasmania in Australia, is a polymetallic mine that has operated continuously for 75 years. Based on the current mine plan, Rosebery will continue in operation until 2020, but its long history suggests that further extensions beyond this date may be possible.

In 2010, Rosebery produced:

- 86,271 tonnes of zinc in concentrate;
- 28,878 tonnes of lead in concentrate;
- 2,328 tonnes of copper in concentrate;
- 34,944 ounces of gold; and
- 2,519,052 ounces of silver.

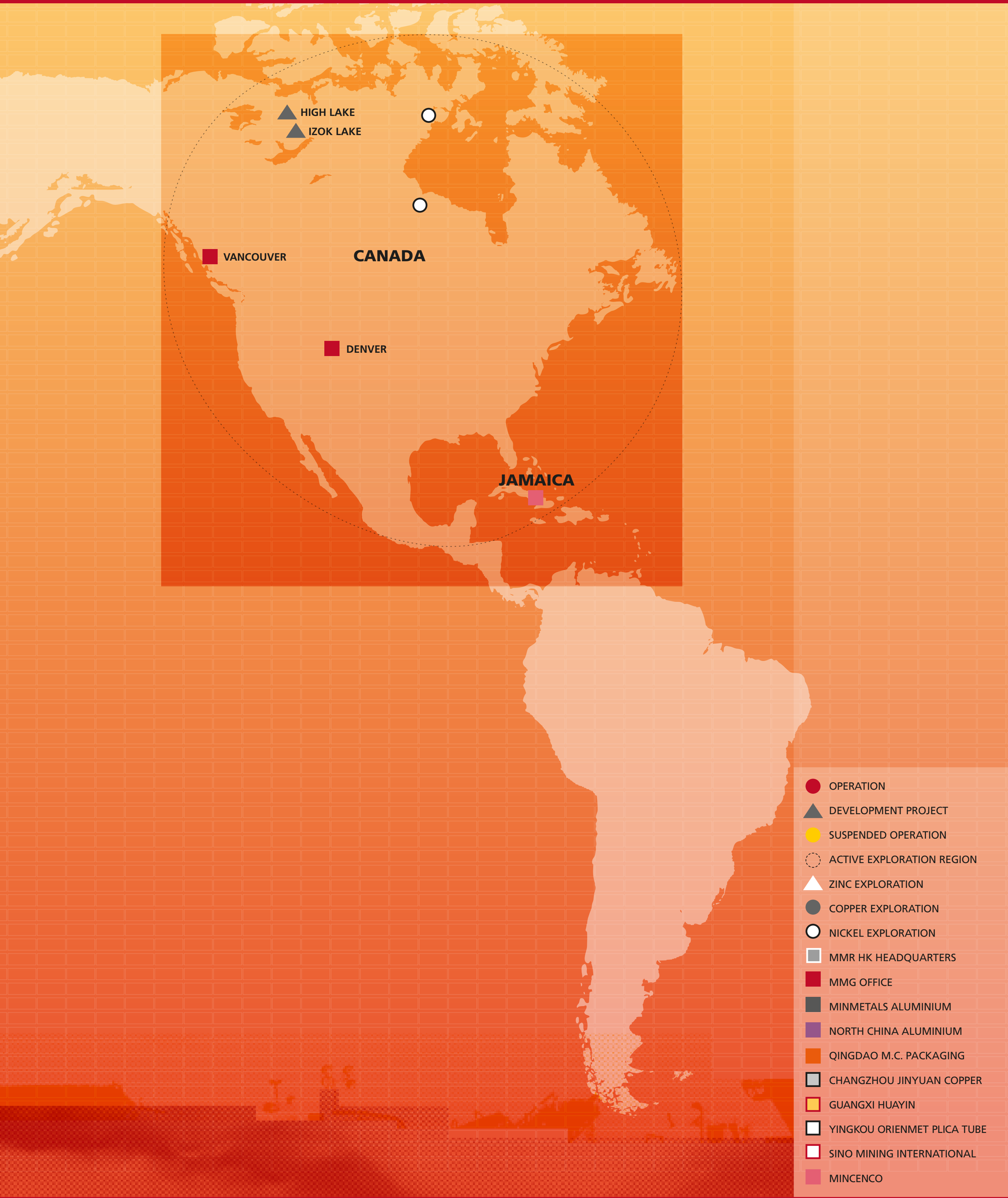
Rosebery's zinc and lead production is supplied under life-of-mine contracts to smelters owned by Nyrstar.

## CONCLUSION

In summary, 2010 was a very significant year for the Company. The Company performed very well and, through the acquisition of MMG, has begun a transformation process that will see it become a significant international, diversified, upstream base metals producer. I believe this is an exciting future for all shareholders and the management team and I look forward to pursuing the Company's strategic objectives and delivering increasing value to all shareholders.

**ANDREW MICHELMORE**
CHIEF EXECUTIVE OFFICER


# GROUP LOCATIONS


HIGH LAKE
IZOK LAKE
VANCOUVER
CANADA
DENVER
JAMAICA
OPERATION
DEVELOPMENT PROJECT
SUSPENDED OPERATION
ACTIVE EXPLORATION REGION
ZINC EXPLORATION
COPPER EXPLORATION
NICKEL EXPLORATION
MMR HK HEADQUARTERS
MMG OFFICE
MINMETALS ALUMINIUM
NORTH CHINA ALUMINIUM
QINGDAO M.C. PACKAGING
CHANGZHOU JINYUAN COPPER
GUANGXI HUAYIN
YINGKOU ORIENMET PLICA TUBE
SINO MINING INTERNATIONAL
MINCENCO

## MINMETALS ALUMINIUM

Minmetals Aluminium Company Limited (Minmetals Aluminium), a wholly-owned subsidiary of the Company, is principally engaged in the trading of alumina and aluminium ingot. In 1997, the Company entered into a 30-year alumina sourcing contract with Alcoa. Under this contract, Alcoa provides the Group with 400,000 tonnes of alumina per annum. Minmetals Aluminium imports alumina from various overseas suppliers and also sources alumina from Guangxi Huayin of which it owns a 33% equity interest. Minmetals Aluminium is one of the largest importers and suppliers of alumina in China. It has long-established business relationships with all major aluminium smelters in China.

### Operating Performance

Operating performance of the Group's trading business for 2009 and 2010 is summarised below:

| MINMETALS ALUMINIUM OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| EXTERNAL REVENUE (US$ MILLION) | | |
| ALUMINA | 727.4 | 370.0 |
| ALUMINIUM INGOT | 626.3 | 210.1 |
| EXTERNAL SALES VOLUME ('000 t) | | |
| ALUMINA | 2,135 | 1,340 |
| ALUMINIUM INGOT | 319 | 114 |
| OPERATING PROFIT (US$ MILLION) | 34.4 | 5.0 |

Rebound in alumina and aluminium ingot prices and demand gave rise to the improved result of the trading business in 2010.

## NORTH CHINA ALUMINIUM

North China Aluminium Company Limited (NCA), a 72.8%-owned subsidiary of the Company, is located in Zhuozhou, Hebei province. NCA is engaged in the production and sale of cold-rolled aluminium sheet, aluminium strip, aluminium coil, aluminium foil, hydrophilic aluminium foil, PS plate and aluminium building materials. Its products are widely used in the packaging, transportation, construction, home appliances and printing sectors. Its fully integrated facilities have an aluminium fabrication capacity of 80,000-100,000 tonnes per annum. The construction of the new *1850mm Super-thin, Wide and Compound Aluminium Foil Production Line Project* was completed in 2010 and added an annual production capacity of approximately 25,000 tonnes of aluminium foil.

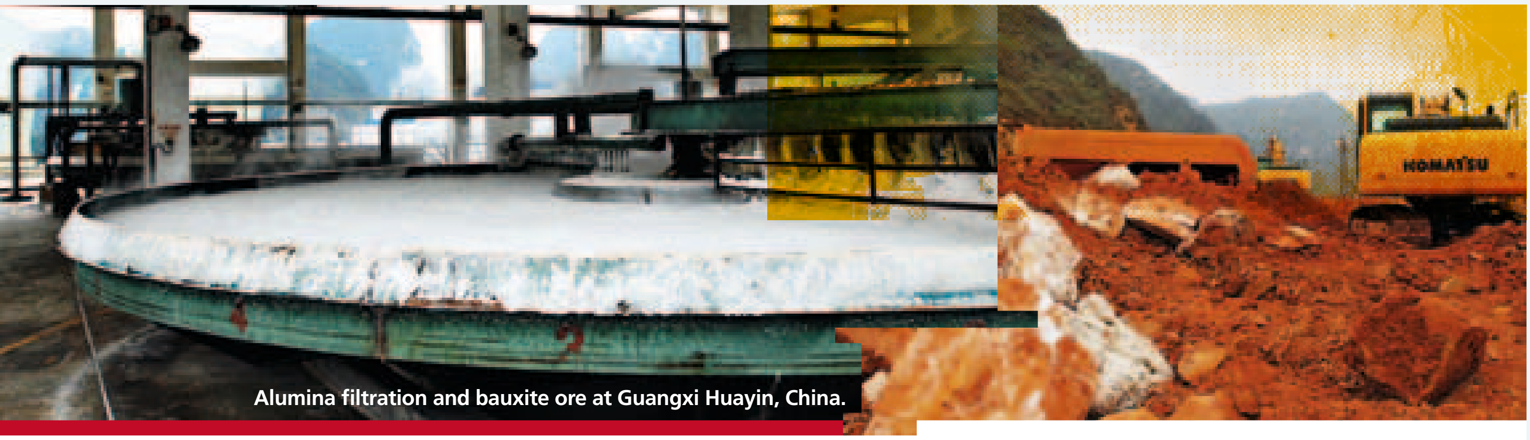
### Operating Performance

NCA's operating performance for 2009 and 2010 is summarised below:

| NORTH CHINA ALUMINIUM OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 259.5 | 183.2 |
| PRODUCTION VOLUME ('000 t) | 94 | 72 |
| SALES VOLUME ('000 t) | 94 | 74 |
| OPERATING PROFIT (US$ MILLION) | 4.1 | 5.6 |

The 2010 sales volume increased significantly, primarily as a result of increased production capacity and the recovery of export markets, along with the PRC government policy to stimulate internal consumption. However, lower profit was reported due to price competition as well as increased costs in both raw materials and staff.

# OPERATIONAL REVIEW
## CHINA OPERATIONS




Alumina filtration and bauxite ore at Guangxi Huayin, China.

## JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

## YINGKOU ORIENMET

Yingkou Orienmet Plica Tube Company Limited (Yingkou Orienmet) is a Sino-foreign equity joint venture owned 51% by the Company. Yingkou Orienmet, located in Yingkou City at Liaoning Province, is engaged in the production and sale of plica tubes (flexible conduits). The joint venture's products are widely used in the areas of construction, electrical engineering, electricity supply, railways, highways, petrochemicals, aviation and shipbuilding.

### Operating Performance

Yingkou Orienmet's operating performance for 2009 and 2010 is summarised below:

| YINGKOU ORIENTMET OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 1.9 | 2.2 |
| PRODUCTION VOLUME (km) | 824 | 932 |
| SALES VOLUME (km) | 875 | 1,026 |
| OPERATING LOSS (US$ MILLION) | (0.2) | (0.2) |

Revenue and sales volumes declined marginally in 2010 as a result of a deferral of orders from customers and the overall result was consistent with 2009.

## GUANGXI HUAYIN

Guangxi Huayin is a jointly-controlled entity owned 33% by the Company. It is one of a few integrated alumina plants with its own bauxite mine and is among the lowest-cost alumina refinery plants in China. Guangxi Huayin is located in Debao County in Guangxi Province and is co-invested by the Company, Guangxi Investment Group Company Limited and Aluminium Corporation of China Limited. It has a planned annual production capacity of 1.6 million tonnes of alumina and commenced its full operation in June 2008. The shareholders of Guangxi Huayin injected additional share capital in 2009 and early 2010 to finance construction of infrastructure and a technology enhancement project driving improvements in energy-saving, wastage reduction and production efficiency. All construction projects were finished in 2010.

### Operating Performance

Guangxi Huayin's operating performance for 2009 and 2010 is summarised below:

| GUANGXI HUAYIN OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 598.1 | 341.5 |
| PRODUCTION VOLUME ('000 t) | 1,802 | 1,319 |

Guangxi Huayin reduced production in 2009 in response to the sluggish alumina market. With the recovery of the aluminium market during 2010, full-scale production resumed. Higher utilisation of production capacity, further capacity added from the technology enhancement project and the increase in alumina price, were key driving factors to the significantly improved result in 2010.

## CHANGZHOU JINYUAN

Changzhou Jinyuan Copper Company Limited (Changzhou Jinyuan) is a jointly-controlled entity owned 36.29% by the Company. Changzhou Jinyuan, located in the south-east economic and technology development zone of Changzhou is a high-quality, world-class copper rod and wire producer. To further improve product quality and expand market share, Changzhou Jinyuan has completed the construction of an advanced copper rod production line with a 300,000-tonne annual production capacity. The total investment cost of this project is approximately US$30 million. New facilities commenced production in mid-2010.

### Operating Performance

Changzhou Jinyuan's operating performance for 2009 and 2010 is summarised below:

| CHANGZHOU JINYUAN OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 1,565.8 | 958.6 |
| PRODUCTION VOLUME ('000 t) | 231 | 208 |

Sales of copper rods and wire in 2010 increased significantly due to the improved copper price. In addition, the new production line, which commenced full operation by mid-2010, increased production capacity of the plant.

## MINCENCO

Mincenco Limited (Mincenco) is a jointly-controlled entity of the Company owned 51% by Minmetals Aluminium and 49% by Century Aluminium Company. Mincenco was established to explore the potential of developing a bauxite mine and an associated alumina refining facility in Jamaica. The initial concept study was completed in 2007 and a full feasibility study for a bauxite mine and a new alumina refinery with a capacity of approximately 1.5 million tonnes per annum of alumina is under consideration.

### Operating Performance

Mincenco operating performance for 2009 and 2010 is summarised below:

| MINCENCO OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| SHARE OF POST-TAX LOSS ATTRIBUTABLE TO THE GROUP (US$ MILLION) | – | (0.2) |

## QINGDAO M.C.

Qingdao M.C. Packaging Limited (Qingdao M.C.) is a Sino-foreign equity joint venture owned 20% by the Company. It is located in Qingdao City, Shandong Province and is engaged in the manufacture and sale of aluminium cans in the PRC.

### Operating Performance

Qingdao M.C.'s operating performance for 2009 and 2010 is summarised below:

| QINGDAO M.C. OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 39.1 | 40.0 |
| PRODUCTION VOLUME (MILLION CANS) | 560 | 496 |

Although sales and production volumes grew at a satisfactory rate in 2010, Qingdao M.C. suffered from a margin squeeze as a result of intensifying competition in the nearby region.

## SINO NICKEL

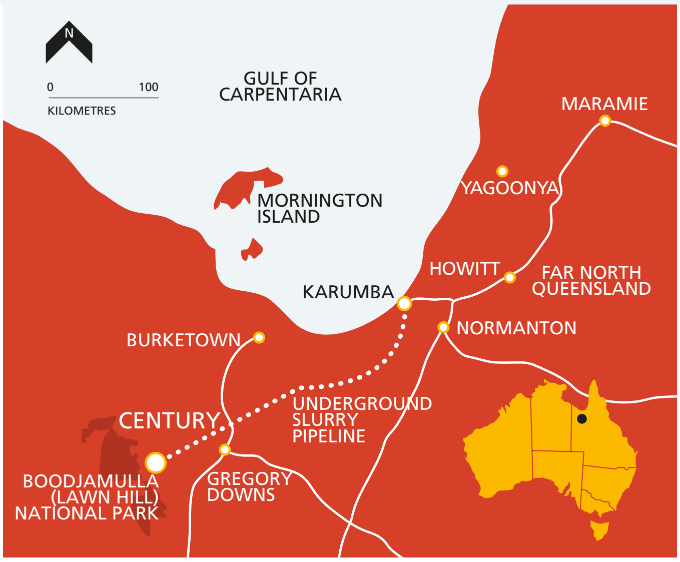
Sino Nickel Pty Ltd (Sino Nickel) is principally engaged in the trading of nickel concentrate, a long-term purchase agreement with Savannah Nickel Mines and the matching off-take agreement with Jinchuan Group Limited. The Company has a 40% equity interest in Sino Nickel via Minmetals Aluminium and Sino Mining International Limited.

### Operating Performance

Sino Nickel's operating performance for 2009 and 2010 is summarised below:

| SINO NICKEL OPERATING STATISTICS | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 127.5 | 103.2 |
| PRODUCTION VOLUME ('000 t CONCENTRATE) | 98 | 112 |

With metal prices further recovering from the impact of the global financial crisis and a management focus on cost control, Sino Nickel managed to achieve a 45% increase in after-tax profit from 2009.




Loading ore at Century, Queensland.

## OVERVIEW

Century mine is Australia's largest open pit zinc mine, located about 250 kilometres north-west of Mount Isa, with its shipping facility located at Karumba, on the Gulf of Carpentaria. Century concentrates are sold to smelters in Europe, Australia, PRC and North America.

Zinc, lead and silver are produced at Century and the current defined ore deposit takes production to 2015. The Stage 8 cutback commenced in late 2009 and is now complete. Stage 8 of the mine will reach the ultimate pit limit with the northern block providing the majority of the ore for mining over the remaining life of the mine. The deposit deepens to the north and the pit will reach a depth of around 345 metres at its deepest point. Mining operations will conclude with the mining of Stage 9, which will extract the remaining economic ore in the southern block. The plant is operated to maximise zinc output. It has consistently treated in excess of 5.6 million tonnes per annum of ore.

## OPERATING PERFORMANCE

2010 was a strong year for production at Century, following interruptions in prior periods caused by extreme weather and the failure of the Karumba pipeline.

### Century Operating Statistics

| YEAR ENDED 31 DECEMBER | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 711.4 | 405.9 |
| ORE MINED ('000 t) | 5.3 | 5.1 |
| ORE MILLED ('000 t) | 5.2 | 4.2 |
| ZINC ORE GRADE (%) | 12.2 | 11.0 |
| LEAD ORE GRADE (%) | 1.2 | 0.6 |
| SILVER ORE GRADE (g/t) | 25.0 | 12.0 |
| ZINC RECOVERY (%) | 80.3 | 78.2 |
| LEAD RECOVERY (%) | 51.2 | 49.2 |
| SILVER RECOVERY (%) | 68.5 | 54.6 |
| ZINC CONCENTRATE PRODUCTION ('000 t) | 879.0 | 629.0 |
| LEAD CONCENTRATE PRODUCTION ('000 t) | 38.8 | 15.7 |
| **CONTAINED METAL** | | |
| ZINC ('000 t) | 510.6 | 360.0 |
| LEAD ('000 t) | 38.8 | 10.0 |
| SILVER ('000 oz) | 3,071.3 | 953.0 |

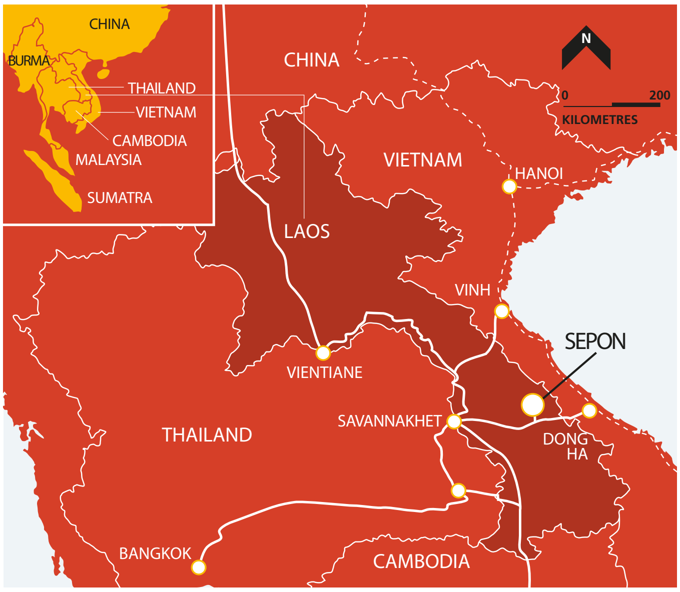
Note: 2009 figures are for the Full Year including the period prior to ownership by MMG.

Production guidance for 2011 is 490,000-510,000 tonnes of zinc metal in concentrate.

## EXPLORATION

An 18-month diamond drilling exploration program during 2009 and 2010 failed to identify new zinc deposits within the Century mine or adjacent exploration tenements.

NOTE: The operating performance tables appearing in this section for the MMG mining operations include the 2009 Full Year performance figures for comparison with the 2010 Full Year.




The Sepon copper and gold operations are located immediately adjacent to each other 40 kilometres north of the town of Sepon, in the Savannakhet Province, Laos. The overall project area totals 1,250 square kilometres.

The Lao Government holds a 10% interest in the Sepon project with the Group owning the other 90%.

## COPPER

### OVERVIEW

The Sepon copper operation commenced production in 2005 and is the most modern and technically sophisticated plant of its kind in Asia. Sepon copper cathode is sold principally to manufacturers of cable, wire and tube in South East Asian countries close to Laos. The combination of the quality of Sepon's copper product, the project's proximity to customers and the reliability of supply typically attracts a premium over the London Metals Exchange (LME) copper price.

### EXPANSION AND EXPLORATION

The Sepon copper expansion project was completed and commissioned in December 2010. The enlarged processing facility increases nameplate capacity to 2 million tonnes of ore per annum, lifting annual copper cathode production capacity to 80,000 tonnes.

A number of conceptual exploration targets were tested around Padan, Thengkham and Kaban targeting copper rich porphyries.

While no significant porphyry copper mineralisation was encountered, a number of copper-rich skarn zones were drilled at Thengkham. Also, the alteration and quartz stockwork vein arrays at Padan are extensive, warranting follow-up work in 2011.

### OPERATING PERFORMANCE

Sepon copper's operating performance for the years ended 31 December 2009 and 31 December 2010 is summarised below:

**Sepon Copper Operating Statistics (100% basis)**

| YEAR ENDED 31 DECEMBER | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 468.4 | 330.8 |
| ORE MINED ('000 t) | 2,538.7 | 2,418.0 |
| ORE MILLED ('000 t) | 1,337.5 | 1,405.0 |
| COPPER MILLED GRADE (%) | 5.4 | 5.4 |
| COPPER CATHODE PRODUCED ('000 t) | 64.2 | 67.6 |

Note: 2009 figures are for the Full Year including the period prior to ownership by MMG.

# OPERATIONAL REVIEW
# SEPON

Open pit mining, Sepon, Lao PDR.

## GOLD

### OVERVIEW

The Sepon gold project yielded its first gold and silver doré in December 2002. In early 2005, an expansion of the original gold processing facility was completed, doubling the capacity of the gold processing plant to 2.5 million tonnes of ore per annum.

Since the commencement of operations, the Sepon gold operation has produced over one million ounces of gold through open pit mining and conventional treatment of oxide gold ore.

The gold doré bars produced are transported by air freight to a refinery in Australia where they are refined into gold bullion.

Based on current oxide reserves, the mine life is not expected to extend much beyond 2012, although it could be extended if MMG delineates additional oxide resources. Studies are ongoing to assess the opportunity to process the larger primary gold resource.

### EXPANSION AND EXPLORATION

In 2010, oxide gold deposits at Khanong, Phavat North, Phabing, Namkok West, Thengkham South and Thengkham East were developed to a stage where they will contribute towards extending the mine life for gold to 2012.

Primary gold exploration at Sepon resumed during the year. The Dao Leuk primary gold prospect was targeted along strike from previous intersections and some promising results were returned. The prospect is now over one kilometre long. A new primary gold discovery was made north of the Khanong pit, on the Muang Luang fault zone.

### OPERATING PERFORMANCE

Sepon gold's operating performance for the years ended 31 December 2009 and 31 December 2010 is summarised below:

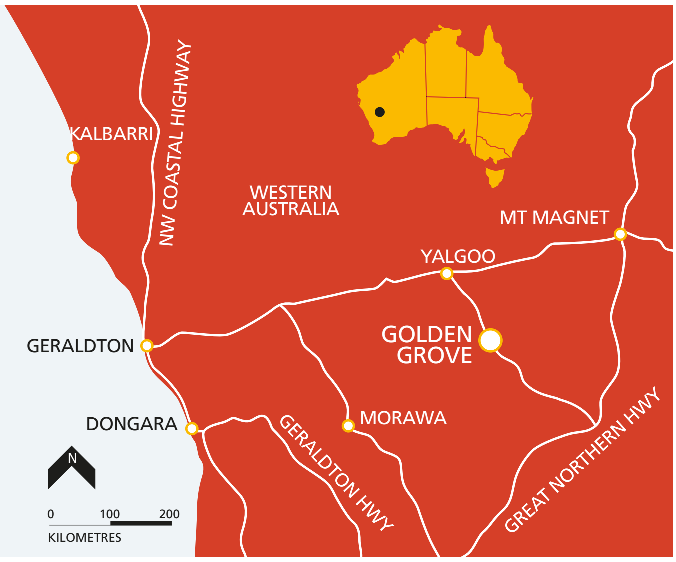
**Sepon Gold Operating Statistics (100% basis)**

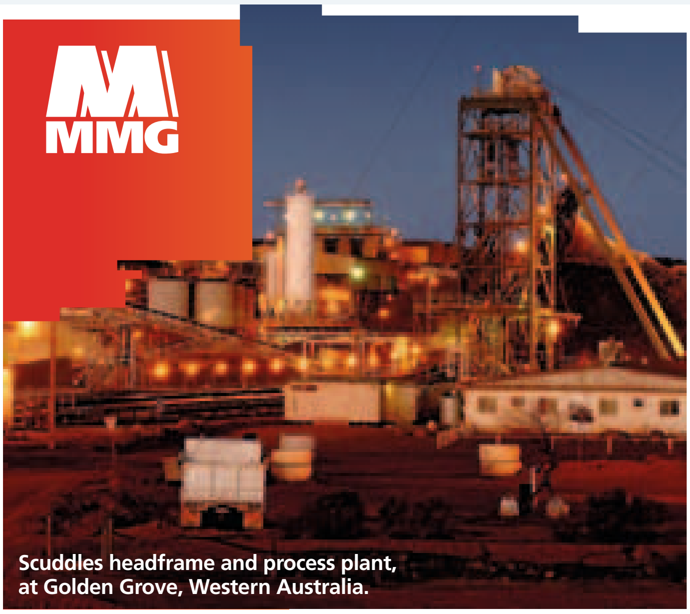
| YEAR ENDED 31 DECEMBER | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 128.3 | 105.1 |
| ORE MINED ('000 t) | 1,915.2 | 2,830.0 |
| ORE MILLED ('000 t) | 2,337.8 | 2,468.0 |
| GOLD MILLED GRADE (g/t gold) | 1.8 | 1.7 |
| GOLD PRODUCED ('000 oz) | 104.5 | 105.0 |

Note: 2009 figures are for the Full Year including the period prior to ownership by MMG.

In 2011, it is expected that Sepon will produce between 75,000-80,000 tonnes of copper cathode and between 70,000-85,000 ounces of gold.

# OPERATIONAL REVIEW
# GOLDEN GROVE




Scuddles headframe and process plant, at Golden Grove, Western Australia.

## OVERVIEW

### Golden Grove is an underground base and precious metals mine that produces concentrates of zinc, copper and lead/precious metals.

It is located approximately 450 kilometres north-east of Perth and 280 kilometres east of Geraldton in Western Australia.

The operation includes the Gossan Hill and Scuddles underground mines, a treatment plant and the surrounding tenement package covering 12,306 hectares.

The zinc concentrate, copper concentrate and high precious metal concentrates produced at Golden Grove are exported to smelters in the PRC, Korea, Japan, India and Thailand, via the Port of Geraldton.

## EXPANSION AND EXPLORATION

Golden Grove reserves will support mining operations at current rates of production until approximately 2016. However, there is considerable potential to extend mining operations, both through mining underground resources and other mineralisation not currently in reserves, and through potential open pit mining of copper, gold and zinc mineralisation.

In addition, the area around the Golden Grove operations remains prospective for further discoveries. Substantial diamond drilling programs, both on surface and underground, are targeting down-plunge extensions of the Scuddles and Gossan Hill ore bodies.

Construction of a new tailings storage facility started in late 2009 and was completed in September 2010 for an investment of US$24 million.

In May 2010, the Company commenced a feasibility study evaluating the development of an open pit operation to exploit the oxide and supergene copper resource above the Gossan Hill underground operation. Subject to approvals, the Company could commence mining from the copper oxide pit in late 2011. If approved, the pit is expected to add approximately three years of copper production to Golden Grove's mine plan.

## OPERATING PERFORMANCE

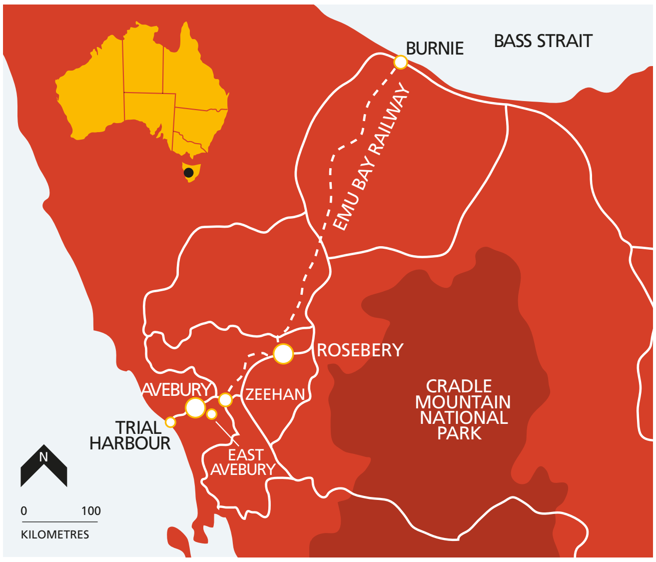
Golden Grove's operating performance for the year ended 31 December 2010 is summarised below:

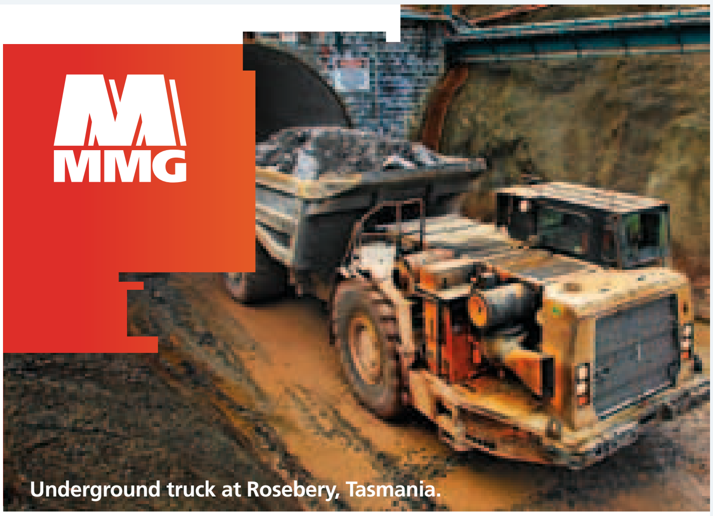
### Golden Grove Operating Statistics

| YEAR ENDED 31 DECEMBER | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 391.3 | 274.8 |
| ZINC ORE MINED ('000 t) | 574.5 | 409.0 |
| ZINC ORE MILLED ('000 t) | 579.8 | 398.0 |
| AVERAGE ZINC HEAD GRADE (%) | 13.9 | 16.8 |
| COPPER ORE MINED ('000 t) | 779.5 | 1,140.0 |
| COPPER ORE MILLED ('000 t) | 1,017.2 | 1,012.0 |
| AVERAGE COPPER HEAD GRADE (%) | 3.9 | 3.4 |
| **CONTAINED METALS IN CONCENTRATE** | | |
| ZINC ('000 t) | 73.3 | 56.9 |
| COPPER ('000 t) | 33.5 | 30.8 |
| GOLD ('000 oz) | 36.3 | 29.1 |
| SILVER ('000 oz) | 1,902.5 | 1,381.0 |
| LEAD ('000 t) | 7.7 | 4.4 |

Note: 2009 figures are for the Full Year including the period prior to ownership by MMG.

Production guidance for 2011 is 19,000-22,000 tonnes copper metal in concentrate and 83,000-87,000 tonnes of zinc metal in concentrate.



Underground truck at Rosebery, Tasmania.

## OVERVIEW

### Rosebery is a polymetallic underground mine that has been operating for 75 years.

It is located in Tasmania approximately 300 kilometres north-west of Hobart and 125 kilometres south of Burnie.

The Rosebery ore body extends for approximately 2 kilometres north-south and to a depth of 1.5 kilometres. The polymetallic nature of the ore body enables the Company to achieve a significant relative cost advantage after by-product credits compared to many of its global peers.

Concentrates are transported by rail to Burnie, and then shipped to Nyrstar smelters in Port Pirie and Hobart.

## EXPANSION

No major expansions are planned at Rosebery but there is an ongoing continuous improvement program to optimise the operations and reduce costs.

With a highly prospective region around the mine, there is strong potential for the conversion of inferred resources to reserves and the delineation of additional mineralisation to further extend the mine life. Residual lower grade ore within the old Hercules Mine, where mining has been discontinued, and lower grade mineralisation in the South Hercules deposit, approximately 10 kilometres south-east of the Rosebery mine, provide potential additional feed for the Rosebery plant. The Rosebery resource is open along strike to the north and at depth and an extensive near-mine exploration project is underway.

## OPERATING PERFORMANCE

Rosebery's operating performance for the year ended 31 December 2009 and the year ended 31 December 2010 is summarised as follows:

### Rosebery Operating Statistics

| YEAR ENDED 31 DECEMBER | 2010 | 2009 |
|---|---|---|
| REVENUE (US$ MILLION) | 220.5 | 193.7 |
| ORE MINED ('000 t) | 687.2 | 725.0 |
| ORE MILLED ('000 t) | 724.8 | 795.0 |
| ZINC MILLED GRADE (%) | 12.7 | 12.1 |
| LEAD MILLED GRADE (%) | 4.1 | 4.0 |
| COPPER MILLED GRADE (%) | 0.32 | 0.4 |
| SILVER MILLED GRADE (g/t) | 125.0 | 134.9 |
| GOLD MILLED GRADE (g/t) | 1.7 | 1.7 |
| ZINC RECOVERY (%) | 89.4 | 88.6 |
| LEAD RECOVERY (%) | 78.9 | 79.0 |
| COPPER RECOVERY (%) | 59.5 | 53.6 |
| GOLD RECOVERY (%) | 23.8 | 21.3 |
| CONTAINED METALS | | |
| ZINC ('000 t) | 86.2 | 85.1 |
| LEAD ('000 t) | 28.9 | 25.0 |
| COPPER ('000 t) | 2.3 | 1.9 |
| GOLD ('000 oz) | 34.9 | 34.1 |
| SILVER ('000 oz) | 2,519.1 | 3,088.0 |

Note: 2009 figures are for the Full Year including the period prior to ownership by MMG.

Production guidance for 2011 is 80,000-83,000 tonnes of zinc in concentrate and 24,000-25,000 tonnes of lead in concentrate.

## EXPLORATION

The deep exploration drilling program that commenced in November 2009, with two deep surface drill holes targeting prospective areas below the lower parts of the Rosebery ore body continued in 2010. Drilling also progressed on the Jupiter prospect located approximately seven kilometres south of the Rosebery mine, and to test a new mineralised horizon originally identified from drilling during 2008. The New Horizon program, designed to extend the successful 2010 program, is planned for execution over 2011-2013.

For more information on MMG's mining operations, please refer to MMG's website www.mmg.com

# OPERATIONAL REVIEW ROSEBERY

## DUGALD RIVER (AUSTRALIA)

The Dugald River project is based on one of the world's largest and highest grade known undeveloped lead-zinc-silver deposits with a resource of 53 million tonnes at 12.5% zinc, 1.9% lead and 36g/t silver. At current commodity prices this equates to a combined grade of 16% zinc equivalent. It is located in north-west Queensland, approximately 65 kilometres north-west of Cloncurry.

A feasibility study was completed in December 2008 and updated in 2010. This study showed the viability of a two million tonnes per annum underground mine with a mine life of over 23 years based on existing resources, with the ore body open at depth, assuming conventional underground mining methods. Test work also confirmed that high metal recovery rates could be achieved with standard crushing, grinding and flotation processing. Annual average production of more than 200,000 tonnes of zinc, 25,000 tonnes of lead and 900,000 ounces of silver in concentrate is expected.

The project has good access to infrastructure, with a sealed two-lane highway 10 kilometres to the east of the site, and power and water available. Zinc concentrates are expected to be transported by truck to Cloncurry and then via rail to Townsville. Dugald River would be a fly-in/fly-out operation through Cloncurry airport. The project Environmental Impact Statement (EIS) was submitted during 2010 and the Company is working through the environmental permitting process.

The Group is currently undertaking extensive pre-commitment activities including advancing the engineering design, refining capital and operating cost estimates and finalising power, access and infrastructure agreements.

The decision to develop the Dugald River project is expected to be made by the Board in 2011, and subject to other required approvals, the Group aims to have the mine in operation during 2014.

Project capital costs are expected to be within the range of US$850 to US$950 million and average cash costs are estimated at approximately US$0.65 per pound of zinc.

## CANADA

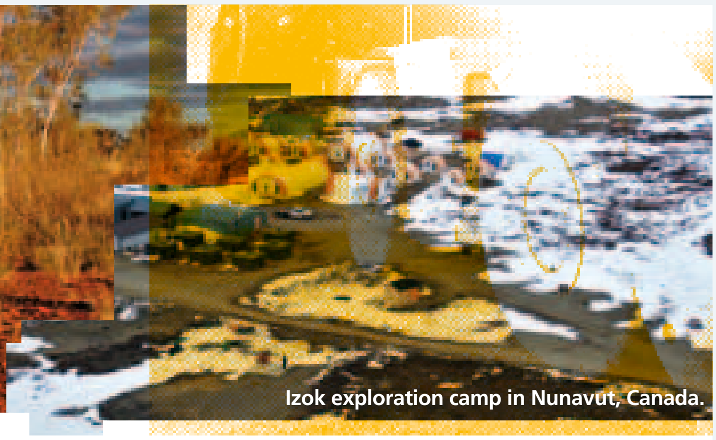
The Group has a suite of polymetallic base metal assets in the Nunavut Territories of Northern Canada. Principal assets include the Izok Lake copper, zinc, lead and silver resource, the High Lake copper, zinc, lead and silver resource, gold resources at Lupin and Ulu, and base metal deposits at Gondor and Hood.

The Izok Lake deposit is a world-class deposit with a mineral resource of 14.8 million tonnes at 12.8% zinc and 2.5% copper. The High Lake deposit, located north of Izok, has a classified mineral resource of 17 million tonnes at 3.4% zinc and 2.3% copper. Recent drilling at High Lake East, located 50 kilometres east of High Lake, intercepted mineralisation, including 4.5 metres at 7% copper and 5.7 metres at 3.3% copper. Work is also planned for Hood, which shows encouraging signs.

The main challenge to successfully developing the Group's projects in the region is finding the right infrastructure solution to enable provision of supplies, and transport of concentrates to market from this remote part of north-west Canada.

# EXPLORATION AND PROJECT DEVELOPMENT


Field work at Dugald River, Queensland.


Izok exploration camp in Nunavut, Canada.

Studies conducted during 2010 indicated that the northern Gray's Bay inlet is likely to be the most attractive transport route as it provides access to all major base metals deposits and exploration targets: Izok, Hood, High Lake and High Lake East.

These studies, combined with earlier work, show the possibility of developing Izok with a mine life of approximately 11 years. Operating costs are likely to be very competitive based on the high grade of the deposit. Capital cost estimates reflect the level of infrastructure required and the Group would ideally want to see these capital costs amortised over a longer life project.

Consequently, work planned for 2011 will include additional resource drilling at Izok to extend the size of the existing resource and optimisation studies for the range of mining, process plant and infrastructure options. The Group expects to start the environmental permitting process for the first phase of development of the Izok/High Lake/Hood group of deposits during 2012.

## AVEBURY (AUSTRALIA)

### Overview

The Avebury nickel project is located approximately six kilometres west of Zeehan on the west coast of Tasmania and about 150 kilometres by road from the port of Burnie. The Avebury deposit lies within the western Tasmanian mineral province, which hosts a number of major mineral deposits including copper, gold, lead, zinc and magnetite. The region has a long history of exploration and prospecting and Zeehan was actively mined for silver-lead deposits during the 1890s and early 1900s.

### Mining and processing

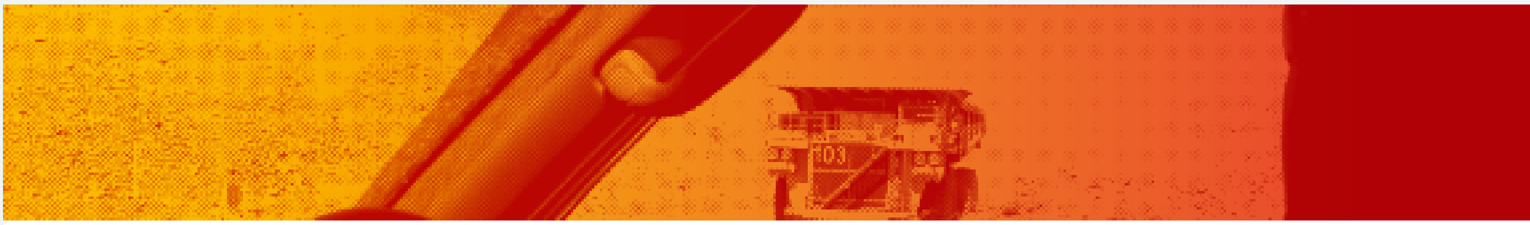
Mining at Avebury is by underground mining methods, primarily by transverse and longitudinal open stoping methods.

Access to the mineral deposits is through a single portal and two declines: the North Avebury decline to the North Avebury mineral deposit and further eastward extensions to the Avebury ore systems, and the Viking decline to the Viking mineral deposit and westward extensions.

The conventional processing plant was designed with capacity to process 900,000 tonnes of ore to produce approximately 8,500 tonnes of nickel per annum in a nickel concentrate grading around 20%. The process includes crushing, milling and flash flotation before treatment through a flotation circuit to produce nickel concentrates. The plant has the capacity to treat nickel sulphides locked in magnetite, through a magnetic separator, regrind mill and retreat flotation cells.

### Operating performance

The Avebury operation has been on care and maintenance during 2010. During this time, the Group commenced extensive technical investigations and studies to ensure sustained economic viability of the operations into the future. This work is ongoing and is expected to be completed in 2011.



## OVERVIEW

Exploration continued to be a core growth driver of the Group under a three-tiered strategy of mine district exploration, new discovery programs and project generation. Highlights from each program are summarised below. Exploration expenditure in 2010 totalled US$40 million, not including any mine site expenditure, which amounted to approximately an additional US$10 million.

## MINE DISTRICT EXPLORATION

### Sepon

Discovery of several low-grade but near-surface satellite deposits continued to replenish the oxide gold resource inventory. Primary gold drilling programs returned encouraging results at Dao Leuk (9.7 metres at 6.0g/t gold), Phavat (9 metres at 4.7g/t gold) and Maidaeng (4 metres at 7.6g/t gold) and Namkok East (8.8 metres at 5.0g/t gold). The resource potential of these prospects and new primary gold targets will be evaluated by further drilling in 2011. A discrete but very high-grade zone of fault-controlled gold mineralisation was discovered within the pit shell at Khanong (17 metres at 32.6g/t gold).

Copper drilling programs continued to test primary and oxide targets around the Thengkham deposit, beneath the Khanong pit, and conceptual skarn and porphyry targets around several intrusive centres. Encouraging copper-gold intersections were returned from Thengkham South (17 metres at 1.1% primary copper, 14 metres at 1.1g/t oxide gold) and Khanong (20 metres at 2.0% copper, 0.4g/t primary gold).

### Century

A substantial reverse circulation (RC) diamond core drilling campaign tested multiple near-mine and regional targets. No significant zinc mineralisation was returned, although follow-up downhole induced polarisation (IP) geophysical surveys have generated additional drill targets. These regional targets will be drill tested in 2011.

### Golden Grove

Drilling extended the Gossan Hill ore body with significant intersections encountered 23 metres at 2.7% copper in the Upper Copper zone and 3.5 metres at 20.2% zinc (with 1.7 metres at 2.1g/t gold) in the South Amity zones. Drilling at the Gossan Valley prospect, 6.5 kilometres south of Golden Grove operations, encountered high-grade copper and zinc mineralisation in a number of holes. Peak intersections include: 36.3 metres at 17.8% zinc; 10.1 metres at 10.4% zinc; 6.6 metres at 10.9% copper and 1.0g/t gold; 12.3 metres at 3.9% copper. The resource potential of this significant discovery will be evaluated in 2011.

### Rosebery

A four hole drill program at the Jupiter prospect encountered only minor base metal mineralisation. Work continued on compiling historical exploration data over the 20 kilometre Rosebery Host Sequence and construction of a three-dimensional model for drill targeting purposes.

### Avebury

An airborne electromagnetic survey was completed late in 2010 with the aim of identifying conductors that may be associated with accumulation of massive sulphides. A number of anomalies were identified and will be followed up in 2011.

### Canada

At the Izok Lake project, a five hole drill program tested targets adjacent to the known resource. No significant mineralisation was intersected but the results contributed to a major reinterpretation of the Izok deposit which has significantly increased the geological understanding of the deposit, generating new drill targets to be tested in 2011.

Highly encouraging massive sulphide base metal mineralisation was intersected at the High Lake East prospect, 50 kilometres east of the High Lake project.

# EXPLORATION

Drilling rig at Dugald River, Queensland.

Highlights from the nine hole program include 4.5 metres at 7.0% copper, 2.8% zinc, 54g/t silver, 1.8g/t gold and 11.6 metres at 1.7% copper, 3.6% zinc, 36g/t silver, 0.4g/t gold. Infill and step-out drilling in 2011 will evaluate further potential.

## NEW DISCOVERY PROGRAMS

### Australia

Drilling at the Kidman project near Cobar in New South Wales targeting CSA-type copper-polymetallic deposits intersected only minor base metal mineralisation. Detailed down-hole, surface and airborne magnetic and electromagnetic surveys have generated new drill targets. A new joint venture was signed with Westgold Resources for early stage base metal exploration tenements in the Northern Territory.

### Americas

At the Amaruk nickel-copper project in Nunavut (joint venture with Diamonds North Resources Ltd) geochemical surveys and field reconnaissance identified numerous mafic-ultramafic targets for follow-up geophysical surveys. Field mapping programs were completed at the Ontario nickel-copper projects.

### Indonesia

A five hole scout drilling program was completed at the Wonogiri project in Central Java. Broad zones of low grade gold were encountered, although a review downgraded the porphyry copper-gold potential of the project.

The project was farmed out to Augur Resources with the Company retaining a minority interest and claw-back rights. In Northern Sulawesi, scout drilling was completed at the Tapadaa project and surface exploration continued at Toluludu. A new joint venture was signed with the Harita group for the Kaputusan project on Bacan Island in the eastern Indonesian archipelago. Reconnaissance field mapping commenced late in 2010.

### PRC

The MMG Kunming representative office was closed and exploration activities by MMG in the PRC were discontinued.

## PROJECT GENERATION

Dedicated copper, nickel and zinc commodity teams worked to expand the exploration project portfolio by selecting and prioritising the best opportunities worldwide, based on belt prospectivity, exploration maturity and operating environment. Advanced project opportunities with mid-term production potential were also pursued.

## RESOURCES AND RESERVES

As a result of exploration success and changes in economic assumptions, the Group reported significant increases in JORC-compliant resources and reserves for most metals. These increases are summarised below and detailed in the appended Mineral Resources and Ore Reserve Statement as at 30 June 2010 on pages 29 to 33 of this report.

| | RESOURCES | | RESERVES | |
|---|---|---|---|---|
| CONTAINED METAL | AS AT 30 JUNE 2010 | CHANGE OVER PREVIOUS YEAR | AS AT 30 JUNE 2010 | CHANGE OVER PREVIOUS YEAR |
| COPPER (MILLION TONNES) | 3.3 | +3.3% | 1.0 | +10.1% |
| LEAD (MILLION TONNES) | 2.7 | +6.6% | 0.6 | +19.3% |
| SILVER (MILLION OUNCES) | 316.6 | +6.1% | 49.2 | +21.2% |
| GOLD (MILLION OUNCES) | 5.7 | +5.1% | 0.6 | +20.2% |
| NICKEL (MILLION TONNES) | 0.2 | Unchanged | Nil | Nil |
| ZINC (MILLION TONNES) | 16.8 | -2.1% | 4.0 | -3.6% |

# RESOURCES AND RESERVES STATEMENT

Diamond drill core in trays.

## SUMMARY

The Mineral Resource and Ore Reserve tables provide a breakdown of the estimates. Mineral Resources are inclusive of Ore Reserves. Mineral Resources and Ore Reserves have been prepared in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code), 2004 Edition.

MMG Mineral Resources (contained metal) as at 30 June 2010 are estimated to contain 16.8 million tonnes of zinc, 3.3 million tonnes of copper, 2.7 million tonnes of lead, 316.6 million ounces of silver, 5.7 million ounces of gold and 0.2 million tonnes of nickel. In general, all Mineral Resources, except zinc and nickel, have increased since the June 2009 estimate predominantly due to exploration success.

MMG Ore Reserves (contained metal) as at 30 June 2010 are estimated to contain 4.0 million tonnes of zinc, 1.0 million tonnes of copper, 0.6 million tonnes of lead, 49.2 million ounces of silver and 0.6 million ounces of gold. The total Ore Reserve estimate for June 2010 represents an increase in copper (10.1%), lead (19.3%), silver (21.2%) and gold (20.2%) and a decrease in zinc (3.6%) compared with the June 2009 estimate. Gains in Ore Reserves are due to the conversion of exploration results to Mineral Resources and the application of higher commodity prices, which goes beyond offsetting mining depletion for all metals except zinc.

## MINERAL RESOURCES

Mineral Resources are tabulated by classification category for each mineral deposit or operation at the end of this statement.

Mineral Resource additions exceeded mining depletion at Rosebery and Golden Grove, and partly offset mining depletion at Sepon and Century. Additions at Rosebery have come from extensions to P and N lenses. Golden Grove Mineral Resource increases have come from adjustments to economic assumptions, extension of the Q-Copper and Hougoumont lenses and remodelling of the Scuddles deposit. Sepon Mineral Resource increases for copper at Thengkham North and South and for gold at Thengkham North and South and Namkok West, due to extension drilling and updated estimation, partly offset mining depletion. Inclusion of the recently estimated Silver King Mineral Resource down-plunge from historical mine workings partly offset mining depletion at Century.

Changes in Mineral Resources are shown in absolute and percentage terms for all deposits or operations and in total within the following tables.

## ORE RESERVES

Ore Reserves are tabulated by classification category for each operation or project at the end of this statement.

MMG Ore Reserves (contained metal) increased for copper (10.1%), lead (19.3%), silver (21.2%) and gold (20.2%) and decreased for zinc (3.6%) compared to the June 2009 statement. Increases in Ore Reserve tonnages are due to changes in the economic assumptions and increases in Mineral Resources arising from exploration success – refer to the Ore Reserve Tonnage Reconciliation Table.

The information in this report that relates to the Mineral Resources and Ore Reserves is based on information compiled by the listed competent persons, who are Members or Fellows of the Australasian Institute of Mining and Metallurgy, the Australian Institute of Geoscientists or a Recognised Overseas Professional Organisation (ROPO) and have sufficient experience that is relevant to the style of mineralisation and type of deposit under consideration and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the JORC Code. Each of the Competent Persons has given consent to the inclusion in the report of the matters based on their information in the form and context in which it appears. For further information, please visit the website www.minmetalsresources.com.

## MINERAL RESOURCES STATEMENT AS AT 30 JUNE 2010

## GOLDEN GROVE

| CUT-OFF GRADES: PRIMARY ZINC & COPPER RESOURCES: A$70 PER TONNE NETT SMELTER RETURN CUT-OFF. OXIDE COPPER RESOURCE: 0.5% CU CUT-OFF GRADE. OXIDE GOLD RESOURCE: 1.0g/t AU CUT-OFF GRADE. | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL ZINC ('000 t) | CONTAINED METAL COPPER ('000 t) | CONTAINED METAL LEAD ('000 t) | CONTAINED METAL SILVER (Moz) | CONTAINED METAL GOLD (Moz) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PRIMARY COPPER[1] | | | | | | | | | | | |
| MEASURED | 14.4 | 0.5 | 2.6 | – | 18 | 0.5 | 78.5 | 368.0 | – | 8.3 | 0.2 |
| INDICATED | 6.1 | 0.3 | 2.4 | – | 13 | 0.3 | 17.1 | 147.9 | – | 2.6 | 0.1 |
| INFERRED | 6.4 | 0.7 | 2.8 | – | 24 | 0.6 | 44.6 | 177.9 | – | 5.1 | 0.1 |
| TOTAL | 26.9 | 0.5 | 2.6 | – | 19 | 0.5 | 140.2 | 693.9 | – | 16.0 | 0.4 |
| OXIDE COPPER[2] | | | | | | | | | | | |
| MEASURED | – | – | – | – | – | – | – | – | – | – | – |
| INDICATED | – | – | – | – | – | – | – | – | – | – | – |
| INFERRED | 3.1 | – | 2.2 | – | – | – | – | 67.2 | – | – | – |
| TOTAL | 3.1 | – | 2.2 | – | – | – | – | 67.2 | – | – | – |
| PRIMARY ZINC[1] | | | | | | | | | | | |
| MEASURED | 5.8 | 11.8 | 0.4 | 1.1 | 89 | 1.4 | 681.9 | 20.7 | 64.6 | 16.5 | 0.3 |
| INDICATED | 0.7 | 11.3 | 0.4 | 1.3 | 86 | 1.3 | 81.1 | 2.7 | 9.2 | 2.0 | 0.0 |
| INFERRED | 3.2 | 11.6 | 0.7 | 0.7 | 67 | 1.1 | 376.8 | 21.4 | 23.4 | 6.9 | 0.1 |
| TOTAL | 9.7 | 11.7 | 0.5 | 1.0 | 81 | 1.3 | 1,139.8 | 44.8 | 97.2 | 25.4 | 0.4 |
| OXIDE GOLD[1] | | | | | | | | | | | |
| MEASURED | – | – | – | – | – | – | – | – | – | – | – |
| INDICATED | – | – | – | – | – | – | – | – | – | – | – |
| INFERRED | 1.1 | – | – | – | 100 | 3.2 | – | – | – | 3.6 | 0.1 |
| TOTAL | 1.1 | – | – | – | 100 | 3.2 | – | – | – | 3.6 | 0.1 |
| TOTAL RESOURCES | | | | | | | 1,280.1 | 805.9 | 97.2 | 45.0 | 0.9 |

A 0.5% Cu cut off grade, B 1.0g/t Au cut off grade

## ROSEBERY

| CUT-OFF GRADE IS BASED ON METALLURGICALLY RECOVERABLE TOTAL METAL UNITS (TMU), EXPRESSED AS A DOLLAR VALUE (A$125 PER TONNE) | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL ZINC ('000 t) | CONTAINED METAL COPPER ('000 t) | CONTAINED METAL LEAD ('000 t) | CONTAINED METAL SILVER (Moz) | CONTAINED METAL GOLD (Moz) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| ROSEBERY | | | | | | | | | | | |
| MEASURED | 4.6 | 13.9 | 0.5 | 4.0 | 144 | 2.1 | 639.4 | 23.0 | 184.0 | 21.3 | 0.3 |
| INDICATED | 7.6 | 11.2 | 0.3 | 3.8 | 140 | 1.8 | 851.2 | 22.8 | 288.8 | 34.2 | 0.4 |
| INFERRED | 4.7 | 10.7 | 0.3 | 4.2 | 122 | 1.5 | 502.9 | 14.1 | 197.4 | 18.4 | 0.2 |
| TOTAL | 16.9 | 11.8 | 0.4 | 4.0 | 136 | 1.8 | 1,993.5 | 59.9 | 670.2 | 73.9 | 1.0 |
| SOUTH HERCULES | | | | | | | | | | | |
| MEASURED | – | – | – | – | – | – | – | – | – | – | – |
| INDICATED | – | – | – | – | – | – | – | – | – | – | – |
| INFERRED | 1.0 | 3.1 | 0.1 | 1.5 | 133.0 | 2.4 | 30.3 | 1.0 | 14.7 | 4.2 | 0.1 |
| TOTAL | 1.0 | 3.1 | 0.1 | 1.5 | 133.0 | 2.4 | 30.3 | 1.0 | 14.7 | 4.2 | 0.1 |
| TOTAL RESOURCES | | | | | | | 2,023.8 | 60.9 | 684.9 | 78.1 | 1.1 |

## MINERAL RESOURCES STATEMENT AS AT 30 JUNE 2010 CONTINUED

### CENTURY

| CENTURY AND EAST BLOCK 3.5% ZN CUT-OFF GRADE | TONNES (Mt) | ZINC GRADE (% Zn) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | CONTAINED METAL ZINC ('000 t) | LEAD ('000 t) | SILVER (Moz) |
|---|---|---|---|---|---|---|---|
| **CENTURY**[1] | | | | | | | |
| MEASURED | 27.6 | 12.0 | 1.5 | 35 | 3,312.0 | 414.0 | 31.1 |
| INDICATED | 8.9 | 11.2 | 1.6 | 35 | 996.8 | 142.4 | 10.0 |
| INFERRED | 0.1 | 8.6 | 1.1 | 38 | 8.6 | 1.1 | 0.1 |
| **TOTAL** | **36.6** | **11.8** | **1.5** | **35** | **4,317.4** | **557.5** | **41.2** |
| **CENTURY EAST BLOCK**[1] | | | | | | | |
| MEASURED | – | – | – | – | – | – | – |
| INDICATED | 0.2 | 12.8 | 1.1 | 49 | 25.6 | 2.2 | 0.3 |
| INFERRED | 0.2 | 12.7 | 1.1 | 55 | 25.4 | 2.2 | 0.4 |
| **TOTAL** | **0.4** | **12.8** | **1.1** | **52** | **51.0** | **4.4** | **0.7** |
| **SILVER KING**[2] 3.5% PB CUT-OFF GRADE | | | | | | | |
| MEASURED | – | – | – | – | – | – | – |
| INDICATED | – | – | – | – | – | – | – |
| INFERRED | 0.7 | 5.2 | 15.1 | 143 | 35.6 | 103.3 | 3.1 |
| **TOTAL** | **0.7** | **5.2** | **15.1** | **143** | **35.6** | **103.3** | **3.1** |
| **TOTAL RESOURCES** | | | | | **4,404.0** | **665.2** | **45.0** |

### SEPON

| COPPER (0.5% CU CUT-OFF GRADE) GOLD OXIDE AND PARTIAL OXIDE (0.5g/t AU CUT-OFF GRADE) PRIMARY (1.0g/t AU CUT-OFF GRADE) | TONNES (Mt) | COPPER GRADE (% Cu) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL COPPER ('000 t) | SILVER (Moz) | GOLD (Moz) |
|---|---|---|---|---|---|---|---|
| **SUPERGENE COPPER** | | | | | | | |
| MEASURED | 18.5 | 3.0 | – | – | 558.7 | – | – |
| INDICATED | 18.5 | 2.6 | – | – | 484.4 | – | – |
| INFERRED | 21.4 | 1.4 | – | – | 306.0 | – | – |
| **TOTAL** | **58.4** | **2.3** | **–** | **–** | **1,349.2** | **–** | **–** |
| **PRIMARY COPPER** | | | | | | | |
| MEASURED | 1.7 | 1.6 | 7 | 0.2 | 26.4 | 0.4 | 0.0 |
| INDICATED | 1.1 | 1.5 | 7 | 0.2 | 16.2 | 0.2 | 0.0 |
| INFERRED | 18.7 | 0.9 | 6 | 0.3 | 160.7 | 3.6 | 0.2 |
| **TOTAL** | **21.4** | **0.9** | **6** | **0.3** | **203.3** | **4.2** | **0.2** |
| **OXIDE GOLD** | | | | | | | |
| MEASURED | 3.2 | – | 3 | 1.4 | – | 0.3 | 0.1 |
| INDICATED | 4.1 | – | 5 | 1.1 | – | 0.6 | 0.2 |
| INFERRED | 4.0 | – | 4 | 0.8 | – | 0.5 | 0.1 |
| **TOTAL** | **11.3** | **–** | **4** | **1.1** | **–** | **1.5** | **0.4** |
| **PARTIAL OXIDE GOLD** | | | | | | | |
| MEASURED | 2.4 | – | 9 | 1.6 | – | 0.7 | 0.1 |
| INDICATED | 6.0 | – | 8 | 2.1 | – | 1.5 | 0.4 |
| INFERRED | 2.0 | – | 6 | 0.6 | – | 0.4 | 0.0 |
| **TOTAL** | **10.4** | **–** | **8** | **1.7** | **–** | **2.6** | **0.6** |
| **PRIMARY GOLD** | | | | | | | |
| MEASURED | 5.5 | – | 7 | 2.9 | – | 1.2 | 0.5 |
| INDICATED | 13.7 | – | 8 | 2.6 | – | 3.7 | 1.2 |
| INFERRED | 5.7 | – | 7 | 1.8 | – | 1.2 | 0.3 |
| **TOTAL** | **24.9** | **–** | **8** | **2.5** | **–** | **6.0** | **2.0** |
| **TOTAL RESOURCES** | | | | | **1,552.4** | **14.4** | **3.1** |

## DUGALD RIVER

| | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL ZINC ('000 t) | CONTAINED METAL COPPER ('000 t) | CONTAINED METAL LEAD ('000 t) | CONTAINED METAL SILVER (Moz) |
|---|---|---|---|---|---|---|---|---|---|---|
| ZINC 6% ZN CUT-OFF GRADE | | | | | | | | | | |
| MEASURED | 20.6 | 13.1 | – | 1.9 | 56 | – | 2,698.6 | – | 391.4 | 37.1 |
| INDICATED | 23.0 | 12.6 | – | 2.0 | 28 | – | 2,898.0 | – | 460.0 | 20.7 |
| INFERRED | 9.4 | 10.7 | – | 1.4 | 14 | – | 1,005.8 | – | 131.6 | 4.1 |
| TOTAL | 53.0 | 12.5 | – | 1.9 | 36 | – | 6,602.4 | – | 983.0 | 61.9 |
| COPPER 1% CU CUT–OFF GRADE | | | | | | | | | | |
| MEASURED | – | – | – | – | – | – | – | – | – | – |
| INDICATED | – | – | – | – | – | – | – | – | – | – |
| INFERRED | 4.4 | – | 1.8 | – | – | 0.2 | – | 79.2 | – | – |
| TOTAL | 4.4 | – | 1.8 | – | – | 0.2 | – | 79.2 | – | – |
| TOTAL RESOURCES | | | | | | | 6,602.4 | 79.2 | 983.0 | 61.9 |

## HIGH LAKE

| 2% CU EQUIVALENT CUT-OFF GRADE | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL ZINC ('000 t) | CONTAINED METAL COPPER ('000 t) | CONTAINED METAL LEAD ('000 t) | CONTAINED METAL SILVER (Moz) | CONTAINED METAL GOLD (Moz) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| MEASURED | – | – | – | – | – | – | – | – | – | – | – |
| INDICATED | 17.2 | 3.4 | 2.3 | 0.3 | 70 | 1.0 | 576.2 | 387.0 | 53.3 | 38.7 | 0.5 |
| INFERRED | – | – | – | – | – | – | – | – | – | – | – |
| TOTAL RESOURCES | 17.2 | 3.4 | 2.3 | 0.3 | 70 | 1.0 | 576.2 | 387.0 | 53.3 | 38.7 | 0.5 |

## IZOK LAKE

| 2% ZN EQUIVALENT CUT-OFF GRADE | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | CONTAINED METAL ZINC ('000 t) | CONTAINED METAL COPPER ('000 t) | CONTAINED METAL LEAD ('000 t) | CONTAINED METAL SILVER (Moz) |
|---|---|---|---|---|---|---|---|---|---|
| MEASURED | – | – | – | – | – | – | – | – | – |
| INDICATED | 14.4 | 12.9 | 2.5 | 1.3 | 71 | 1,863.5 | 361.5 | 184.3 | 32.9 |
| INFERRED | 0.4 | 6.4 | 3.8 | 0.3 | 54 | 23.6 | 14.0 | 1.0 | 0.6 |
| TOTAL RESOURCES | 14.8 | 12.8 | 2.5 | 1.3 | 71 | 1,887.1 | 375.5 | 185.3 | 33.5 |

## AVEBURY

| 0.4% NI CUT-OFF GRADE | TONNES (Mt) | NICKEL GRADE (%Ni) | CONTAINED METAL NICKEL ('000 t) |
|---|---|---|---|
| MEASURED | 3.4 | 1.1 | 37.9 |
| INDICATED | 4.7 | 1.0 | 44.4 |
| INFERRED | 14.0 | 0.9 | 131.3 |
| TOTAL RESOURCES | 22.0 | 1.0 | 213.5 |

Mineral Resource stated as total Ni, which includes sulphide and silicate phases.

**COMPETENT PERSONS:**

| | |
|---|---|
| GOLDEN GROVE | 1. Chevaun Gellie (Member of AIG, employee of MMG) 2. Jared Broome (Fellow of AusIMM, employee of MMG) |
| ROSEBERY | Clifton McGilvray (Member of AusIMM, employee of MMG) |
| CENTURY | 1. Andrew Beaton (Member of AusIMM, employee of MMG) 2. Peter Carolan (Member of AusIMM, employee of MMG) & Glenn Patterson-Kane (Member of AIG, employee of MMG) |
| SEPON | Jason McNamara (Member of AusIMM, employee of MMG) |
| DUGALD RIVER | Peter Carolan (Member of AusIMM, employee of MMG) |
| AVEBURY | Tim Callaghan (Member of AusIMM, former employee of OZ Minerals) |
| HIGH LAKE | George H. Wahl (Member Association of Professional Geoscientists of Ontario, employee of G. H. Walh Associates) |
| IZOK LAKE | Tim Maunula (Member Association of Professional Geoscientists of Ontario, employee of Wardrop Engineering) |

Significant figures do not imply precision. Figures are rounded according to JORC Code guidelines.

## ORE RESERVE STATEMENT AS AT 30 JUNE 2010

### GOLDEN GROVE

| | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL ZINC ('000 t) | COPPER ('000 t) | LEAD ('000 t) | SILVER (Moz) | GOLD (Moz) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PRIMARY ZINC | | | | | | | | | | | |
| PROVED | 1.3 | 10.7 | 0.3 | 1.3 | 65 | 1.3 | 143.4 | 4.0 | 17.4 | 2.8 | 0.1 |
| PROBABLE | 0.2 | 7.5 | 0.3 | 0.7 | 27 | 0.5 | 14.3 | 0.6 | 1.3 | 0.2 | |
| TOTAL | 1.5 | 10.3 | 0.3 | 1.2 | 61 | 1.2 | 157.6 | 4.6 | 18.8 | 3.0 | 0.1 |
| PRIMARY COPPER | | | | | | | | | | | |
| PROVED | 3.6 | 0.3 | 2.8 | - | 12 | 0.3 | 10.7 | 99.7 | - | 1.3 | |
| PROBABLE | 1.5 | 0.3 | 2.5 | - | 10 | 0.2 | 4.4 | 36.5 | - | 0.5 | |
| TOTAL | 5.0 | 0.3 | 2.7 | - | 11 | 0.3 | 15.1 | 136.2 | - | 1.8 | |
| TOTAL ORE RESERVES | | | | | | | 172.7 | 140.8 | 18.8 | 4.8 | 0.1 |

### ROSEBERY

| | TONNES (Mt) | ZINC GRADE (% Zn) | COPPER GRADE (% Cu) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL ZINC ('000 t) | COPPER ('000 t) | LEAD ('000 t) | SILVER (Moz) | GOLD (Moz) |
|---|---|---|---|---|---|---|---|---|---|---|---|
| PROVED | 1.3 | 13.6 | 0.4 | 3.7 | 131 | 1.9 | 173.9 | 5.1 | 47.3 | 5.4 | 0.1 |
| PROBABLE | 4.6 | 10.8 | 0.3 | 3.7 | 139 | 1.6 | 499.7 | 13.9 | 171.2 | 20.7 | 0.2 |
| TOTAL ORE RESERVES | 5.9 | 11.4 | 0.3 | 3.7 | 137 | 1.7 | 673.7 | 19.0 | 218.5 | 26.1 | 0.3 |

### SEPON

| | TONNES (Mt) | COPPER GRADE (% Cu) | SILVER GRADE (g/t Ag) | GOLD GRADE (g/t Au) | CONTAINED METAL COPPER ('000 t) | SILVER (Moz) | GOLD (Moz) |
|---|---|---|---|---|---|---|---|
| SEPON GOLD DEPOSITS | | | | | | | |
| PROVED | 2.5 | – | 5 | 1.2 | – | 0.4 | 0.1 |
| PROBABLE | 2.4 | – | 5 | 1.2 | – | 0.4 | 0.1 |
| TOTAL | 4.9 | – | 5 | 1.2 | – | 0.7 | 0.2 |
| SEPON COPPER DEPOSITS | | | | | | | |
| PROVED | 12.9 | 3.8 | – | – | 491.3 | – | – |
| PROBABLE | 8.8 | 3.8 | – | – | 332.5 | – | – |
| TOTAL | 21.8 | 3.8 | – | – | 823.9 | – | – |
| TOTAL ORE RESERVES | | | | | 823.9 | 0.7 | 0.2 |

### CENTURY

| | TONNES (Mt) | ZINC GRADE (% Zn) | LEAD GRADE (% Pb) | SILVER GRADE (g/t Ag) | CONTAINED METAL ZINC ('000 t) | LEAD ('000 t) | SILVER (Moz) |
|---|---|---|---|---|---|---|---|
| PROVED | 22.1 | 10.8 | 1.1 | 18 | 2,386.8 | 243.1 | 12.8 |
| PROBABLE | 7.5 | 9.8 | 1.1 | 20 | 735.0 | 82.5 | 4.8 |
| TOTAL ORE RESERVES | 29.6 | 10.5 | 1.1 | 18 | 3,121.8 | 325.6 | 17.6 |

Notes

**GOLDEN GROVE**
Cut-off grade based on Nett Smelter Return value of A$110/t, using a copper price of US$2.98/lb, zinc price of US$0.98/lb, lead price of US$0.93/lb, silver price of US$15/oz, gold price of US$940/oz and 0.82 exchange rate. **COMPETENT PERSON:** Wayne Ghavalas (Member of AusIMM, employee of MMG).

**ROSEBERY**
Cut-off grade based on Nett Smelter Return value of A$175/t, using a copper price of US$2.98/lb, zinc price of US$0.98/lb, lead price of US$0.93/lb, silver price of US$15/oz, gold price of US$940/oz and 0.82 exchange rate. **COMPETENT PERSON:** Geoff Newling (Fellow of AusIMM, employee of MMG).

**SEPON**
Cut-off grades for gold deposits range from 0.4 to 0.5 g/t Au based on metallurgical recovery and haulage distance using a gold price of US$1100/oz. Cut-off grades for copper deposits range from 0.9 to 2.7% Cu based on metallurgical recovery and haulage distance using a US$2.98/lb Cu price. **COMPETENT PERSON:** Olivier Varaud (Member of AusIMM, employee of MMG).

**CENTURY**
Cut-off grade based on zinc equivalent grade of 3.9%, using a zinc price of US$2,280/t, lead price of US$2,200/t, silver price of US$16/oz and 0.83 exchange rate. **COMPETENT PERSON:** Johan Botha (Member of AusIMM, employee of MMG). Significant figures do not imply precision. Figures are rounded according to JORC Code guidelines.

| TOTAL MMG RESOURCES (CONTAINED METAL)* | ZINC (Mt) | COPPER (Mt) | LEAD (Mt) | SILVER (Moz) | GOLD (Moz) | NICKEL (Mt) |
|---|---|---|---|---|---|---|
| SEPON | | 1.6 | | 14.4 | 3.1 | |
| CENTURY | 4.4 | | 0.7 | 45.0 | | |
| DUGALD RIVER | 6.6 | 0.1 | 1.0 | 61.9 | 0.0 | |
| GOLDEN GROVE | 1.3 | 0.8 | 0.1 | 45.0 | 0.9 | |
| ROSEBERY | 2.0 | 0.1 | 0.7 | 78.1 | 1.1 | |
| AVEBURY | | | | | | 0.2 |
| HIGH LAKE | 0.6 | 0.4 | 0.1 | 38.7 | 0.5 | |
| IZOK LAKE | 1.9 | 0.4 | 0.2 | 33.5 | | |
| **TOTAL RESOURCES** | **16.8** | **3.3** | **2.7** | **316.6** | **5.7** | **0.2** |

*Details of Mineral Resources are tabulated and documented in the MMG Resources and Reserves Statement at 30 June 2010. Significant figures do not imply precision. Figures are rounded according to JORC Code guidelines. Contained metal does not imply recovery.

| TOTAL MMG RESERVES (CONTAINED METAL)* | ZINC (Mt) | COPPER (Mt) | LEAD (Mt) | SILVER (Moz) | GOLD (Moz) |
|---|---|---|---|---|---|
| SEPON | | 0.8 | | 0.7 | 0.2 |
| CENTURY | 3.1 | | 0.3 | 17.6 | |
| GOLDEN GROVE | 0.2 | 0.1 | 0.0 | 4.8 | 0.1 |
| ROSEBERY | 0.7 | 0.0 | 0.2 | 26.1 | 0.3 |
| **TOTAL RESERVES** | 4.0 | 1.0 | 0.6 | 49.2 | 0.6 |

*Details of Ore Reserves are tabulated and documented in the MMG Resources and Reserves Statement at 30 June 2010. Significant figures do not imply precision. Figures are rounded according to JORC guidelines. Contained metal does not imply recovery.

# SUSTAINABILITY

Following the acquisition of MMG, the Company will in the future adopt MMG's approach to the management of safety, health, environment and community issues. This section of the report focuses on the MMG assets only, but reflects the principles that the Company has adopted for the future.

The Group is committed to best practice in the management of safety, health, environment and community issues. Without this commitment, the Group would be less able to achieve its vision of building an international, diversified, upstream base metals and mining company.

In 2009, MMG joined the International Council on Mining and Metals (ICMM) and the Minerals Council of Australia (MCA). The Company is committed to the sustainability frameworks of each organisation and has made its Sepon mine in Laos available as a pilot testing site to assist the ICMM to develop a guide on handling and resolving community concerns and grievances.

The Group is also an active member of MCA's Safety and Health Committee and the Sustainability Committee, which is chaired by the Company's CEO, Andrew Michelmore.

**The Group's key sustainability objectives are to:**

- Protect the health, safety and wellbeing of its employees and contractors.
- Minimise its impact on the environment.
- Ensure that the communities in which it operates receive real benefit from its activities.
- Be known for its integrity.

The Group's key sustainability objectives and expected behaviours are outlined in the principles of the MMG Sustainability Policy.

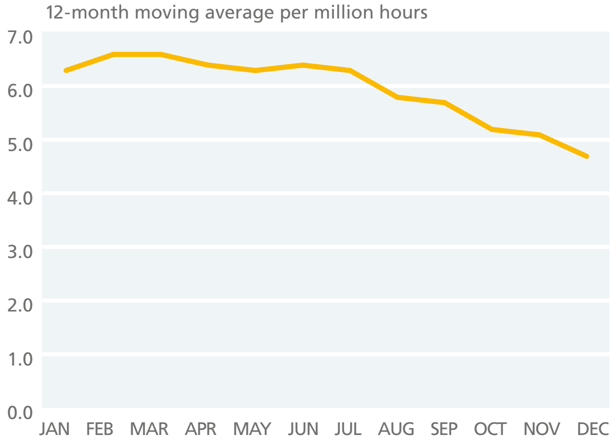
To support the policy, MMG has implemented Sustainability Standards across its operations group-wide. These are a comprehensive set of standards for the management of safety, health, environmental and social aspects of MMG's business. The standards are applicable to all phases of mine life including exploration, project development, construction, operation, closure and post-closure monitoring.

## SAFETY AND HEALTH

In 2010, MMG's Total Recordable Injury Frequency Rate (TRIFR) decreased from 6.3 to 4.7 injuries per million hours worked. There were 97 total recordable injuries across MMG, with all sites recording a reduction in the TRIFR.

Every safety incident provides a valuable learning opportunity, and MMG has used its experiences, in conjunction with the Queensland Government, to develop a regulatory guidance note and video training program for job safety analysis.

**2010 MMG TOTAL RECORDABLE INJURY FREQUENCY RATE**
12-month moving average per million hours



Training at Sepon, Lao PDR.

Mine rescue team training at Sepon, Lao PDR.

Major company-wide safety focus programs were directed towards educating employees about working at heights and making informed choices in safety.

A Safe Vehicle Operation taskforce was also established to review the safety of heavy vehicle operations. This included implementing comprehensive vehicle safety inspection and driver competency assessment programs.

MMG also implemented a two-stage Safety Leadership program. Safety leadership training was delivered to over 450 operational leaders. This was supported by the roll-out of a Visible Safety Leadership program titled 'Actions Employees Can Take'.

By year-end, an improved business support capability for safety and health had been put in place. This included the appointment of a new Group Safety, Health and Security Manager and Principal Health and Hygiene Specialist, and the development of a 2011 Safety and Health Business Plan.

## ENVIRONMENT

In 2010, MMG experienced 13 reportable environmental incidents, compared to 24 such incidents in 2009. These included:

- metal concentration in a discharge of water from the Avebury site in excess of licence conditions. Measures are being taken to reduce the concentration and negotiations are underway to modify the licence conditions to better reflect the nature of the receiving stream;
- non-compliance with specified water discharge or groundwater monitoring bore limits at the Golden Grove and Rosebery mines; and
- notification from the Canadian Environmental Protection Authority for storage of fuel in excess of the permitted volumes at Lupin and other sites.

There was also a reportable event that indirectly affected MMG involving the loading of High Precious Metals (HPM) concentrate from the Group's Golden Grove operation by the Geraldton Port Authority (GPA). MMG voluntarily suspended shipments of HPM concentrate while additional sampling and modifications to the ship loading were undertaken. Significant improvements in dust levels were observed and further monitoring is underway to confirm the improvements and provide input to additional engineering changes to be implemented by the GPA.

During 2010, the prosecution of MMG Century for unauthorised discharge of water between 31 December 2008 and 1 April 2009 concluded. MMG did not contest the matter and was fined A$130,000 plus A$9,000 prosecution costs. No conviction was recorded.

On 18 November 2010, the Queensland Department of Environment and Resource Management charged MMG Century in relation to an unauthorised release from its slurry pipeline on 5 October 2009. The initial court hearing is expected to take place in April 2011.

MMG continues to focus on learning from incidents and improving its environmental performance. Significant environmental improvement programs and other initiatives were undertaken during 2010 to meet site licence and consent conditions, including:

- Completion of major works aimed at preventing the uncontrolled discharge of contaminated mine water at Century mine.
- Submission of the Dugald River Environmental Impact Statement (EIS) to the Queensland Government to formally identify the environmental aspects and their planned control measures associated with the proposed mining development.
- All Australian operations completed works to bring their respective sites into compliance with the new Australian Dangerous Goods Code.

## GREENHOUSE AND ENERGY USE

MMG participates in Australia's National Greenhouse and Energy Reporting Scheme (NGERS) and the Energy Efficiency Opportunities (EEO) Program for its Australian operations and collects equivalent data for its Sepon mine in Laos. In November 2010, MMG adopted a Climate Change Policy mandating a study be undertaken to look at energy efficiency opportunities, prepare the Company for a carbon price and understand the potential business value in setting a voluntary emissions reduction target.

The majority of MMG greenhouse gas emissions in Australia are generated through electricity and diesel consumption at Century and Golden Grove. Electricity and diesel consumption at these two operations contributed 90% of MMG reportable emissions under the NGERS.

MMG continues to improve its understanding of energy use, including the ongoing need to realise energy savings across the business. In December 2010, MMG submitted an Assessment and Reporting Schedule (A&RS) for its Australian operations in accordance with the EEO Program initiated by the Australian Government. Similar energy studies will be conducted at Sepon and the Company's other activities outside Australia to understand details of energy consumption and identify opportunities to improve energy efficiency.

## COMMUNITY

Through its stakeholder relations and community development activities, the Group aims to continually engage all stakeholders, including all its local communities. It aims to engage communities to better understand the relationships between communities and its operations. The Group also aims to be open, honest and cooperative when issues and concerns do arise and has a Complaints & Grievance process in place to register, track and resolve any issues raised by host communities.

The majority of the stakeholder grievances raised in 2010 occurred at Sepon, due to the close proximity and high number of local community members (8,000) surrounding the mining operation. All grievances raised at Sepon were resolved during the year.

A significant community issue occurred at Rosebery in Tasmania and related to ongoing concerns about heavy metal contamination in the township. A detailed environmental sampling program was undertaken around Rosebery, in consultation with the Rosebery community.

# SUSTAINABILITY CONTINUED

**Checking weather monitoring equipment at Century, Queensland.**

In July 2010, MMG presented its final recommendations to the township, concluding there was no evidence of harm to human health from the presence of heavy metals in Rosebery. The Tasmanian Department of Health and Human Services endorsed MMG's conclusions and attended the relevant community meetings.

MMG is now working with the local community to build awareness of the precautions that should be taken by residents living in areas with naturally occurring high levels of mineralisation.

## COMMUNITY INVESTMENT

The Group invests in local communities as an integral part of its sustainability objective to ensure that the communities in which it operates receive real benefit from its activities.

In 2010, MMG contributed over US$6.1 million to local and regional communities for community development initiatives, local business development, education and training initiatives and sponsorships and donations.

An important part of the Group's connection with local communities is through employment strategies that recruit employees from the local community. Each MMG operating site has active local recruitment policies to maximise employment opportunities for members of host communities. Indigenous employment is particularly important and MMG has implemented training and apprenticeship programs at Century and Golden Grove to support Indigenous employment. Century employs approximately 190 Indigenous people (directly or as contractors), representing more than 23% of the site's overall workforce.

At the Company's Sepon operation, the total workforce as at December 2010 was approximately 5,000 consisting of employees and contractors. Of this number, 52% were from the local area, 41% from other parts of Laos and 7% were expatriates.

Sepon pays special attention to training and development of Lao staff to gradually reduce the number of expatriate staff and increase the percentage of Lao staff in management and specific technical positions. Currently, the operation is supporting 13 Lao students on scholarships in Australian universities. It currently employs 32 apprentices, and runs a Trades Trainee Program with 18 trainees, exclusively focusing on young people from the host communities. In 2010, 16 apprentices and 18 trainee clerks graduated with Australian certifications.

The Group also actively supports the *Zinc Saves Kids* initiative run by the International Zinc Association, and supports UNICEF, which helps to improve the survival and development of undernourished children.

On 31 December 2010, the Company, through its wholly-owned subsidiary All Glorious, acquired Album Resources Private Limited (Album Resources), the holding company of MMG, from Album Enterprises Limited (Album Enterprises), which is a wholly-owned subsidiary of CMN. At the time of acquisition, CMN also owned approximately 63% of the issued shares in the Company. Following completion of the acquisition, Andrew Michelmore and David Lamont (CEO) and (CFO) of MMG respectively – were appointed as CEO and CFO of the Company.

Prior to the acquisition, the Group was principally involved in the trading of non-ferrous metals, and had a number of investments in minerals and metals businesses mainly operating in the PRC.

In view of the Company and MMG businesses being run independently during 2010, the management discussion and analysis was prepared separately, with a focus on providing commentary relevant to the combined Group.

## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE COMPANY (EXCLUDING MMG)

### Period to period comparison of results of operations

#### 2010 compared to 2009

#### Summary

The Group (excluding MMG) recorded a solid performance in the 2010 year as compared to 2009 primarily due to significantly increased volumes of alumina and aluminium ingot traded at higher prices.

#### Profit analysis

In addition to the segmental analysis provided below, the following material items should be noted in relation to the Group's (excluding MMG) financial results in 2010 as compared to 2009:

- US$86.4 million of expenses were recorded in relation to the acquisition of MMG.
- There was a material increase in the Group's net profits derived from jointly-controlled entities driven by the 33% share of Guangxi Huayin Aluminium Company Limited (Guanxi Huayin).
- In 2009, the Group disposed of its shares in Sino Gold Mining Limited which resulted in a net gain of approximately US$41.7 million (restated).

#### Cash flow analysis

- The Group's (excluding MMG) net cash flows generated from operating activities totalled US$51.3 million, which represented a substantial increase from 2009's negative result.
- The Group's cash flow benefited from the significant accrual at year end of US$83.5 million in respect of the transaction cost arising from the acquisition of MMG.
- The Group's investing cash flows included US$100 million paid as part of the cost of acquiring MMG.
- In 2009, the Group's disposal of its shares in Sino Gold Mining Limited to certain independent third parties was for an aggregate consideration equivalent to approximately US$49.6 million.

#### Segmental analysis

##### Trading

In 2010, trading business accounted for 37.8% (2009: 35.2%) of the Group's revenue and reported operating profit of US$34.4 million (2009: US$5.0 million). Alumina and aluminium ingots remained the major trading products during the year, representing about 53.7% (2009: 63.8%) and 46.3% (2009: 36.2%) respectively of the revenue of this segment.

Alumina storage at Guangxi Huayin, Guangxi Province, China.

| | 2010 | 2009 | INCREASE | % |
|---|---|---|---|---|
| **REVENUE (US$ MILLION)** | | | | |
| ALUMINA | 727.4 | 370.0 | 357.4 | 96.6 |
| ALUMINIUM INGOT | 626.3 | 210.1 | 416.2 | 198.1 |
| | 1,353.7 | 580.1 | 773.6 | 133.4 |
| **SALES VOLUME** ('000 TONNES) | | | | |
| ALUMINA | 2,135.1 | 1,339.6 | 795.5 | 59.4 |
| ALUMINIUM INGOT | 318.8 | 113.6 | 205.2 | 180.6 |
| **AVERAGE SELLING PRICE** (US$ PER TONNE) | | | | |
| ALUMINA | 340.7 | 276.2 | 64.5 | 23.4 |
| ALUMINIUM INGOT | 1,964.6 | 1,849.5 | 115.1 | 6.2 |
| | | | | |
| **OPERATING PROFIT** | 34.4 | 5.0 | 29.4 | 588.0 |

Following a gradual recovery in 2009, spot prices of alumina in the PRC declined in the second quarter of 2010 and dropped to about RMB 2,600 (approx US$382) per tonne (tax included, similarly hereinafter) in June as a result of the European sovereign debt crisis. Following that, some signs of stabilisation and support were found in the later months. In August, prices increased steadily and reached RMB 2,900 (approx US$426) per tonne in December in response to global economic recovery and government stimulus measures in the PRC.

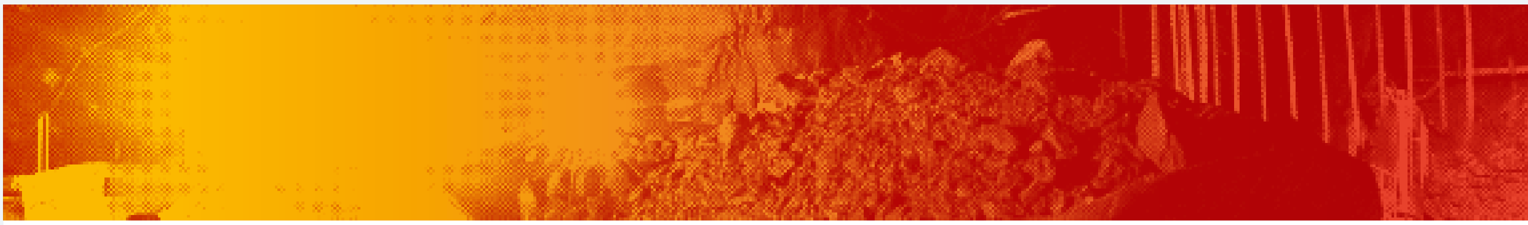
Aluminium price movement demonstrated a similar trend and also showed similar rebounds in the middle of the year, increasing from about RMB 14,000 (approx US$2,059) per tonne (tax included, similarly hereinafter) in July to about RMB 16,000 (approx US$2,353) per tonne towards the year end.

Alumina and aluminium prices rebounded in 2010; the increase in demand was fuelled by the economic growth of the PRC. The key industries driving the increase in demand are the automotive and construction sectors. The performance of the automotive sector and the realisation of infrastructure projects also supported the demand for aluminium.

To cope with the market changes, the Group has flexibly adjusted the business focus in order to optimise its value chain. During the year, the Group increased sourcing of alumina and aluminium from the domestic market and self-owned resources, and expanded the overseas trading operations. The trading segment delivered a promising result in 2010 with revenue increasing by US$773.6 million or 133.4% from US$580.1 million in 2009 to US$1,353.7 million in 2010. This was primarily attributable to the increase in the average selling prices of alumina and aluminium ingot sold by the Group and significant increase in sales volume in 2010 compared to last year. The Group's trading segment recorded operating profit of US$34.4 million in 2010 and remained one of the largest alumina suppliers and importers in the PRC.

### Fabrication

Aluminium fabrication accounted for 7.2% (2009: 11.1%) of the Group's revenue and contributed US$259.5 million (2009: US$183.2 million) to the Group's revenue in 2010. The Company operated its aluminium fabrication business through a 72.8%-owned subsidiary, North China Aluminium Company Limited (NCA).



| | 2010 | 2009 | INCREASE/(DECREASE) | % |
|---|---|---|---|---|
| REVENUE (US$ MILLION) | 259.5 | 183.2 | 76.3 | 41.6 |
| SALES VOLUME ('000 TONNES) | 93.6 | 74.1 | 19.5 | 26.3 |
| OPERATING PROFIT (US$ MILLION) | 4.1 | 5.6 | (1.5) | (26.8) |

Increasing demand for aluminium fabrication products from both domestic and overseas markets resulted in strong revenue growth of US$76.3 million or 41.6% from US$183.2 million in 2009 to US$259.5 million in 2010. Sales volumes also increased by 26.3% or 19,500 tonnes in 2010 mainly attributable to the increased production capacity, recovery of the export market and the PRC Government's policy to stimulate internal consumption. However, this segment reported lower profit in 2010 than in the previous year as a result of fierce competition as well as increased raw materials and staff costs.

In this challenging environment, the Group mitigated the adverse impacts by undertaking effective measures to enhance operational efficiency. The Group placed an emphasis on enhancing the product mix by increasing the proportion of high value-added products in order to improve profitability. The Group also implemented quality enhancement programs to improve product competitiveness and increase market share.

## MANAGEMENT DISCUSSION AND ANALYSIS FOR MMG

### Period to period comparison of results of operations

As there is no comparable full financial year for MMG's 2010 consolidated audited financial statements, for the purpose of the management discussion and analysis, a comparative analysis has been performed for the six months ended 31 December 2010 (the December half year) as compared to the six months ended 30 June 2010 (the June half year) and the six months ended 31 December 2009.

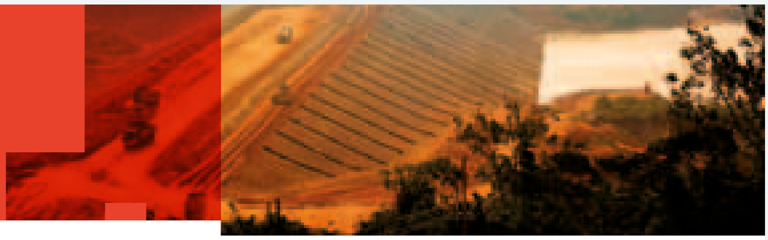
MMG's management determined the operating segments based on reports reviewed by its Executive Committee. MMG's operations are managed on a site-by-site basis.

MMG's mining operations comprise the Century zinc/lead mine in Queensland, the Rosebery lead/zinc mine in Tasmania, the Golden Grove copper/zinc mine in Western Australia and the Sepon copper/gold project in Laos.

MMG has a portfolio of exploration and development projects in Australia, Canada, Laos and Indonesia. These exploration and development projects, including the Dugald River, High Lake and Izok Lake projects are included within Other Operations together with Avebury mine, which remains on care and maintenance, and remaining head office entities.

The following table shows a breakdown of MMG's revenue and EBITDA results by segment for the six months ended 31 December 2010, 30 June 2010 and 31 December 2009.

| SIX MONTHS ENDED: US$ MILLIONS | CENTURY MINE | SEPON MINES | GOLDEN GROVE MINE | ROSEBERY MINE | OTHER OPERATIONS | TOTAL |
|---|---|---|---|---|---|---|
| SALES REVENUE | | | | | | |
| DECEMBER 2010 | 454.3 | 288.0 | 209.3 | 123.6 | - | 1,075.2 |
| JUNE 2010 | 257.1 | 308.7 | 182.0 | 96.9 | - | 844.7 |
| DECEMBER 2009 | 221.1 | 251.9 | 152.6 | 122.0 | - | 747.6 |
| EBITDA | | | | | | |
| DECEMBER 2010 | 227.0 | 167.0 | 106.8 | 65.2 | (56.6) | 509.4 |
| JUNE 2010 | 129.3 | 191.6 | 85.6 | 39.3 | (49.3) | 396.5 |
| DECEMBER 2009 | 74.2 | 146.8 | 68.8 | 57.9 | (35.9) | 311.8 |



Tailings storage facility at Sepon, Lao PDR.

The following discussion and analysis of the financial information and results of MMG's operations should be read in conjunction with the financial statements.

**Six months ended 31 December 2010 compared to the six months ended 30 June 2010 and six months ended 31 December 2009**

MMG recorded a strong performance in the December 2010 half year underpinned by solid production and sustained above long-term average prices for base and precious metals to complete an impressive result for 2010.

## Profit analysis

### Revenue

MMG generated revenue of US$1,075.2 million in the December half year, an increase of 27.3% on the June half year and 43.8% above the previous December period. This increase was due to a combination of higher production volumes and commodity prices.

### Volume

MMG's total production for the December half year exceeded the June half year result. Sales were broadly in line with production for all sites except for a stock increase at Rosebery in the December half year and at Century in the June half year due to Tropical Cyclones Olga (January) and Paul (March/April). The concentrate shed was full and cyclone activity prevented shipping, therefore the plant was shut down.

Production of zinc and lead in concentrate increased by 10% and 15% respectively compared to the June half year and significantly exceeded the previous December period which was adversely impacted by an 11-week shutdown caused by a pipeline failure at Century.

Copper in concentrate production rose 38% compared to the June half year and 23% against the previous December period. This result was substantially influenced by the decision to preferentially produce copper at Golden Grove in order to capture the higher margins available in that metal.

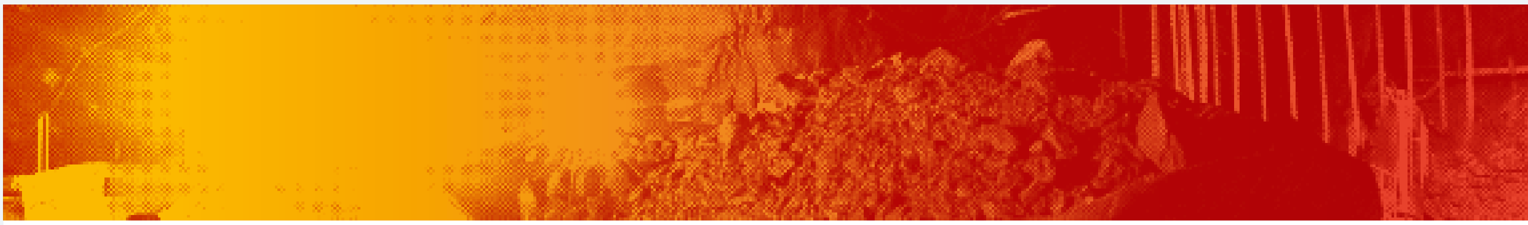
This was partially offset by lower copper cathode production at Sepon, down 12% compared to the June half year and 12% below the previous December period, the result of higher than expected rainfall and delayed resumption after a scheduled shutdown associated with the expansion project.

Gold and silver production levels were both approximately 13% below the June half year.

### Prices

MMG benefited from the sustained above long-term average prices for base and precious metals. Copper prices rose significantly in the December half year, averaging 11% and 27% higher than in the June half year and previous December period respectively. Silver and gold prices recorded solid gains, averaging 29% and 13% above the June half year and substantially higher than in the previous December period. Zinc and lead recorded more modest price increases in the December half year against the comparative periods.

| MMG PRODUCTION DATA SIX MONTHS ENDED: | DECEMBER 2010 | JUNE 2010 | DECEMBER 2009 |
|---|---|---|---|
| ORE MINED ('000 t) (ALL SITES) | 6,045 | 5,738 | 4,566 |
| ORE MILLED ('000 t) (ALL SITES) | 5,613 | 5,495 | 4,484 |
| CONTAINED METAL PRODUCTION: | | | |
| ZINC IN CONCENTRATE ('000 t) (CENTURY, GOLDEN GROVE, ROSEBERY) | 353 | 322 | 245 |
| COPPER IN CONCENTRATE ('000 t) (GOLDEN GROVE, ROSEBERY) | 21 | 15 | 17 |
| LEAD IN CONCENTRATE ('000 t) (CENTURY, GOLDEN GROVE, ROSEBERY) | 39 | 34 | 24 |
| COPPER CATHODE ('000 t) (SEPON) | 30 | 34 | 34 |
| GOLD ('000 oz) (SEPON, GOLDEN GROVE, ROSEBERY) | 81 | 95 | 83 |
| SILVER ('000 oz) (CENTURY, SEPON, GOLDEN GROVE, ROSEBERY) | 3,518 | 4,014 | 2,994 |



### Costs

MMG's cost of sales were US$408.8 million for the December half year, which represented increases of 22.6% and 34.8% compared to the June half year and the previous December period respectively. The higher costs were a result of the higher production levels, increasing expenses for employees, contractors and consultants, energy, storage and consumables. This was partly offset by increases in inventories, most notably at Golden Grove and Rosebery, which resulted in the transfer of US$38.7 million of costs to the balance sheet. The total increase in inventories was broadly in line with the movements in the comparative periods. The stronger Australian dollar during 2010 contributed to a material increase in the A$ denominated portion of Australian sites' costs, averaging 0.9447 for the December half year and 0.8934 for the June half year.

**Depreciation and amortisation** expenses of US$175.4 million were 41.5% and 30.8% higher than the June half year and previous December period respectively. The increased charge was mainly due to Century's higher amortisation in relation to the waste stripping cost allocation with mined tonnes 13.7% above the June half.

**Freight** expenses totalled US$38.6 million, which was 9.2% higher than in the June half year but 22.0% below the previous December period. Lower freight rates evident in 2010 meant that despite higher volumes shipped there was a relatively small cost impact.

**Royalty** expenses exceeded the June half year by 19% and the previous December period by 33% as a result of revenue performance by Century.

**Exploration** expenses of US$30.7 million represented an increase on the June half of US$10.5 million due to higher spend on mine district exploration and new discovery programs mainly in Australia. Expenditure on drilling programs for copper and gold at Sepon, and at the Izok Lake and High Lake projects in Canada was consistent across the two halves of 2010, however this represented an increase in exploration activity in Canada versus 2009.

**Net Financing** expenses of US$22.7 million for the December half year exceeded the comparative periods. Interest expense in relation to the external loans was in line with the comparative periods.

### Profit

MMG's profit before income tax of US$311.2 million for the December half year represented an increase of 21.3% from the June half year and nearly double the previous December period.

An **income tax expense** of US$103.2 million in the December half year represented an effective tax rate on profit before tax of 33.2%, which is mainly reflective of the Laos tax rate of 33%. This is compared to a US$22.5 million income tax expense for the June half year and a US$12.9 million income tax benefit in the previous December period, which included credits for previously unrecognised deferred tax assets of US$61.5 million and US$54.2 million respectively.

MMG's profit after tax of US$208.0 million was recorded for the December half year, approximately 11.1% lower than the June half, reflective of the higher tax expense but 21.3% above the previous December period.

## Segmental analysis

### Century mine (Queensland, Australia)

Century recorded a strong performance in the December half year with ore mined and milled up 13.7% and 5.5% on the June half year. Contained zinc and lead production exceeded the June half year levels by 14.1% and 21.8% respectively. There were no material variations in grades and recovery in 2010. Production was broadly in line with sales for the December half year. The June half year saw a significant increase in stocks due to the impact of Tropical Cyclones Olga and Paul. There was also unplanned downtime in the mill during the June half year. Century's ore stocks increased during 2010 by 10,900 tonnes while concentrate stocks rose by 21,000 tonnes.


Front-end loader at Golden Grove, Western Australia.

| CENTURY<br>TOTAL CONTAINED METAL PRODUCED FOR THE SIX MONTHS TO | DECEMBER 2010 | JUNE 2010 | DECEMBER 2009 |
|---|---|---|---|
| ZINC IN CONCENTRATE ('000 t) | 272.1 | 238.5 | 163 |
| LEAD IN CONCENTRATE ('000 t) | 21.3 | 17.5 | 7 |

Century's gross margin was 63.1% for the December half year, slightly below the June half year but considerably ahead of 52.7% for the previous December period, which included US$54.8 million of non-recurring costs associated with the pipeline failure.

Century's EBITDA for the December half year was US$227.0 million, which was 75.6% above the June half year. This operating cash flow, combined with minimal movement in net working capital, enabled Century to deliver a very strong cash flow for the December half year against the comparative periods. Capital spend was broadly consistent across the periods under review.

### Sepon mines (Laos)

Sepon's higher than expected rainfall in the December half year resulted in total ore mined being 14.2% below the June half year, although copper ore mined increased, and total ore milled decreased by just 2.3%. Copper cathode and gold production were also impacted by some resumption difficulties that followed a planned shutdown. Production was in line with sales.

| SEPON<br>TOTAL CONTAINED METAL PRODUCED FOR THE SIX MONTHS TO | DECEMBER 2010 | JUNE 2010 | DECEMBER 2009 |
|---|---|---|---|
| COPPER CATHODE ('000 t) | 30.0 | 34.3 | 34 |
| GOLD ('000 oz) | 49.9 | 54.6 | 49 |

Sepon's gross margin was 60.6% for the December half year, below the June half year and well below the 70.5% for the previous December period. This was mainly due to increased manning levels required to support the copper expansion project completed during the December half year (which lifted nameplate capacity to 80,000 tonnes of cathode production per annum) and increased drilling activity.

Sepon's EBITDA for the December half year was US$167.0 million, which was 18% below the June half year but 13.8% above the previous December period. Combined with a material increase in working capital and higher capital spend driven by the copper expansion project, Sepon's cash flow for the December half year, while substantial, was well below the comparative periods.

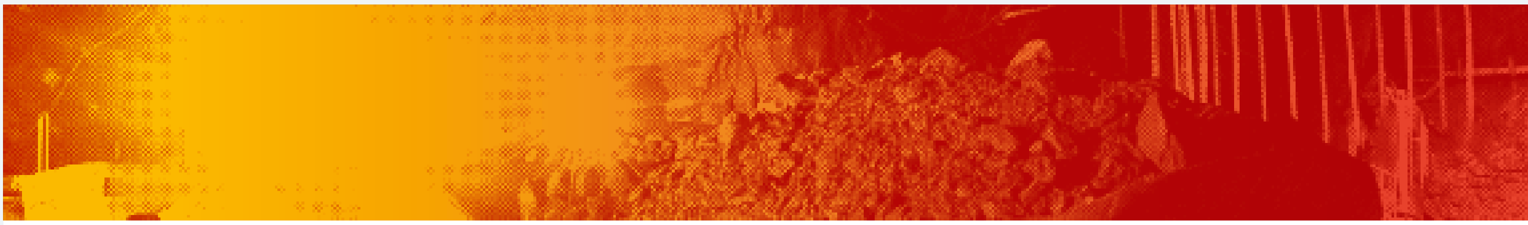
### Golden Grove mine (Western Australia, Australia)

Golden Grove's focus on copper production saw copper ore milled up 19.0% due to preferential mining of copper ores on the June half year despite lower overall ore mined by 39.4%. Contained copper production exceeded the June half year level by 36.2% and zinc production, which was 32.8% lower than for the June half year.

| GOLDEN GROVE<br>TOTAL CONTAINED METAL PRODUCED FOR THE SIX MONTHS TO | DECEMBER 2010 | JUNE 2010 | DECEMBER 2009 |
|---|---|---|---|
| ZINC IN CONCENTRATE ('000 t) | 29.4 | 43.8 | 36 |
| COPPER IN CONCENTRATE ('000 t) | 19.3 | 14.2 | 16 |

Golden Grove's gross margin was 59.7% for the December half year, above that of the comparative periods.

Golden Grove's EBITDA for the December half year was US$106.8 million, 24.8% above the June half year and 55.2% above the previous December period. A material increase in working capital from stocks and debtors resulted in cash flow for the December half year, which was well below that of the comparative periods. Capital expenditure was broadly consistent across the two halves of 2010, however was considerably higher than in 2009 mainly due to the completion of Tailings Storage Facility 3 project.



### Rosebery mine (Tasmania, Australia)

Rosebery recorded a strong performance in the December half year with ore mined and milled up 24.6% and 13.2% respectively on the June half year. Contained metal production exceeded the June half year levels by 6.9% for zinc and 6.4% for lead. There were no material variations in grades and recovery in 2010. Production exceeded sales for both zinc and lead in the December half year.

ROSEBERY

| TOTAL CONTAINED METAL PRODUCED FOR THE SIX MONTHS TO | DECEMBER 2010 | JUNE 2010 | DECEMBER 2009 |
|---|---|---|---|
| ZINC IN CONCENTRATE ('000 t) | 48.2 | 38.0 | 46 |
| LEAD IN CONCENTRATE ('000 t) | 14.9 | 14.0 | 14 |

Rosebery's gross margin was 65.0% for the December half year, well above the margins for the comparative periods.

Rosebery's EBITDA for the December half year was US$65.2 million, which was 65.8% above the June half year and 12.0% above the previous December period. A material increase in working capital from the higher prices associated with the copper debtors resulted in cash flow for the December half year, which was below that of the comparative periods. This was due to this cash flow being used to fund a higher level of capital expenditure in the December half year, mainly for the commissioning of two Caterpillar AD55 trucks and the secondary ventilation fan.

## DEVELOPMENT PROJECTS

### Sepon Copper Expansion

The Sepon copper expansion project and the related high voltage powerline were completed during the period, approximately 10% under budget. This project increased nameplate capacity at Sepon from 60,000 to 80,000 tonnes of copper cathode per annum.

### Dugald River

The Environmental Impact Statement for Dugald River was lodged with the Queensland Government and the Company is working through the environmental permitting process. The Company expects to seek formal Board approval to develop Dugald River in mid-2011. Subject to this and the receipt of all necessary approvals and permits, Dugald River could start production in 2014. Annual production is planned to be approximately 200,000 tonnes of zinc in concentrate, 25,000 tonnes of lead in concentrate and 900,000 ounces of silver. The current resources are for a 23-year mine life and the ore body is open at depth.

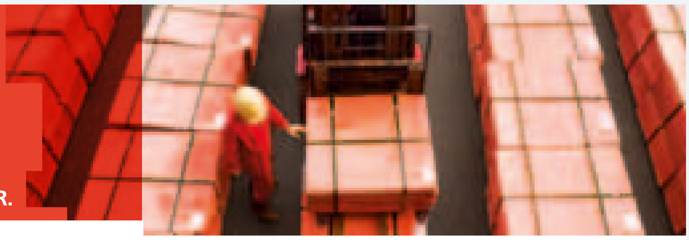
### Golden Grove

The new tailings storage facility, which will provide an additional 15 years of tailings storage capacity, was completed during 2010 at approximately 11% under budget.

A feasibility study has confirmed that the development of a near-surface copper resource at Gossan Hill is economically attractive and would add life and flexibility to the existing operations. The project will involve treating copper oxide ore using the existing concentrator with preliminary estimates indicating the pit would be mined over three years and add approximately three million tonnes of ore at 2.4% copper.

### Izok Lake

The winter drilling program at Izok Lake was completed and favourable fragmental volcanics were intersected indicating more prospective ground north of the deposit. Detailed aeromagnetic and ground gravity surveys were completed identifying several targets for follow-up during the summer field campaign. Three road routes were studied as options to transport Izok concentrate approximately 300km to the coast for shipment. As a result, the most costly and complex option to Bathurst Inlet across Contwoyto Lake was able to be ruled out of further consideration.



Finished copper cathode at Sepon, Lao PDR.

## Cash flow analysis

### Operating activities

The net cash flows generated from operating activities in the December half year totalled US$430.4 million, which represented increases of 28.7% on the June half year and substantially above the December period respectively. The increased cash flows were predominantly due to higher receipts from customers.

Income tax paid during the December half year included US$15 million in Australia, and in the June half year there was a tax payment of US$57.5 million which settled Sepon's 2009 tax liability.

### Investing activities

The net cash flows used in investing activities in the December 2010 half year amounted to US$182.8 million, which mainly reflected payment for plant and equipment of US$187.1 million. This was significantly above the capital expenditure in the June half year of US$120.6 million and the previous December period of US$117.0 million. The higher spend was mainly due to the completion of the copper expansion project at Sepon.

Payment for available-for-sale financial assets of US$100.2 million in the June half represented equity securities listed outside Hong Kong.

### Financing activities

The net cash flows used in financing activities in the December 2010 half year amounted to US$371.7 million, which mainly comprised dividends paid to Album Enterprises of US$340.0 million and to a joint venture partner of US$18.5 million.

## Financial resources and liquidity for MMG

### Cash balances

MMG's cash and cash equivalents, amounting to US$217.5 million as at 31 December 2010, were mainly denominated in US dollars (85.4%), which represented an increased proportion as compared to 30 June 2010 and 31 December 2009 where 60.7% and 49.5% of the cash and cash equivalents were denominated in US dollars respectively.

### Debt

MMG's total outstanding interest-bearing liabilities amounted to US$1,099.6 million as at 31 December 2010. This included US$1,095.0 million of external bank loans (consistent with previous comparative periods) and US$4.3 million of lease liabilities associated with various plant and equipment at Century.

Principal repayments will commence in June 2011 in relation to two of the external bank loans. All of MMG's external bank loans are denominated in US dollars and are in floating rates.

### Net debt

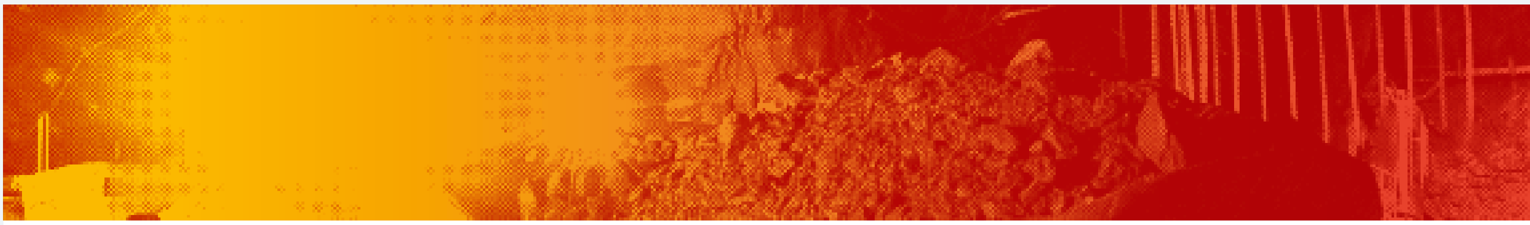
MMG was in a net debt position of US$882.1 million as at 31 December 2010, compared to a net debt position of US$765.8 million as at 30 June 2010 and US$850.6 million as at 31 December 2009. These movements were mainly driven by variation in the cash and cash equivalent balances.

As at 31 December 2010, MMG had net current assets of US$408.0 million consisting of US$765.6 million of current assets and US$357.6 million of current liabilities, which represented a decrease of US$82.9 million as compared to 30 June 2010, but an increase of US$106.8 million as compared to 31 December 2009. The current ratio dropped to 2.1 as at 31 December 2010 from 3.1 as at 30 June 2010 and 2.3 as at 31 December 2009.

MMG's gearing ratio, which is the ratio of total interest-bearing liabilities to total assets, was approximately 45.1% as at 31 December 2010 as compared to 47.2% as at 30 June 2010 and 51.9% as at 31 December 2009.

## Financial resources and liquidity for the Group

During the year, total assets increased by 11.9% to US$3,466.9 million whereas shareholders' equity decreased by 58.3% to US$477.0 million. Current ratio decreased from 2.3 to 1.7.



As at 31 December 2010, the Group was in a net debt position of US$1,547.9 million, representing cash and bank deposits of US$417.4 million less total borrowings of US$1,965.3 million (comprising bank borrowings of US$1,222.9 million, advances from banks for discounted bills of US$43.6 million, another loan of US$694.5 million and finance lease liabilities of US$4.3 million). Gearing ratio increased from 0.6 to 2.9 (defined as total borrowings less cash and bank deposits divided by shareholders' equity).

The Group's cash and bank deposits, amounting to US$417.4 million at 31 December 2010, were mainly denominated in US dollars (63.8%), Renminbi (24.7%) and Australian dollars (11.5%).

As at 31 December 2010, the profile of the Group's bank borrowings was as follows:

1. 6.5% were in Renminbi and 93.5% were in US dollars;
2. 0.7% were in fixed rates and 99.3% were in floating.
3. 6.8% were repayable within 1 year, 65.1% were repayable between 1 and 2 years, 11.1% were repayable between 2 and 5 years and 17.0% were repayable after 5 years.

## MATERIAL ACQUISITIONS AND DISPOSALS

Under a Share Sale Deed dated 19 October 2010, All Glorious, a wholly-owned subsidiary of the Company, agreed to acquire Album Resources (the company which owns the MMG assets) from Album Enterprises, a wholly-owned subsidiary of CMN. CMN is also a controlling indirect shareholder of the Company.

In an EGM of the Company held on 9 December 2010, the proposed acquisition by All Glorious from Album Enterprises for the entire equity interest in Album Resources was approved by the shareholders of the Company. The 2010 Business Combination was completed on 31 December 2010 for a total consideration of US$2,136.8 million satisfied as follows:

- US$100.0 million in cash;
- US$694.2 million from the proceeds of a loan from Album Enterprises to All Glorious;
- US$652.6 million by the issue of 940,779,090 Consideration Shares of the Company; and
- US$690.0 million by the issue of PSCS convertible into 1,560 million conversion shares of the Company.

In January 2010, the Group provided a cash contribution of approximately RMB71.3 million (equivalent to approximately US$10.4 million) to Guangxi Huayin to support its technology enhancement project, which can enhance energy-saving, wastage reduction and production efficiency of its manufacturing process. The above contribution was made in proportion to the Group's equity interest in Guangxi Huayin, that is, 33%.

In April 2010, an agreement was entered into by the Group to conditionally dispose 42% equity interest in Yantai Penghui Copper Industry Company Limited – a non-current asset held for sale by the Group – to an independent third party at a consideration of approximately RMB85.6 million (equivalent to approximately US$12.5 million). As full provision had already been made in respect of this investment in prior years, it was expected that an estimated disposal gain of approximately RMB85.6 million (equivalent to approximately US$12.5 million) would be recognised in accordance with the fulfilment of conditions as stipulated in the agreement and the transfer of significant risks and rewards of the ownership concerned. For the year ended 31 December 2010, a deposit of RMB8.6 million (equivalent to approximately US$1.3 million) was received by the Group in accordance with the agreement and no disposal gain has been recognised in this financial year.

Stockpiled ore at Century, Queensland.

## CONTINGENT LIABILITIES

The Company and its subsidiaries are defendants from time to time in legal proceedings arising from the conduct of their businesses. The Group does not consider that the outcome of any of these proceedings ongoing at balance date, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

Certain bank guarantees have been provided in connection with the operations of certain of the subsidiaries of the Company, primarily associated with the terms of mining leases or exploration licences. At the end of the year, no claims have been made under these guarantees. The amount of these guarantees may vary from time to time depending upon the requirements of the relevant regulatory authority. These guarantees amount to US$112.8 million. Provision is made in the financial statements for the anticipated costs of the mine rehabilitation obligations under the mining leases and exploration licences.

## CHARGES ON ASSETS

As at 31 December 2010, the following assets of the Group were pledged to certain banks for the banking facilities granted to the Group.

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

(ii) certain property, plant and equipment, land use rights and inventories of the Group with a total carrying amount of approximately US$65.4 million (2009: US$46.9 million);

(iii) pledged bank deposits of approximately US$6.4 million (2009: US$4.5 million); and

(iv) an external borrowing of US$200.0 million is secured by a share charge to the lender of 100 percent of the shares held in its wholly-owned subsidiary, Album Investment, a mortgage over 70% of the shares in certain subsidiaries of Album Investment and a mortgage over 70% of shares of MMG Laos Holdings Limited.

## RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including commodity price risk, equities price risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The use of financial derivative instruments should strictly follow the yearly plans approved by the Board of Directors of the Company and its subsidiaries. The Group does not and is prohibited to enter into derivative contracts for speculative purposes.

The core management team identifies, evaluates and monitors financial risks in close cooperation with the Group's operating units to ensure derivative financial instruments are employed solely for hedging purposes.

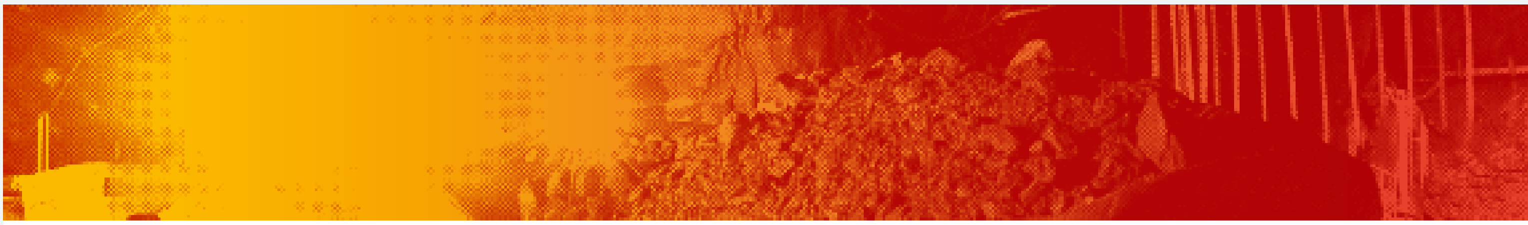
### Commodity price risk

The principal activities of the Group are the trading of alumina, aluminium ingot and other non-ferrous metals, the production and sales of aluminium foils and extrusions, and the mining and sale of zinc, copper, lead, gold and silver. As commodity markets are influenced by global as well as regional supply and demand conditions, any unexpected price changes in the market exchanges might affect the Group's earnings and performance. To mitigate his risk, the Group closely monitors any significant exposures. The Group may enter into commodity derivative contracts in its aluminium operations from time to time in accordance with the policies and yearly plans approved by the Board of Directors. Further details of these commodity derivative contracts are set out in Note 24. The Group generally believes commodity price hedging in relation to the mining operations would not provide long-term benefits to its shareholders.

### Equities price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the balance sheet as available-for-sale.

The majority of the Group's equity investments are publicly traded.



### Interest rate risk

The Group is exposed to interest rate volatility on deposits and borrowings. Deposits and borrowings at variable rates expose the Group to cash flow interest rate risk. Deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. Details of the Group's cash and cash equivalents have been disclosed in Note 25 while the details of the Group's borrowings are set out in Note 30.

The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements.

The Group has used interest rate swaps to manage the interest rate risk of its floating rate bank borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Details of the Group's interest rate swaps are disclosed in Note 24.

### Foreign exchange risk

The Group operates internationally and is exposed to foreign currency exchange risk. The Group's reporting currency and functional currency of the majority of subsidiaries with the Group is US dollars. The majority of revenue received by the Group is US dollars. The Group's foreign currency exchange risk arises predominantly from the currency in which the Group's operations are located.

The Group is exposed to foreign exchange risk primarily with respect to Renminbi (RMB), Australian dollars (AUD), Hong Kong dollars (HKD) and the Canadian dollar (CAD). Given the exchange rate peg between Hong Kong dollars and US dollars, it is not foreseen that the Group will be exposed to significant exchange rate risk for the transactions conducted in HKD or US dollars. However, exchange rate fluctuations of RMB, CAD or AUD against US dollars could affect the Group's performance and asset value.

Under normal market conditions, the Group does not believe that active currency hedging of transactions would provide long-term benefit to shareholders. The Group tries to minimise these exposures through natural hedges wherever possible. For instance, the majority of external debt and surplus cash is denominated in US dollars. A portion of cash may be held in Australian dollars and Renminbi to meet operating costs.

The long-term relationship between commodity prices and the currencies of the countries where the Group operates provides a degree of natural protection. However, the Group may choose to hedge large foreign currency exposures such as capital expenditure, dividends or tax payments.

### Credit risk

Credit risk arises primarily from: (i) trade and bills receivables; and (ii) derivative financial instruments and bank deposits. The Group's maximum exposure to this risk, without taking account of any collateral held, is represented by the carrying amounts of these financial assets in the consolidated balance sheet after deducting any provision for impairment.

### Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

Management utilises both short and long-term cash flow forecasts and other consolidated information to ensure appropriate liquidity buffers are maintained to support the Group's activities.

## CAPITAL RISK MANAGEMENT

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern, support the Group's sustainable growth, enhance shareholders' value and provide capital for potential acquisitions and investment.

Underground drill maintenance at Rosebery, Tasmania.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, issue new shares or raise/repay debts.

The Group monitors capital by using gearing ratio defined as total borrowings less cash and bank deposits divided by shareholders' equity.

| | 2010 US$ MILLION | 2009 US$ MILLION (RESTATED) |
|---|---|---|
| CASH AND CASH EQUIVALENTS | 398.2 | 471.1 |
| TIME DEPOSITS | 12.8 | 28.0 |
| PLEDGED BANK DEPOSITS | 6.4 | 4.5 |
| LESS: TOTAL BORROWINGS INCLUDING A LOAN FROM A RELATED PARTY AND ADVANCES FROM BANKS FOR DISCOUNTED BILLS. | 1,965.3 | 1,256.5 |
| NET DEBT | 1,547.9 | 752.9 |
| TOTAL EQUITY | 533.4 | 1,212.1 |
| GEARING RATIO | 2.9 | 0.6 |

## CAPITAL EXPENDITURE AND COMMITMENTS

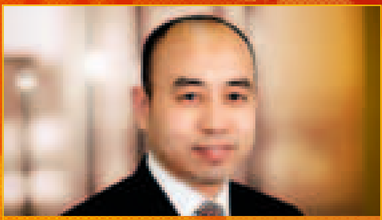
The Group's capital expenditure of approximately US$323.2 million for year ended 31 December 2010, was mainly related to Sepon copper expansion, mine development at Century, tailings storage facility upgrade at Golden Grove and a new ventilation shaft at Rosebery.

The Group's operating and capital commitments as at 31 December 2010 amounted to approximately US$63.9 million, which were mainly related to commitments made by the mining business.

## HUMAN RESOURCES

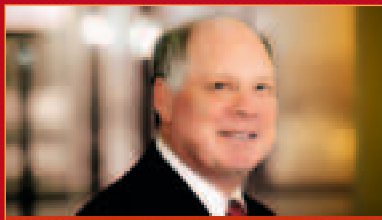
As at 31 December 2010, the Group employed a total of 5,797 full-time employees (not including all Group contractors and employees of jointly controlled companies and associates) of which 18 were based in Hong Kong, 2,503 were based in mainland China, 1,554 in Australia, 1,629 working in Laos, 18 in Canada and 75 in Group Exploration. Total staff costs for the year ended 31 December 2010, including directors' emoluments amounted to US$280.5 million.

The Group has adopted remuneration policies in line with market practice and remunerated its employees based on the responsibilities of their role, their performance and the performance of the Company. Other employee benefits include performance-related incentives and in specific cases insurance and medical coverage and a limited share option scheme. An extensive training program is offered to employees across the Company, which is designed to improve individual and group performance.

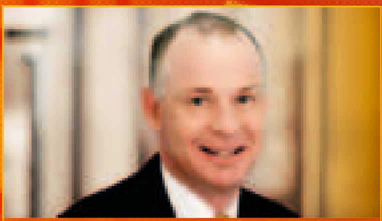


Chairman
**Mr Li Fuli**

Vice Chairman
**Mr Hao Chuanfu**



CEO and Executive Director
**Mr Andrew Michelmore**

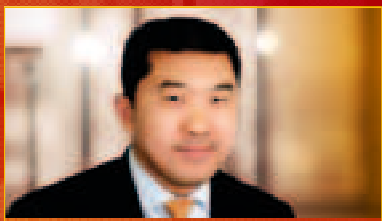


CFO and Executive Director
**Mr David Lamont**

Executive Director
**Mr Li Liangang**

Non-Executive Director
**Mr Jiao Jian**

Non-Executive Director
**Mr Xu Jiqing**



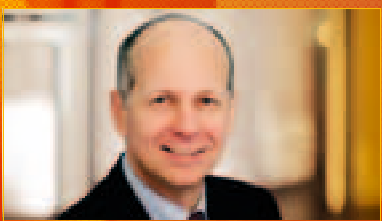
Non-Executive Director
**Mr Wang Lixin**

Independent Non-Executive Director
**Mr Ting Leung Huel, Stephen**

Independent Non-Executive Director
**Mr Loong Ping Kwan**

Independent Non-Executive Director
**Dr Peter Cassidy**

Chief Operating Officer resigned 27 March 2011
**Mr Brett Fletcher**



Executive General Manager Business Development
**Mr Michael Nossal**

Executive General Manager Exploration
**Mr Steve Ryan**

Executive General Manager Business Support
**Mr Tim Scully**

# DIRECTORS AND SENIOR MANAGEMENT

## CHAIRMAN

**Mr Li Fuli**
Mr Li, aged 45, was appointed as Chairman of the Company in July 2009, after being designated a Non-Executive Director in May 2009.

Mr Li has also served as a Chairman and Non-Executive Director of MMG Management and certain other subsidiaries of the Company. He is currently: Vice President of China Minmetals Corporation (CMC); Director and Vice President of China Minmetals Corporation Limited; Vice Chairman of CMN; Chairman of Minmetals Non-ferrous Metals Holding Co. Ltd; Chairman of Hunan Nonferrous Metals Corporation Limited (HNC) and Hunan Nonferrous Metals Holdings Group Company Limited (HNG) respectively.

Mr Li has a Bachelor of Financial Accounting from the Renmin University of China in the PRC and an Executive Master of Business Administration from the Cheung Kong Graduate School of Business in the PRC. He has extensive experience in strategic investment, corporate finance and financial management.

Mr Li joined the CMC Group in 1991 and has since been assigned to a number of subsidiary companies including the appointments of: Vice General Manager of Minmetals Finance Company Limited in 1994, and General Manager from 1997 to 2007; Vice General Manager of the Finance Branch of CMC from 2001 to 2002; Vice General Manager of Minmetals Investment & Development Company Limited in 2002, and General Manager from 2005 to March 2009; Assistant President of CMC in 2007 and promoted to Vice President in 2008; and Chairman of Shanxi Guanlv (a company listed on the Shenzhen Stock Exchange) from April 2009 to April 2010.

## VICE CHAIRMAN

**Mr Hao Chuanfu**
Mr Hao, aged 44, was redesignated as the Vice Chairman and an Executive Director of the Company in December 2010, after being appointed an Executive Director and President in May 2008. He has also served as a Director of a number of subsidiaries and an associate of the Company.

Mr Hao graduated from the University of International Business and Economics in the PRC with a degree of junior college in accounting in 1986. He is a certified public accountant in the PRC and has extensive experience in international business, financial management and corporate management.

Mr Hao joined the CMC Group in 1986 and has since been assigned to a number of departments and subsidiaries of CMC, both in the PRC and overseas. In 1996, he was the Section Chief of the Finance department of CMN. In 1998 he was appointed the assistant General Manager of CMN, and was promoted as the Deputy General Manager in 1999. From 2000 to 2001, he was the Assistant General Manager of China National Nonferrous Metals Industry Trading Group Corporation, and from 2001 to 2008, he held the position of General Manager of Minmetals North-Europe AB.

## EXECUTIVE DIRECTORS

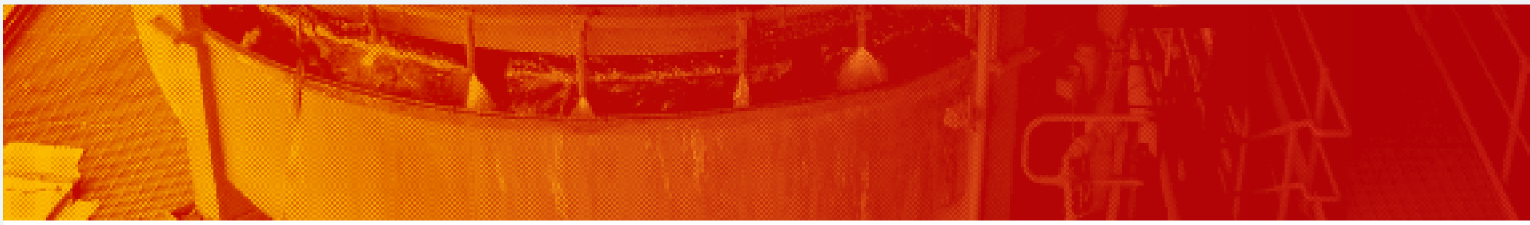
**Mr Andrew Michelmore**
Mr Michelmore, aged 58, was appointed as an Executive Director and the CEO of the Company in December 2010. He is currently a member of the Company's Safety, Health, Environment and Community Committee. Mr Michelmore has been Managing Director and CEO of MMG from its formation in June 2009. He has also served as a Director of a number of subsidiaries within MMG. Mr Michelmore joined MMG after his tenure as CEO of Zinifex Limited (Zinifex) and then OZ Minerals Limited (OZ Minerals). He is a director of Century Aluminum Company (a company listed on the NASDAQ and the Iceland Stock Exchange). Prior to his role as the CEO of Zinifex, Mr Michelmore spent two years working in London and Russia as the CEO of En+ Group.

Mr Michelmore has more than 28 years experience in the metals and mining industry including 12 years at WMC Resources Limited, where he was the CEO and prior to that, held senior roles in the company's nickel, gold, alumina, copper, uranium, and fertiliser businesses.

Mr Michelmore holds a First Class Honours degree in Engineering (Chemical) from the University of Melbourne and a Master of Arts in Politics, Philosophy and Economics from Oxford University. He is a Fellow of the Institution of Chemical Engineers, the Institution of Engineers Australia and the Australian Academy of Technological Sciences and Engineering.

Mr Michelmore is also Chairman of The Jean Hailes Foundation for Women's Health, Chairman of the Council of Ormond College at the University of Melbourne and a member of the Minerals Council of Australia and the Business Council of Australia.

**Mr David Lamont**
Mr Lamont, aged 45, was appointed as an Executive Director and the CFO of the Company in December 2010. He joined MMG as the CFO on its formation in June 2009 and was the CFO of OZ Minerals from October 2008. Mr Lamont has also served as a Director of a number of subsidiaries within MMG.



He holds a Bachelor of Commerce degree and is a qualified Chartered Accountant. He is a member of the Institute of Chartered Accountants and was an Audit Supervisor at Deloitte Haskins and Sells before commencing a corporate career.

After progressing through a number of senior roles in the chemical and agricultural industries, he was appointed the CFO at Incitec Limited in 1999. Mr Lamont joined BHP Billiton in 2001 where he held a number of senior roles including the CFO of BHP Billiton's Energy Coal and Carbon Steel Materials Groups. He joined OZ Minerals from PaperlinX Limited, where he had served as the CFO since 2006 and was appointed an Executive Director in February 2008, resigning in September 2008.

**Mr Li Liangang**
Mr Li, aged 47, was appointed as a Non-Executive Director of the Company in December 2009 and was redesignated as an Executive Director in December 2010. He is the Chairman of Minmetals Aluminium and a Director and the President of Sino Mining International Limited, both subsidiaries of the Company. Mr Li has also served as a Director of three subsidiaries of the Company.

He holds a Bachelor in English language from the Normal College for Foreign Language of Beijing Union University in the PRC and has extensive experience in international business and the non-ferrous metals industry.

Mr Li joined the CMC Group in 1987. Since 1993, he has been assigned to various senior management positions with the subsidiaries of CMC in the PRC, Australia, Mexico and the USA. In July 2008 and August 2009 respectively, Mr Li was a Non-Executive Director and an Independent Non-Executive Director of Sino Gold Mining Limited, a company listed on the Australian Securities Exchange (ASX) and the Hong Kong Stock Exchange (which was delisted on 16 December 2009) and subsequently resigned on 4 December 2009.

## NON-EXECUTIVE DIRECTORS

**Mr Jiao Jian**
Mr Jiao, aged 42, was appointed as a Non-Executive Director of the Company in December 2010, and is currently a member of the Company's Remuneration and Nomination Committee and a member of the Safety, Health, Environment and Community Committee.

He is a Director of Sino Mining International Limited, a subsidiary of the Company. Mr Jiao was also appointed as the President of CMN in May 2010, and is the President of Minmetals Non-ferrous Metals Holding Co. Ltd. He is also the Chairman of the Board of Directors of Shanxi Guanlv. In addition, Mr Jiao was appointed as Non-Executive Director of MMG Management in June 2009.

He holds a Bachelor's degree in International Economics from the Nankai University in the PRC and a Master of Business Administration from Saint Mary's University in Canada. He has extensive experience in international trade, investment and corporate management.

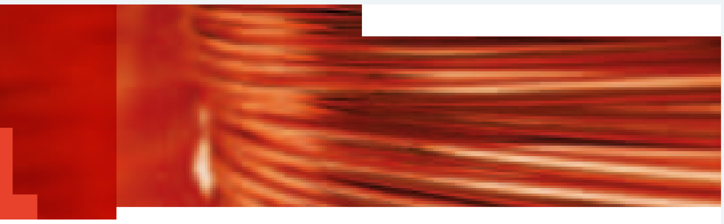
Mr Jiao joined the CMC Group in 1992 and was responsible for the copper and aluminium business. He was the Vice President of CMN from 2007 to May 2010.

**Mr Xu Jiqing**
Mr Xu, aged 43, was appointed as a Non-Executive Director of the Company in May 2009 and is currently a member of the Company's Audit Committee. Mr Xu has been a Non-Executive Director of MMG Management since June 2009. He has also served as a Director of Sino Mining International Limited, a subsidiary of the Company.

Mr Xu was appointed the Vice President and CFO of CMN in 2007 and 2005 respectively. He is the Vice President and CFO of Minmetals Non-ferrous Metals Holding Co. Ltd.

Mr Xu holds a Bachelor's degree in Accounting from the University of International Business and Economics in the PRC, and a Master of Business Administration from Saint Mary's University in Canada. He is a qualified senior accountant in the PRC and is a member of the Certified General Accountants Association of Canada. He has extensive experience in accounting and corporate financial management.

Mr Xu joined the CMC Group in 1991. In 1997, he was the Manager of Finance at Minmetals Development Co. Ltd., and was later promoted to Vice General Manager in 1999, and General Manager in 2000. He was also the General Manager of Finance at China National Nonferrous Metals Industry Trading Group Corporation from July 2001 to April 2002; and the General Manager of Finance at CMN from 2002 to 2007.



Finished copper rod at Changzhou Jinyuan Copper, Changzhou, China.

**Mr Wang Lixin**
Mr Wang, aged 43, was appointed as an Executive Director and a Vice President of the Company in October 2005, and was later redesignated as a Non-Executive Director in January 2008; the Vice Chairman and a Non-Executive Director in July 2009; and subsequently, a Non-Executive Director in December 2009 respectively. He is also a member of the Company's Remuneration and Nomination Committee.

Mr Wang has served as a Non-Executive Director of MMG Management since June 2009, in addition to being a Director of Topstart Limited, a subsidiary of the Company. He has acted as the consultant of CMN since November 2009.

Mr Wang holds a Bachelor of Arts in International Trade from the University of International Business and Economics in the PRC in 1990 and has over 14 years experience in foreign trade and corporate management, as well as five years experience with government services.

He joined the Ministry of Foreign Trade and Economic Cooperation in 1990 and the CMC Group in 1995. From 2007 to 2009, Mr Wang was the President of CMN; and a Director of Shanxi Guanlv from April 2009 to December 2009.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr Ting Leung Huel, Stephen**
Mr Ting, aged 57, was appointed as an Independent Non-Executive Director of the Company in June 2002. He is the Chairman of the Company's Audit Committee and a member of the Remuneration and Nomination Committee.

Mr Ting is also a Non-Executive Director of Chow Sang Sang Holdings International Limited (a company listed on the Hong Kong Stock Exchange), and an Independent Non-Executive Director of seven other listed companies on the Hong Kong Stock Exchange including: Tong Ren Tang Technologies Company Limited, Tongda Group Holdings Limited, JLF Investment Company Limited, Computer and Technologies Holdings Limited, Texhong Textile Group Limited, Dongyue Group Limited and China SCE Property Holdings Limited. Mr Ting is a member of the 9th and 10th Chinese People's Political & Consultative Conference, Fujian.

Mr Ting is an accountant in public practice and is the managing partner of Messrs. Ting Ho Kwan & Chan, Certified Public Accountants (Practising).

**Mr Loong Ping Kwan**
Mr Loong, aged 46, was appointed as an Independent Non-Executive Director of the Company in August 2009. He is a member of the Company's Remuneration and Nomination Committee and a member of the Audit Committee.

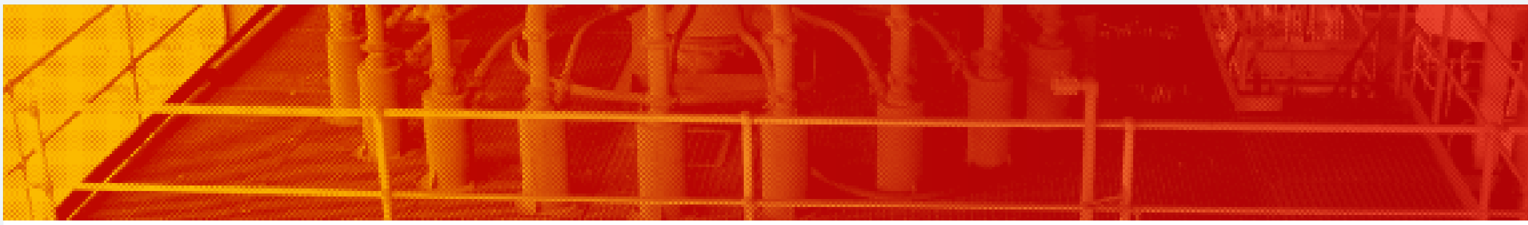
Mr Loong is a Director of Guangdong Golden Glass Technologies Limited (a company listed on the Shenzhen Stock Exchange), and is also a practising solicitor admitted in Hong Kong.

Mr Loong graduated from the University of Hong Kong with a Bachelor of Arts. He is an associate (life member) of the Hong Kong Institute of Bankers, and a founder of Messrs. Loong and Yeung in Hong Kong. He has over 20 years' experience in corporate finance, mergers and acquisitions.

Mr Loong was an Independent Non-Executive Director of Zijin Mining Group Company Limited (a company listed on the Hong Kong Stock Exchange) from August 2003 to November 2009.

**Dr Peter Cassidy**
Dr Cassidy, aged 65, was appointed as an Independent Non-Executive Director of the Company in December 2010. He is the Chairman of the Company's Remuneration and Nomination Committee and the Safety, Health, Environment and Community Committee. Dr Cassidy is also a member of the Company's Audit Committee. Since 2009, he has been an Independent Non-Executive Director of MMG Management.

Dr Cassidy is a metallurgical engineer, with 40 years of experience in the resource and energy sectors including 20 years as a Director of major public companies. He was an Independent Non-Executive Director of Oxiana Limited (2002 to 2007); Zinifex Limited (2004 to 2008); Sino Gold Mining Limited (2002 to 2009); Lihir Gold Limited (2003 to 2010); OZ Minerals (2008 to 2009); and Energy Developments Limited (2003 to 2009). He was also Non-Executive Chairman of Allegiance Mining NL (April to July 2008) and a Director of Eldorado Gold Corporation (2010). He was CEO of Goldfields Limited from 1995 until its merger with Delta Gold Limited in 2002 to form Aurion Gold Limited (AurionGold).



Prior to 1995, Dr Cassidy was Executive Director – Operations of RGC Limited. He remained a Director of AurionGold until January 2003.

Dr Cassidy has most recently been involved in the development and operation of major mining and processing projects in Australia, the PRC, Laos, Papua New Guinea and Cote d'Ivoire. He is also a member of the the Board of Advice of the Sydney Conservatorium of Music.

## SENIOR MANAGEMENT

**Mr Brett Fletcher, Chief Operating Officer – resigned 27 March 2011**
Mr Fletcher, aged 46, was appointed to the Executive Committee of the Company on 24 January 2011 and is also the Chief Operating Officer of the Group with responsibility for the Century, Golden Grove, Rosebery and Sepon operations. Previously he was the Chief Operating Officer of MMG and prior to that the Chief Operating Officer of OZ Minerals and Zinifex.

Mr Fletcher commenced his career in the mining industry in 1989 at Broken Hill, New South Wales where as a qualified mining engineer he held various technical and management roles. For the last seven years Mr Fletcher has held General Manager positions at Rosebery mine, Century mine and Hobart Smelter. Mr Fletcher resigned from Group, effective 27 March 2011.

**Mr Michael Nossal, Executive General Manager – Business Development**
Mr Nossal, aged 52, was appointed to the Executive Committee of the Company on 24 January 2011 following on from his appointment at MMG in January 2010. Prior to joining MMG, Mr Nossal was the Deputy CEO of En+ Group where he was responsible for corporate finance, strategy and business development and execution of key merger and acquisition projects. Prior to En+, Mr Nossal was Executive General Manager Business Strategy & Development at WMC Resources Limited, where he was responsible for business development, corporate planning, exploration, technical research and project development.

Mr Nossal has also held senior roles at Normandy Mining Limited and Kenmare Resources Limited. Between these roles Mr Nossal spent several years in investment banking as Associate Director at Macquarie Corporate Finance where he worked in the resources team on public market mergers and acquisitions, project finance and mining asset sales and acquisitions.

Mr Nossal holds a Science degree from Monash University in Melbourne and a Masters of Business Administration from the Wharton School of the University of Pennsylvania. He is also a Non-Executive Director of Nord Gold NV.

**Mr Steve Ryan, Executive General Manager – Exploration**
Mr Ryan, aged 47, was appointed to the Executive Committee of the Company on 24 January 2011. He is also the Executive General Manager for Exploration of the Group and previously held this position at MMG. He has over 20 years' international experience in the mineral exploration industry. Mr Ryan worked for the CRA/Rio Tinto Group, including: Country Exploration Manager positions in India, Papua New Guinea and Fiji; and geologist positions in Russia, Australia and other countries. Mr Ryan has held positions with Oxiana as China Country Exploration Manager and OZ Minerals as Asia Exploration General Manager. He has also had three years in the venture capital industry as an Investment and Business Development Manager for an international venture capital group. Mr Ryan has a degree in Geology and an MBA in International Business. He has been acting as Chief Operating Officer following Mr Fletcher's resignation.

**Mr Tim Scully, Executive General Manager – Business Support**
Mr Scully, aged 63, was appointed to the Executive Committee of the Company on 24 January 2011. He is also the Executive General Manager – Business Support of the Group and previously held this position at MMG. Prior to that, he joined OZ Minerals in November 2008. Mr Scully has experience in shared services, leadership development, talent management and succession planning and human resource systems and processes. Prior to joining OZ Minerals Mr Scully was General Manager Organisation Development at Intrepid Mines. He was responsible for the development and roll-out of the human resources merger implementation plan through the merger of Emperor and Intrepid. Prior to this role, Mr Scully was General Manager Organisation Development and Human Resources at Atlas Group Holdings and before that, General Manager – Human Resources at WMC Resources Limited, where he worked from 1989 to 2005.

Exploration drilling operation at Dugald River, Queensland.

The Board of Directors (the Board) of the Company is pleased to present the annual report together with the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2010.

## PRINCIPAL ACTIVITIES

The principal activities of the Group and its jointly-controlled entities and associates during the financial year, following the Company's acquisition of MMG are:

- mining, processing and production of zinc, copper, lead, gold and silver;
- exploration for mineralisation and development of mining projects;
- trading of non-ferrous metals;
- production of alumina; and
- manufacturing and distribution of aluminium and copper products.

The full details of the principal activities of the Company's subsidiaries, jointly-controlled entities and associates are set out in Notes 18 and 19 to the consolidated financial statements.

An analysis of the Group's revenue for the year ended 31 December 2010 by reportable segments, together with their respective contributions to profit from operations, is set out in Note 6 to the consolidated financial statements.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the five largest customers in aggregate accounted for less than 29% of the total sales of the Group. Purchases from the largest supplier and the five largest suppliers of the Group in aggregate accounted for 13.4% and 43.2% of the total purchases of the Group respectively during the year.

Apart from CMC, the ultimate controlling shareholder of the Company, having an interest of 29.9% in one of the five largest suppliers, none of the directors or any of their associates or any shareholders of the Company (which to the knowledge of the directors, owned more than 5% of the Company's share capital) had any beneficial interest in any of the five largest customers or suppliers of the Group.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2010 are set out in the consolidated income statement on page 78.

No interim dividend was declared during the year (2009: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

## RESERVES

Movements in reserves of the Group during the year are set out in Note 27 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Details of the distributable reserves of the Group as at 31 December 2010 are set out in Note 27 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the year are set out in Note 16 to the consolidated financial statements.

## BORROWINGS

Particulars of borrowings of the Group as at 31 December 2010 are set out in Note 30 to the consolidated financial statements.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 158 to 159 of this annual report.

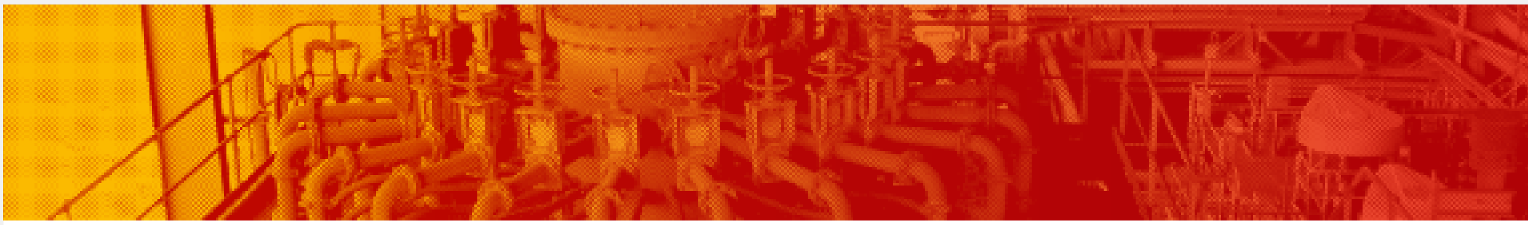
## SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in Note 26 to the consolidated financial statements.

## DONATIONS

Donations made by the Group during the year for charitable and community purposes amounted to approximately US$1,458,562.

# DIRECTORS' REPORT



## DIRECTORS

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

**Chairman**

Mr Li Fuli (Non-Executive Director)

**Vice Chairman**

Mr Hao Chuanfu (Executive Director)
(Redesignated on 31 December 2010)

**Executive Directors**

Mr Andrew Michelmore (Chief Executive Officer)
(Appointed on 31 December 2010)

Mr David Lamont (Chief Financial Officer)
(Appointed on 31 December 2010)

Mr Li Liangang
(Redesignated on 31 December 2010)

Mr Zhan Wei
(Resigned on 31 December 2010)

**Non-Executive Directors**

Madame Shen Ling
(Resigned on 31 December 2010)

Mr Wang Lixin

Mr Zong Qingsheng
(Resigned on 31 December 2010)

Mr Xu Jiqing

Mr Jiao Jian
(Appointed on 31 December 2010)

**Independent Non-Executive Directors**

Mr Li Dongsheng
(Resigned on 31 December 2010)

Mr Ting Leung Huel, Stephen

Mr Loong Ping Kwan

Dr Peter Cassidy
(Appointed on 31 December 2010)

In accordance with article 85 of the articles of association of the Company, Mr Andrew Michelmore, Mr David Lamont, Mr Li Liangang, Mr Jiao Jian and Dr Peter Cassidy will retire at the forthcoming AGM of the Company and, being eligible, offer themselves for re-election.

In accordance with article 101 of the articles of association of the Company, Mr Xu Jiqing and Mr Hao Chuanfu, will retire by rotation at the forthcoming AGM of the Company and, being eligible, offer themselves for re-election.

The Company has received from each of the Independent Non-Executive Directors of the Company an annual confirmation of independence pursuant to Rule 3.13 of Listing Rules and considers them to be independent.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

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

As at 31 December 2010, the interests and short positions of the directors and the chief executive of the Company or any of their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the SFO)) 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 are taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code) as set out in Appendix 10 of the Listing Rules were as follows:

Copper cathode stocks at Changzhou Jinyuan Copper, Changzhou, China.

#### LONG POSITION IN THE UNDERLYING SHARES OF THE COMPANY

| NAME OF DIRECTOR | NATURE OF INTEREST | NUMBER OF UNDERLYING SHARES HELD (NOTE 1) | APPROXIMATE PERCENTAGE OF TOTAL NUMBER OF ISSUED SHARES (NOTE 2) |
|---|---|---|---|
| LI FULI | Personal | 1,300,000 | 0.04% |
| HAO CHUANFU | Personal | 1,600,000 | 0.05% |
| LI LIANGANG | Personal | 1,100,000 | 0.04% |
| JIAO JIAN | Personal | 1,200,000 | 0.04% |
| XU JIQING | Personal | 1,000,000 | 0.03% |

Notes:
1. The directors' interests in the underlying ordinary shares of HK$0.05 each in the share capital of the Company are through share options granted by the Company pursuant to the 2004 Share Option Scheme, details of which are set out under the section headed 'Share Option Scheme'.
2. The calculation is based on the number of underlying shares as a percentage of the total number of issued shares of the Company (i.e. 2,966,995,889 shares) as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, none of the directors or the chief executive of the Company or any of their associates had any interests or short positions in any shares, underlying shares or debentures 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 are taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register required to be kept pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code. In addition, none of the directors or the chief executive of the Company or any of their associates had been granted or had exercised any rights to subscribe for any equity or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) during the year ended 31 December 2010.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2010, the interests of directors of the Company in a business which competes or is likely to compete with the businesses of the Group, as defined in the Listing Rules, are as follows:

**1. Mr Li Fuli, a Non-Executive Director and the Chairman of the Company, is:**

- the Chairman of Hunan Nonferrous Metals Corp., Ltd (HNC);
- the Chairman of Hunan Nonferrous Metals Holdings Group Co., Ltd (HNG); and
- the Supervisory Board Chairman of Guangdong Wu Xin Mining Co., Ltd (Guangdong Wu Xin).

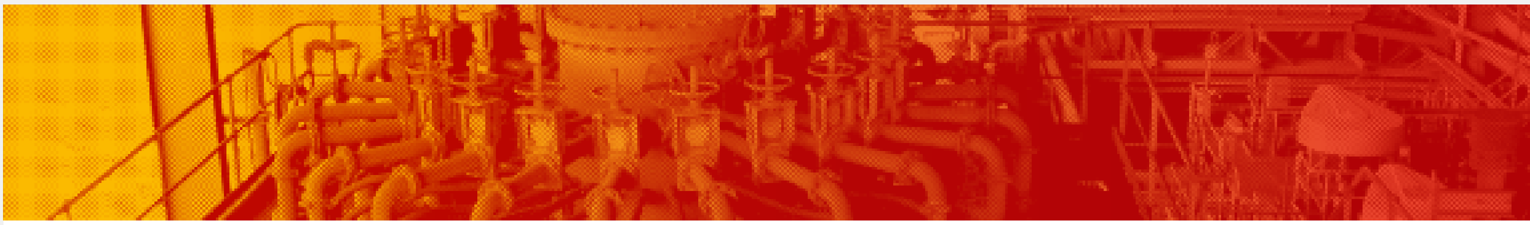
**2. Mr Jiao Jian, a Non-Executive Director of the Company, is:**

- the Chairman of Shanxi Guanlv Co. Ltd. (Shanxi Guanlv);
- a Director of HNG; and
- a Director of Copper Partners Investment Co., Ltd (Copper Partners Investment).

**3. Mr Xu Jiqing, a Non-Executive Director of the Company is:**

- a Director of HNG; and
- a Director of Copper Partners Investment.

Although the Group together with its jointly-controlled entities and the above companies are involved in businesses in the same industry, they are separate companies operated by separate and independent management. The Company is therefore capable of carrying on its business independently of, and at arm's length from, HNC, HNG, Shanxi Guanlv, Guangdong Wu Xin and Copper Partners Investment.



## 2004 SHARE OPTION SCHEME

Pursuant to the share option scheme adopted by the Company on 28 May 2004 (2004 Share Option Scheme), there were 12,600,000 options outstanding as at 31 December 2010, which represented approximately 0.42% of the total number of issued shares of the Company as at that date.

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

**1. Purpose**

To recognise and acknowledge the contributions that the eligible persons had made or may make to the Group.

**2. Participants**

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

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

The total number of shares available for issue under the 2004 Share Option Scheme is 45,234,961 ordinary shares, representing approximately 1.52% of the issued share capital of the Company as at the date of this report.

**4. Maximum entitlement of each participant**

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

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

The Board may in its absolute discretion determine the period during which an option may be exercised, save that such period shall not be more than 10 years from the date on which such option is granted and accepted subject to the provisions for early termination.

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

There is no general requirement of a minimum period for which an option must be held under the terms of the 2004 Share Option Scheme. However, the Board may in its absolute discretion set a minimum period.

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

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

**8. Basis of determining the exercise price**

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

(i) the closing price per share of the Company as stated in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option;

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

(iii) the nominal value of a share of the Company.

**9. The remaining life of the 2004 Share Option Scheme**

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


Underground loader at Golden Grove, Western Australia.

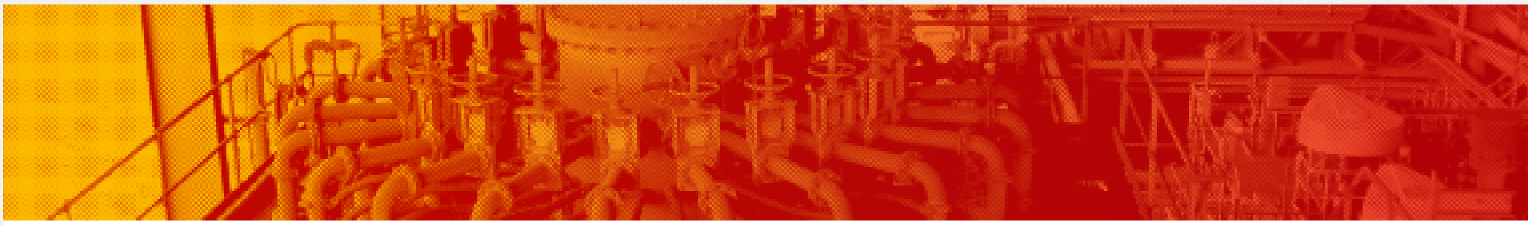
During the year ended 31 December 2010, the movements of the options which have been granted under the 2004 Share Option Scheme are as follows:

| CATEGORY AND NAME OF PARTICIPANT | DATE OF GRANT | EXERCISE PRICE PER SHARE | EXERCISE PERIOD | NUMBER OF OPTIONS | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | BALANCE AS AT 1 JANUARY 2010 | GRANTED DURING THE PERIOD | EXERCISED DURING THE PERIOD | CANCELLED DURING THE PERIOD | LAPSED DURING THE PERIOD | BALANCE AS AT 31 DECEMBER 2010 |
| | (NOTE 1) | HK$ | (NOTE 2) | | | | | (NOTE 3) | |
| **DIRECTORS** | | | | | | | | | |
| LI FULI | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,300,000 | – | – | – | 1,300,000 |
| HAO CHUANFU | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,600,000 | – | – | – | 1,600,000 |
| SHEN LING | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,000,000 | – | – | (1,000,000) | – |
| ZONG QINGSHENG | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,000,000 | – | – | (1,000,000) | – |
| LI LIANGANG | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,100,000 | – | – | – | 1,100,000 |
| JIAO JIAN | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,200,000 | – | – | – | 1,200,000 |
| XU JIQING | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 1,000,000 | – | – | – | 1,000,000 |
| **EMPLOYEES OF THE GROUP** | 3 June 2010 | 2.75 | 3 June 2012 to 2 June 2015 | – | 7,200,000 | – | – | (800,000) | 6,400,000 |
| | | | | – | 15,400,000 | – | – | (2,800,000) | 12,600,000 |

Notes:

1. The closing price of the shares of the Company immediately before the date on which the options were granted was HK$2.69 per share.
2. The options granted may be exercised according to the following three tranches, which are subject to certain terms and conditions, including amongst others, the achievement of certain performance targets by the Group and the grantee:
   (i) up to 33% of the options granted to each grantee shall be exercisable at any time after the expiration of 24 months from the date of grant of options;
   (ii) up to 67% of the options granted to each grantee shall be exercisable at any time after the expiration of 36 months from the date of grant of options; and
   (iii) up to 100% of the options granted to each grantee shall be exercisable at any time after the expiration of 48 months from the date of grant of options,

   and in each case, not later than 2 June 2015.
3. Options lapsed due to cessation of employment.



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

So far as is known to the directors and chief executive of the Company, as at 31 December 2010, the following persons had interests or short positions in the shares or underlying shares of the Company, which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

**LONG POSITION IN THE SHARES OF THE COMPANY**

| NAME | CAPACITY | NUMBER OF SHARES HELD | NUMBER OF SHARES WHICH MAY BE CONVERTED FROM PERPETUAL SUB-ORDINATED CONVERTIBLE SECURITIES (NOTE 3) | APPROXIMATE PERCENTAGE OF TOTAL NUMBER OF ISSUED SHARES INTERESTED IN (NOTE 1) |
|---|---|---|---|---|
| CHINA MINMETALS CORPORATION (CMC) | Interest of controlled corporations (Notes 2 & 4) | 2,225,246,916 | 1,560,000,000 | 127.58% |
| CHINA MINMETALS CORPORATION LIMITED (CMCL) | Interest of controlled corporations (Notes 2 & 4) | 2,225,246,916 | 1,560,000,000 | 127.58% |
| CHINA MINMETALS NON-FERROUS METALS COMPANY LIMITED (CMN) | Interest of controlled corporations (Notes 2 & 4) | 2,225,246,916 | 1,560,000,000 | 127.58% |
| ALBUM ENTERPRISES LIMITED (ALBUM ENTERPRISES) | Beneficial owner (Note 4) | 940,779,090 | 1,560,000,000 | 84.29% |
| TOP CREATE RESOURCES LIMITED (TOP CREATE) | Beneficial owner (Note 2) | 1,284,467,826 | – | 43.29% |

Notes:

1. The calculation is based on the number of shares which each person is interested in (whether directly/indirectly interested or deemed to be interested) as a percentage of the total number of issued shares of HK$0.05 each (i.e. 2,966,995,889 shares) of the Company as at 31 December 2010.
2. Top Create is a wholly-owned subsidiary of CMN, which in turn is owned as to approximately 91.5% by CMCL. CMCL is owned as to 96.5% by CMC and 1% by China National Metal Products Co. Ltd., which in turn is a wholly-owned subsidiary of CMC. Accordingly, CMN, CMCL and CMC were by virtue of the SFO deemed to be interested in the 1,284,467,826 shares of HK$0.05 each of the Company held by Top Create as at 31 December 2010.
3. This assumes an initial conversion price of HK$3.45 per share. Pursuant to the Share Sale Deed (as defined in the circular of the Company dated 22 November 2010) entered into between Album Enterprises, All Glorious Limited and the Company in relation to the Acquisition (as defined in the circular of the Company dated 22 November 2010), US$690 million (equivalent to approximately HK$5,382 million), being part of the Purchase Price (as defined in the circular of the Company dated 22 November 2010), was satisfied by the issue of PSCS convertible into 1,560,000,000 shares assuming an initial conversion price of HK$3.45 per share.
4. Album Enterprises is a wholly-owned subsidiary of CMN. Accordingly, CMN, CMCL and CMC were by virtue of the SFO deemed to be interested in the 940,779,090 shares of HK$0.05 each of the Company and PSCS convertible into 1,560,000,000 shares of the Company (assuming an initial conversion price of HK$3.45 per share) held by Album Enterprises as at 31 December 2010.

Save as disclosed above, as at 31 December 2010, there was no other person who was recorded in the register of the Company as having an interest or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, which was recorded in the register required to be kept by the Company under Section 336 of the SFO.

Ore stockpile operations at Golden Grove, Western Australia.

## CONNECTED TRANSACTIONS

During the year ended 31 December 2010, the Group had the following material connected transactions, details of which are set out below:

1. On 19 October 2010, All Glorious, a wholly-owned subsidiary of the Company, entered into a Share Sale Deed to acquire all issued share capital of Album Resources from Album Enterprises, a wholly-owned subsidiary of CMN for a total consideration US$2,136.8 million satisfied as follows:

   - US$100.0 million in cash;
   - US$694.2 million from the proceeds of a loan from Album Enterprises to All Glorious;
   - US$652.6 million by the issue of 940,779,090 Consideration Shares of the Company; and
   - US$690.0 million by the issue of PSCS convertible into 1,560 million conversion shares of the Company.

   CMN is a controlling shareholder of the Company. As Album Enterprises is a wholly-owned subsidiary of CMN, it is a connected person of the Company under the Listing Rules. Accordingly, the acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

   The acquisition was completed on 31 December 2010 after receiving approval from the shareholders of the Company in an EGM held on 9 December 2010.

2. Pursuant to the Share Sale Deed dated 19 October 2010 as discussed above, approximately US$694.2 million of the purchase price payable by All Glorious for the acquisition of Album Resources was to be satisfied by the proceeds from a loan by Album Enterprises to All Glorious. The loan was advanced by Album Enterprises to All Glorious on 31 December 2010.

   The loan has a maturity of five years and carries a fixed interest rate of 2.0% per annum for the first two years, 3.0% per annum for the third year, 4.0% per annum for the fourth year and 5.0% per annum for the last year. The loan will be settled by a bullet payment at maturity unless the Company exercises its option for early repayment of the loan, either in whole or in part. The early repayment of the loan will not result in any penalty payment by the Company.

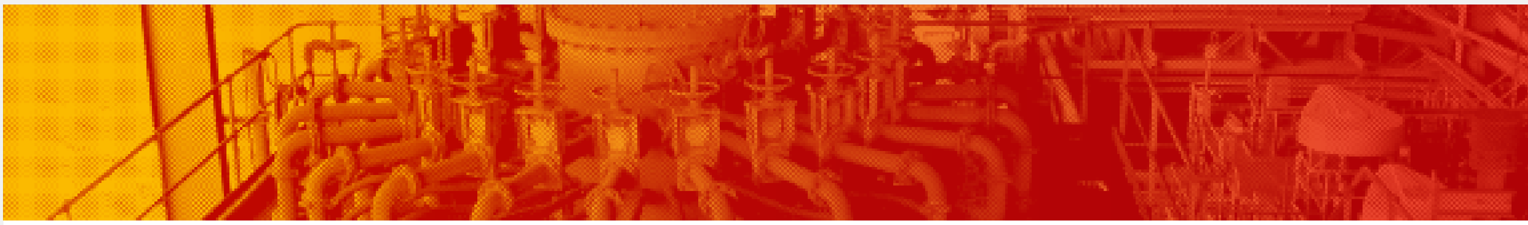
   As noted above, Album Enterprises is a connected person of the Company as it is a wholly-owned subsidiary of CMN. CMN is a controlling shareholder of the Company. Hence this is a connected transaction for the Company. Further details of the loan are set out in Note 38 to the consolidated financial statements.

3. Pursuant to the Share Sale Deed, the Company allotted and issued an aggregate principal sum of US$690 million PSCS on 31 December 2010 to Album Enterprises. These PSCS being convertible into 1,560 million new shares of the Company at an initial conversion price of HK$3.45 per share. The fair value of these PSCS issued on 31 December 2010 amounted to approximately US$690 million. As noted above, Album Enterprises is a connected person of the Company as it is a wholly-owned subsidiary of CMN. CMN is a controlling shareholder of the Company. Hence this is a connected transaction for the Company.

   Further details of the PSCS are set out in Note 28 to the consolidated financial statements.

4. On 28 January 2010, Minmetals Aluminium, a wholly-owned subsidiary of the Company, Aluminium Corporation of China Limited (Chalco) and Guangxi Investment Group Company Limited agreed to inject additional capital in the amount of approximately RMB71.3 million (equivalent to approximately US$10.5 million) into Guangxi Huayin (the Guangxi Huayin Capital Injection). The Guangxi Huayin Capital Injection was paid on 29 January 2010 following completion of all relevant conditions precedent.

   Guangxi Huayin is owned as to 33% by Chalco, which in turn is owned as to over 30% by Aluminium Corporation of China (Chinalco). Chinalco is therefore a substantial shareholder of a non-wholly-owned subsidiary of the Company, and accordingly is a connected person of the Company under the Listing Rules. As such, Guangxi Huayin is an associate of Chalco and Chinalco respectively under the Listing Rules and hence a connected person of the Company. Accordingly, the Guangxi Huayin Capital Injection constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.



5. On 18 March 2008, North China Aluminium Company Limited (NCA), a non-wholly-owned subsidiary of the Company, entered into an agreement with Ershisanye Construction Group Co., Ltd. (Ershisanye) pursuant to which NCA agreed to engage Ershisanye as the contractor for a construction project (NCA Construction Agreement).The contract sum under the agreement is approximately RMB23,111,000 (equivalent to approximately US$3.4 million), subject to adjustment(s) relating to actual construction works agreed by both parties. The contract sum is to be paid with reference to specific milestones. The actual amount paid under the NCA Construction Agreement was approximately RMB5.5 million (equivalent to approximately US$0.8 million) for the year ended 31 December 2010.

   As Ershisanye is owned as to 73.19% by CMN, Ershisanye is regarded as an associate of CMN and is therefore a connected person of the Company under the Listing Rules. Accordingly, the NCA Construction Agreement constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

During the year ended 31 December 2010, the Group had the following material continuing connected transactions, details of which are set out below:

1. On 1 December 2009, Minmetals Aluminium, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the Minmetals Aluminium Sale and Purchase Agreement) with Guangxi Huayin in relation to the purchase of alumina from Guangxi Huayin for the period from 1 December 2009 to 31 December 2012. The proposed annual cap for the transactions for the year ended 31 December 2010 was RMB1,611.0 million (equivalent to approximately US$236.9 million). The actual amount paid under the Minmetals Aluminium Sale and Purchase Agreement was approximately RMB1,336.9 million (equivalent to approximately US$196.6 million) for the year ended 31 December 2010.

   Guangxi Huayin is owned as to 33% by Chalco, which in turn is owned as to over 30% by Chinalco. Chinalco is a substantial shareholder of a non-wholly-owned subsidiary of the Company and is a connected person of the Company under the Listing Rules.

   As such, Guangxi Huayin is an associate of Chalco and Chinalco under the Listing Rules and hence a connected person of the Company.

   Accordingly, the Minmetals Aluminium Sale and Purchase Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

2. On 26 August 2010, Minmetals Aluminium, a wholly-owned subsidiary of the Company, entered into a sale and purchase framework agreement with Shanxi Guanlv Co., Ltd (Shanxi Guanlv), which was supplemented by a supplemental agreement dated 30 August 2010 (Shanxi Guanlv Purchase Framework Agreement) pursuant to which Minmetals Aluminium agreed to purchase aluminium ingots from Shanxi Guanlv for a term of one year and four months commencing 1 September 2010 until 31 December 2011. During the period from 12 November 2010 to 31 December 2010, the actual amount paid under the Shanxi Guanlv Purchase Framework Agreement was approximately RMB143.8 million (equivalent to approximately US$21.1 million).

   Shanxi Guanlv is a subsidiary of CMCL and is therefore a connected person of the Company under the Listing Rules. CMCL is owned as to 97.5% by CMC. Shanxi Guanlv became a subsidiary of CMCL on 21 March 2011 when CMC transferred its 29.9% equity interest in Shanxi Guanlv to CMCL. In turn, Shanxi Guanlv became a subsidiary of CMC on 12 November 2010 after the shareholders of Shanxi Guanlv, at an EGM held on 12 November 2010, approved the appointment of an additional director nominated by CMC to fill a vacancy in the board of directors of Shanxi Guanlv (Shanxi Guanlv Board). This resulted in CMC, which held approximately 29.9% in the equity interests in Shanxi Guanlv, holding a majority of the voting rights at the Shanxi Guanlv Board and rendering Shanxi Guanlv, a subsidiary of CMC.

3. On 26 August 2010, Minmetals Aluminium, a wholly-owned subsidiary of the Company, entered into a sale and purchase framework agreement with Shanxi Guanlv (Shanxi Guanlv Sale Framework Agreement) pursuant to which Minmetals Aluminium agreed to sell alumina to Shanxi Guanlv for a term of one year and four months commencing 1 September 2010 until 31 December 2011. During the period from 12 November 2010 to 31 December 2010, the actual amount paid under the Shanxi Guanlv Sale Framework Agreement was approximately RMB103.9 million (equivalent to approximately US$15.3 million).


Underground production drilling at Rosebery, Tasmania.

As noted above, Shanxi Guanlv is a subsidiary of CMCL and is therefore a connected person of the Company under the Listing Rules.

4. On 31 October 2008, NCA, a non wholly-owned subsidiary of the Company, entered into a logistics services agreement with Minmetals Logistics & Forwarding Tianjian Company Limited (Minmetals Tianjian) (the 2008 NCA Master Agreement) pursuant to which Minmetals Tianjian agreed to provide shipping, customs clearance, unloading, packaging and custody services (Services) to NCA for a term of two years and three months commencing 1 October 2008 until 31 December 2010. The proposed annual cap for the Services for the year ended 31 December 2010 payable under the 2008 NCA Master Agreement was RMB5.0 million (equivalent to approximately US$0.7 million). The actual amount under the 2008 NCA Master Agreement was approximately RMB1.0 million (equivalent to approximately US$0.1 million) for the year ended 31 December 2010.

   On 31 October 2008, Minmetals Aluminium, a wholly-owned subsidiary of the Company, entered into a logistics services agreement with China Minmetals Logistics Group Co. Ltd. (Minmetals Logistics) (the 2008 Minmetals Aluminium Master Agreement) pursuant to which Minmetals Logistics agreed to provide Services to Minmetals Aluminium for a term of two years and three months commencing from 1 October 2008 until 31 December 2010. The proposed annual cap for the Services for the year ended 31 December 2010 payable under the 2008 Minmetals Aluminium Master Agreement was RMB9.0 million (equivalent to approximately US$1.3 million). The actual amount under the 2008 Minmetals Aluminium Master Agreement was approximately RMB151,000 (equivalent to approximately US$22,000) for the year ended 31 December 2010.

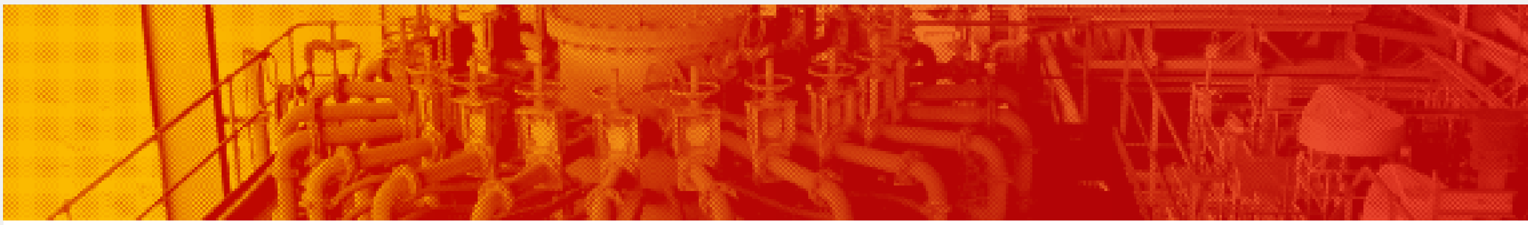
   Each of Minmetals Logistics, a non-wholly-owned subsidiary of CMC and Minmetals Tianjin, a non-wholly-owned subsidiary of CMC, is regarded as an associate of CMM and is therefore a connected person of the Company under the Listing Rules. Accordingly, the 2008 NCA Master Agreement and the 2008 Minmetals Aluminium Master Agreement, each constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

Upon the completion of the acquisition of MMG on 31 December 2010 (Completion Date), the following material continuing transactions of MMG became continuing connected transactions with effect from the Completion Date (Grandfathered Continuing Connected Transactions) and details of these transactions for the year ended 31 December 2010, as at the Completion Date, are set out below:

5. On 20 December 2010, MMG Management, a wholly-owned subsidiary of the Company, entered into an agreement for the supply of goods with Minmetals Australia Pty Ltd (Minmetals Australia) pursuant to which MMG Management agreed to purchase hot roll forged and hand forged grinding media from Minmetals Australia (Supply Agreement) for a term of two years commencing 20 December 2010 (with two options for further periods of 12 months each, which may be exercised by MMG Management in its discretion). For the year ended 31 December 2010, there were no transactions under the Supply Agreement.

   Minmetals Australia is a subsidiary of CMC and is therefore an associate of CMC and a connected person of the Company under the Listing Rules. Accordingly, the Supply Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. The transaction between MMG Management and Minmetals Australia became a continuing connected transaction for the Company on 31 December 2010 following the acquisition of MMG by the Company and the Company will comply with Listing Rule 14A.41 in respect of this transaction.

6. On 21 December 2010, LXML, a 90% owned subsidiary of the Company, entered into a sales agreement with CMN for the sale of copper cathode to CMN, with the copper cathode to be delivered from January 2011 to December 2011. For the year ended 31 December 2010 as at the Completion Date, there were no transactions under the sales agreement. During the period from 1 January 2011 to 28 March 2011, deliveries of copper cathode were made to CMN under the agreement with a total value of approximately US$19.2 million.



On 20 January 2011, LXML entered into a sales agreement with CMN for the sale of copper cathode to CMN, with the copper cathode to be delivered from February 2011 to April 2011. During the period from 1 January 2011 to 28 March 2011, deliveries of copper cathode were made to CMN under the agreement with a total value of approximately US$3.9 million.

CMN is the controlling shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the sales agreements described above (together, the 2011 MMG Connected Transactions) constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules, and the Company will comply with Listing Rule 14A.41 in respect of the transaction.

7. On 10 June 2010, MMG Management, a wholly-owned subsidiary of the Company, entered into a loan facility agreement with Album Enterprises (MMG Loan Facility) pursuant to which MMG Management agreed to make loan facilities available to Album Enterprises on an uncommitted basis. During the year ended 31 December 2010, as at the Completion Date, no amounts were outstanding under the MMG Loan Facility.

   Album Enterprises is a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the MMG Loan Facility constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules and the Company will comply with Listing Rule 14A.41 in respect of this transaction.

8. MMG Laos Holdings is a party to a Mineral Exploration and Production Agreement (MEPA) with the Lao Government dated 15 June 1993 (as amended). The MEPA, amongst other things, grants a licence to operate the project contemplated by the MEPA, being the Sepon project in Laos, which licence terms are in addition to rights granted by relevant Lao law in respect of mining operations. In accordance with the terms of the MEPA, LXML was established and incorporated in Laos to conduct the activities contemplated under the MEPA. Under the MEPA, LXML is appointed the sole contractor for the Lao Government with respect to the area on which the Sepon project is located.

   The MEPA sets out the terms and conditions for LXML's mining and processing operations, and exploration activity, with respect to gold and copper in Laos, and confirms the taxes payable by LXML and concessions granted by the Lao Government to LXML in respect of such taxes. For the year ended 31 December 2010, as at the Completion Date, the actual amount payable under the MEPA was nil.

   The Lao Government holds a 10% equity interest in LXML, and is therefore a connected person of the Company under the Listing Rules. Accordingly, the transactions under the MEPA constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The transactions between LXML and the Lao Government became connected transactions for the Company on 31 December 2010 following the acquisition of MMG by the Company, and the Company will comply with Listing Rule 14A.41 in respect of these transactions.

9. On 26 February 2004, LXML, a 90%-owned subsidiary of the Company, entered into a Power Purchase Agreement with Electricite Du Laos (EDL), pursuant to which LXML agreed to purchase energy from EDL for the purposes of operating the Sepon project in Laos PDF (Power Purchase Agreement). The Power Purchase Agreement is an ongoing agreement that is terminable by either party giving at least six months notice to the other party. The total consideration payable under the Power Purchase Agreement is subject to levels of energy consumption, which vary from year to year. For the year ended 31 December 2010, as at the Completion Date, the actual amount payable under the Power Purchase Agreement was nil.

   EDL is a state-owned corporation operated by the Lao Ministry for Energy and Mines, which is a department of the Lao Government. The Lao Government is a connected person of the Company under the Listing Rules. Accordingly, the transactions under the Power Purchase Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules. The transactions between LXML and EDL became connected transactions for the Company on 31 December 2010 following the acquisition of MMG by the Company, and the Company will comply with Listing Rule 14A.41 in respect of these transactions.

Underground loader and miners at Rosebery, Tasmania.

The above continuing connected transactions for the year ended 31 December 2010 including the Grandfathered Continuing Connected Transactions have been reviewed by the Independent Non-Executive Directors of the Company. The Independent Non-Executive Directors of the Company have confirmed that the continuing connected transactions have been entered into:

(a) in the ordinary and usual course of business of the Group;

(b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and

(c) in accordance with the respective terms of the Minmetals Aluminium Sale and Purchase Agreement, the 2008 NCA Master Agreement, 2008 Minmetals Aluminium Master Agreement, the Shanxi Guanlv Purchase Framework Agreement, the Shanxi Guanlv Sale Framework Agreement, the Supply Agreement, the 2011 MMG Connected Transactions, the MMG Loan Facility, the Power Purchase Agreement and the MEPA that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

In addition, the auditor of the Company has confirmed to the Board that the above continuing connected transactions for the year ended 31 December 2010:

(a) have been approved by the Board;

(b) have been entered into in accordance with the terms of the relevant agreements governing the transactions;

(c) are in accordance with the pricing policies of the Group where the transactions involved provision of goods by the Group; and

(d) the Minmetals Aluminium Sale and Purchase Agreement, the 2008 NCA Master Agreement and the 2008 Minmetals Aluminium Master Agreement have not exceeded the respective annual caps as disclosed in the announcements of the Company dated 4 December 2009 and 6 November 2008, respectively.

The currency exchange rates used for the purposes of the disclosures of connected transactions and continuing connected transactions are for illustrative purposes only and, unless otherwise specified, conversion of US$ into RMB is based on an exchange rate of US$1.00 = RMB6.80 for the purposes of this report. The amounts shown cannot be converted by reference to the same currency exchange rates used at the time of the announcement of the relevant transaction.

## RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the normal course of business are set out in Note 38 to the consolidated financial statements.

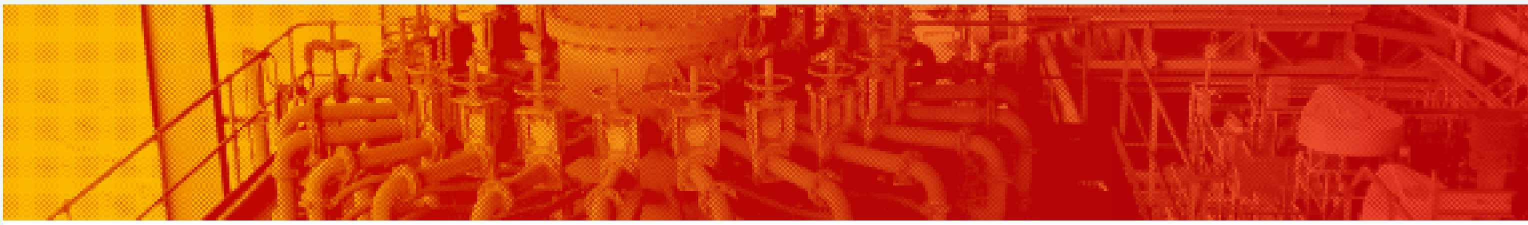
In relation to those related party transactions that also constitute connected transactions and continuing connected transactions of the Company under the Listing Rules, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## MANAGEMENT CONTRACTS

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

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

During the year ended 31 December 2010, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.



## EMOLUMENT POLICY

The Group's Emolument Policy is formulated by the Remuneration and Nomination Committee on the basis of employees' merit, market practice, qualifications and competence.

The determination of remuneration packages of the directors of the Company takes into consideration factors such as remuneration paid by comparable companies, accountabilities of the directors, applicable regional employment conditions and appropriate 'at risk' performance-based remuneration.

The Company has adopted the share option scheme as an incentive to the directors and eligible employees; details of the scheme are set out under the section headed 'Share Option Scheme'. In relation to MMG, it has adopted both long-term and short-term 'at risk' incentive plans to reward its directors and eligible employees and to align their incentive remuneration with the performance of MMG.

## RETIREMENT SCHEMES

Details of the Group's retirement schemes are set out in Note 32 to the consolidated financial statements.

## DIRECTORS AND SENIOR MANAGEMENT

Particulars of the directors and senior management of the Company are set out on pages 50 to 54 of this annual report.

## AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers, who will retire at the forthcoming AGM and, being eligible, offer themselves for re-appointment.

By order of the Board
**LI FULI**
CHAIRMAN
Hong Kong, 28 March 2011

## CORPORATE GOVERNANCE REPORT

Details of the Corporate Governance Report are set out on pages 67 to 73 of this annual report.

## SUFFICIENCY OF PUBLIC FLOAT

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

## EVENT AFTER THE BALANCE SHEET DATE

Other than the matters noted below, there have been no matters that have occurred subsequent to the reporting date which have significantly affected, or may significantly affect the Group's operations, results or state of affairs in future years.

### Discontinued and available-for-sale assets

Subsequent to year end, it was resolved by the Board of the Company on 28 March 2011 that the trading and fabrication operations (the disposal group) are to be made available for immediate sale in their present condition, subject to receipt of all other necessary shareholder and regulatory approvals. These trading and fabrication operations will therefore become discontinued operations held available for sale with effect from 1 January 2011.

Ore processing plant at Century, Queensland.

# CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining a high standard of corporate governance practices by emphasising a quality board of directors, sound internal controls, transparency and accountability to all shareholders of the Company.

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practice (CG Code) in Appendix 14 of the Listing Rules throughout the year ended 31 December 2010 except for the deviation from code provision A4.1 with explanation provided under the section headed 'Re-election of Directors'.

The Company has adopted a Board Charter to outline the manner in which its constitutional powers and responsibilities will be exercised, delegated and/or discharged. The Board Charter is adopted on the basis that strong corporate governance can add to the performance of the Company, create shareholder value and engender the confidence of the investment market.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a policy for securities transactions by Directors of the Company (Securities Trading Policy) on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (Model Code) as set out in Appendix 10 of the Listing Rules.

Having made specific enquiry with all the Directors of the Company, all of them confirmed that they have complied with the required standard set out in the Model Code and the Securities Trading Policy during the year ended 31 December 2010.

## BOARD OF DIRECTORS

### Composition

The Board comprises 11 directors of which four are Executive Directors, four are Non-Executive Directors and three are Independent Non-Executive Directors. The members of the Board as at the date of this annual report are as follows:

**Executive Directors**

Mr Andrew Michelmore (Chief Executive Officer)

Mr Hao Chuanfu (Vice Chairman)

Mr David Lamont (Chief Financial Officer)

Mr Li Liangang

**Non-Executive Directors**

Mr Li Fuli (Chairman)

Mr Jiao Jian

Mr Xu Jiqing

Mr Wang Lixin

**Independent Non-Executive Directors**

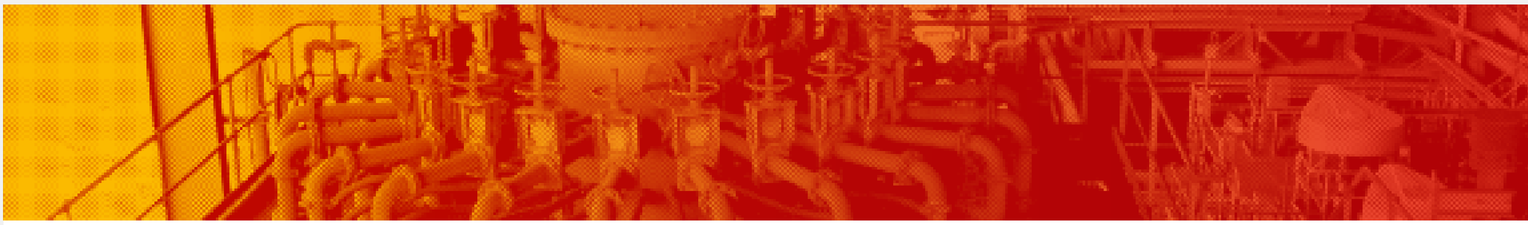
Dr Peter Cassidy

Mr Ting Leung Huel, Stephen

Mr Loong Ping Kwan

The Board formulates overall strategies and policies of the Group. It also ensures the availability of adequate capital and managerial resources to implement the strategies adopted, the adequacy of systems of financial and internal control and the conduct of business in conformity with applicable laws and regulations. The Board members are fully committed to their roles and have always acted in the best interests of the Group and its shareholders at all times. There is no financial, business, family or other material/relevant relationship amongst directors. The directors' biographical information is set out on pages 50 to 54 under the section headed 'Directors and Senior Management' of this annual report.

Board meetings are held regularly at approximately quarterly intervals and are also held on an ad hoc basis as required by business needs. Regular Board meetings and ad hoc Board meetings are attended by a majority of the directors in person or through other electronic means of communication. In addition, special Board meetings are convened from time to time for the Board to discuss issues that require the Board's timely attention.



Since the special Board meetings are concerned with the day-to-day management of the Company, which often requires prompt decisions, usually only the Executive Directors and senior management attend the meetings. During the year ended 31 December 2010, other than resolutions passed in writing by all the directors, the Board held a total of four regular Board meetings and a total of four special Board meetings.

The attendance of each member at the Board meetings is set out below. Figures in brackets indicate maximum number of meetings held in the period in which the individual was a Board member.

| DIRECTORS | NOTES | NUMBER OF REGULAR AND AD HOC BOARD MEETINGS ATTENDED | NUMBER OF SPECIAL BOARD MEETINGS ATTENDED |
|---|---|---|---|
| **EXECUTIVE DIRECTORS** | | | |
| MR ANDREW MICHELMORE | (iii) | 0/(0) | |
| MR HAO CHUANFU | (i) | 4/(4) | 4/(4) |
| MR DAVID LAMONT | (iv) | 0/(0) | |
| MR LI LIANGANG | (v) & (vi) | 4/(4) | |
| MR ZHAN WEI | (ii) | 4/(4) | 4/(4) |
| **NON-EXECUTIVE DIRECTORS** | | | |
| MR LI FULI (CHAIRMAN) | | 4/(4) | |
| MADAME SHEN LING | (vii) & (viii) | 4/(4) | |
| MR WANG LIXIN | | 4/(4) | |
| MR ZONG QINGSHENG | (vii) & (ix) | 4/(4) | |
| MR XU JIQING | (x) | 4/(4) | |
| MR JIAO JIAN | (xi) | 0/(0) | |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | | |
| MR LI DONGSHENG | (xii) & (xiii) | 4/(4) | |
| MR TING LEUNG HUEL, STEPHEN | | 4/(4) | |
| MR LOONG PING KWAN | | 4/(4) | |
| DR PETER CASSIDY | (xiv) | 0/(0) | |

Notes:

(i) Redesignated from an Executive Director and the President to an Executive Director and the Vice Chairman on 31 December 2010.
(ii) Resigned as an Executive Director on 31 December 2010.
(iii) Appointed as the CEO and an Executive Director on 31 December 2010.
(iv) Appointed as the CFO and an Executive Director on 31 December 2010.
(v) Redesignated from a Non-Executive Director to an Executive Director on 31 December 2010.
(vi) Due to conflicting business commitments, Mr Li Liangang appointed Mr Hao Chuanfu, an Executive Director and the President at the relevant time, to act as his alternate Director to attend one of the regular Board meetings held during the year.
(vii) Resigned as a Non-Executive Director on 31 December 2010.
(viii) Due to conflicting business commitments, Madame Shen Ling appointed Mr Li Fuli, the Chairman, to act as her alternate director to attend one of the regular Board meetings held during the year.
(ix) Due to conflicting business commitments, Mr Zong Qingsheng appointed Mr Zhan Wei, an Executive Director at the relevant time, to act as his alternate director to attend one of the regular Board meetings held during the year.
(x) Due to conflicting business commitments, Mr Xu Jiqing appointed Mr Wang Lixin, a Non-Executive Director, to act as his alternate director to attend one of the regular Board meetings held during the year.
(xi) Appointed as a Non-Executive Director on 31 December 2010.
(xii) Resigned as an Independent Non-Executive Director on 31 December 2010.
(xiii) Due to conflicting business commitments, Mr Li Dongsheng appointed Mr Ting Leung Huel, Stephen, an Independent Non-Executive Director, to act as his alternate director to attend one of the regular Board meetings held during the year.
(xiv) Appointed as an Independent Non-Executive Director on 31 December 2010.

Ore stockpile at Golden Grove, Western Australia.

## CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE OFFICER

The Chairman of the Board is Mr Li Fuli and the CEO of the Company is Mr Andrew Michelmore. The roles of the Chairman of the Board and the CEO of the Company are segregated to ensure their respective independence, accountability and responsibility.

The Chairman takes the lead in formulating overall strategies and policies of the Group, ensures the effective performance by the Board of its functions, including compliance with good corporate governance practices and encourages and facilitates active contribution of Directors in Board activities. The Chairman also ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, complete and reliable information in a timely manner.

The CEO, supported by a management committee comprising Executive Directors and senior management (Executive Committee), is responsible for managing day-to-day operations of the Group and executing the strategies adopted by the Board. The CEO is also accountable to the Board for the implementation of the Group's overall strategies, and coordination of overall business operations.

## EXECUTIVE DIRECTORS AND EXECUTIVE COMMITTEE

The Board has delegated the management of day-to-day operations of the Group to the CEO and his Executive Committee. The Executive Committee is also required to report regularly to the Board on the progress being made by the businesses of the Group.

The members of the Executive Committee are:

- Mr Andrew Michelmore
  Chief Executive Officer and Executive Director;
- Mr Hao Chuanfu
  Vice Chairman and Executive Director;
- Mr David Lamont
  Chief Financial Officer and Executive Director;
- Mr Li Liangang
  Executive Director; Chairman of Minmetals Aluminium and Director and President of Sino Mining International Limited;
- Mr Michael Nossal
  Executive General Manager – Business Development;
- Mr Steve Ryan
  Executive General Manager – Exploration;
- Mr Tim Scully
  Executive General Manager – Business Support; and
- Mr Brett Fletcher
  Chief Operating Officer – resigned effective 27 March 2011.

## NON-EXECUTIVE DIRECTORS

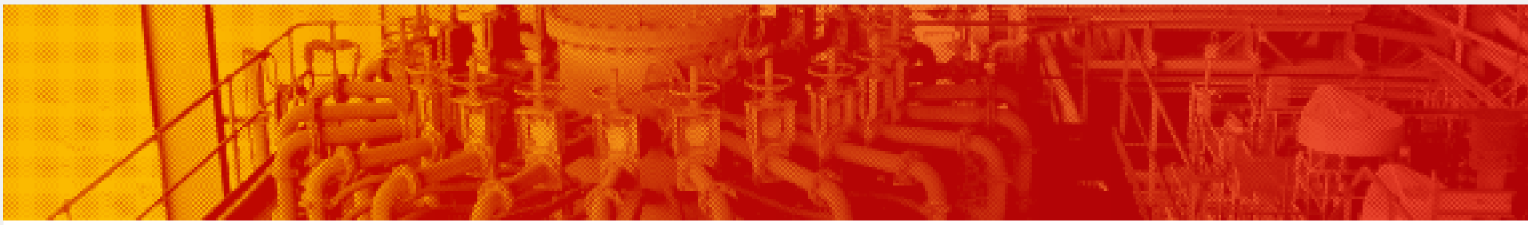
The Non-Executive Directors (including the Independent Non-Executive Directors) provide a wide range of expertise and experience and bring independent judgement on issues relating to the Group's strategies, development, performance and risk management through their contribution at Board and committee meetings.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Independent Non-Executive Directors serve the important function of ensuring and monitoring the basis for an effective corporate governance framework. Their participation provides adequate checks and balances to safeguard the interests of the shareholders. The Board has three Independent Non-Executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise. The Board confirms that the Company has received from each of the Independent Non-Executive Directors a confirmation of independence for the year ended 31 December 2010 pursuant to Rule 3.13 of the Listing Rules and considers such directors to be independent.

## RE-ELECTION OF DIRECTORS

Each of the Non-Executive Directors has entered into a service agreement with the Company for a specific term of three years, except Dr Peter Cassidy. Dr Peter Cassidy's appointment agreement commences on 31 December 2010 and can be terminated by the Company with one month prior written notice. However, as is the case with all other directors of the Company, his respective terms of office are subject to re-election by shareholders at the next general meeting (in the case of filling a casual vacancy) or at the next AGM (in the case of an addition to the Board) following his appointment in accordance with the articles of association of the Company. Every Director (including Dr Peter Cassidy) is also subject to retirement by rotation at least once every three years at the AGM.



## THE BOARD COMMITTEES

The Board has established various board committees to provide a forum for a more detailed analysis of key issues for the Group. Each committee is entitled to the resources and information it requires to carry out its duties, including direct access to advisors and employees.

The current standing committees of the Board are the Audit Committee, the Safety Health, Environment and Community (SHEC) Committee, and the Remuneration and Nomination Committee.

### Remuneration and Nomination Committee

The Company established a Remuneration Committee on 11 April 2005. The Committee was renamed the Remuneration and Nomination Committee on 15 February 2011. It comprises five members, a majority of whom are Independent Non-Executive Directors, and is chaired by Dr Peter Cassidy. The other members are Mr Jiao Jian, Mr Wang Lixin, Mr Ting Leung Huel, Stephen and Mr Loong Ping Kwan.

The Remuneration and Nomination Committee is responsible for, amongst others:

- formulating and making recommendations to the Board on the Group's remuneration policy;
- the determination of specific remuneration packages of all Executive Directors in consultation with the Chairman and/or CEO and the determination of the appropriate mix of directors to constitute the Board;
- making recommendations to the Board on the remuneration of Non-Executive Directors;
- developing policies and procedures for the selection and appointment of directors and identifying individuals suitably qualified to become directors, having regard to factors such as judgement, skills, diversity, experience in comparable businesses, the interplay of the candidate's experience with the experience of other Board members and the candidate's capacity to commit to the Board activities, the extent to which the candidate would be a desirable addition to the Board or any Board committee;
- regularly reviewing the structure, size and composition (including the skills, knowledge and experience) of the boards of the Group companies; and
- reviewing succession plans for senior management annually to maintain an appropriate balance of skills, experience and expertise on the executive management team.

The terms of reference of the Remuneration and Nomination Committee that have been adopted by the Board are posted on the Company's website.

### Remuneration

When determining or recommending to the Board the remuneration packages for directors and senior management, the Committee takes into consideration factors such as remuneration paid by comparable companies, accountabilities of the directors, applicable regional employment conditions and appropriate 'at risk' performance-based remuneration.

During the year ended 31 December 2010, other than resolutions passed in writing by all the Committee members, the Remuneration Committee held two meetings. The Remuneration Committee reviewed the remuneration policy of the Company and the remuneration of directors and senior management and made recommendations to the Board.

The attendance of each member at the Remuneration Committee meetings during the year ended 31 December 2010 is set out below. Figures in brackets indicate the maximum number of meetings held in the period in which the individual was a member of the Remuneration Committee.

Shiploading facilities at Karumba, Queensland.

| MEMBERS | NOTES | NUMBER OF MEETINGS ATTENDED |
|---|---|---|
| **EXECUTIVE DIRECTOR** | | |
| MR HAO CHUANFU | (i) | 2/(2) |
| **NON-EXECUTIVE DIRECTORS** | | |
| MR LI FULI | (i) | 2/(2) |
| MR JIAO JIAN | (ii) | 0/(0) |
| MR WANG LIXIN | (ii) | 0/(0) |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | |
| MR LI DONGSHENG | (i) | 2/(2) |
| MR TING LEUNG HUEL, STEPHEN | | 2/(2) |
| MR LOONG PING KWAN | (iii) | 2/(2) |
| DR PETER CASSIDY (CHAIRMAN) | (iv) | 0/(0) |

Notes:

(i) Resigned as a member of Remuneration Committee on 31 December 2010.

(ii) Appointed as a member of the Remuneration and Nomination Committee on 15 February 2011.

(iii) Resigned as the chairman of the Remuneration Committee on 31 December 2010 but remains a member of the Remuneration and Nomination Committee.

(iv) Appointed as a member of the Remuneration Committee on 31 December 2010 and appointed as the Chairman of the Remuneration and Nomination Committee on 15 February 2011.

## NOMINATION

The Board is empowered under the Company's articles of association to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Following the Company's acquisition of MMG, the Board selected and appointed Mr Jiao Jian, Mr Andrew Michelmore, Mr David Lamont and Dr Peter Cassidy as additions to the Board by written resolution on 31 December 2010. In doing so, the Board considered their qualifications, experience and expertise as well as the requirements under the Listing Rules, having regard to the balance of skills and experience appropriate to the Group's business.

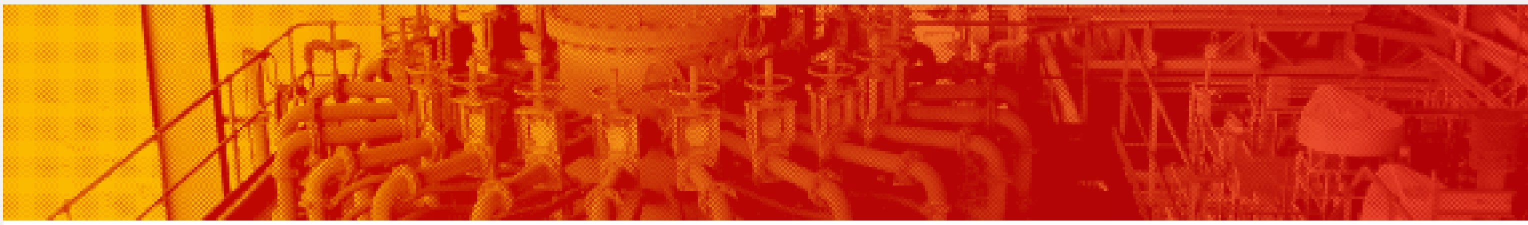
The Company amended the terms of reference for the Remuneration Committee on 15 February 2011 to add the nomination function to the Remuneration Committee. Subsequently the Remuneration Committee was renamed the Remuneration and Nomination Committee.

## AUDIT COMMITTEE

The Company has established an Audit Committee on 2 July 1999. It comprises three Independent Non-Executive Directors, namely Dr Peter Cassidy, Mr Ting Leung Huel, Stephen and Mr Loong Ping Kwan and one Non-Executive Director, Mr Xu Jiqing. Mr Ting Leung Huel, Stephen is the Chairman of the Audit Committee.

The Audit Committee is accountable to the Board and the principle duties of the Audit Committee include the review and supervision of the financial reporting process and internal control system of the Group. The terms of reference of the Audit Committee incorporating all the duties set out in code provision C.3.3 of the CG Code are posted on the Company's website.

During the year ended 31 December 2010, the Audit Committee held two meetings. The Audit Committee reviewed with the senior management and auditor of the Company the accounting policies and practices adopted by the Group and discussed auditing, the internal control system and financial reporting matters. It also reviewed the financial statements of the Company and the Company's annual and interim reports, the management letter from the auditor of the Company, the connected transactions and the continuing connected transactions entered into by the Group and the audit scope and fees for the year ended 31 December 2010.



The attendance of each member at the Audit Committee meetings is set out below. Figures in brackets indicate the maximum number of meetings held in the period in which the individual was a member of the Audit Committee.

| MEMBERS | NOTES | NUMBER OF MEETINGS ATTENDED |
|---|---|---|
| NON-EXECUTIVE DIRECTORS | | |
| MR ZONG QINGSHENG | (i) | 2/(2) |
| MR XU JIQING | | 2/(2) |
| INDEPENDENT NON-EXECUTIVE DIRECTORS | | |
| MR LI DONGSHENG | (i) | 2/(2) |
| MR TING LEUNG HUEL, STEPHEN (CHAIRMAN) | | 2/(2) |
| MR LOONG PING KWAN | | 2/(2) |
| DR PETER CASSIDY | (ii) | 0/(0) |

Notes:

(i) Resigned as a member of Audit Committee on 31 December 2010.

(ii) Appointed as a member of the Audit Committee on 15 February 2011.

## MINERAL RESOURCES AND ORE RESERVES COMMITTEE

The Mineral Resources and Ore Reserves Committee is a sub-committee of the Audit Committee of the Company. The Committee oversees the Mineral Resources and Ore Reserves reporting processes of the Group. In doing so, the Committee facilitates and maintains free and open means of communication between the directors, the independent evaluators/auditors and management of the Group and ensures compliance with the JORC Code and the applicable Listing Rules.

The Committee comprises at least one Executive Committee member and two qualified staff:

- Executive Committee member (Chairman);
- General Manager Technical Services and Mining Engineering; and
- Principal Resource Geologist.

### Safety, Health, Environment and Community (SHEC) Committee

The Company established the SHEC Committee on 15 February 2011. The SHEC Committee comprises three directors, namely Dr Peter Cassidy, Mr Andrew Michelmore and Mr Jiao Jian. Dr Peter Cassidy is the Chairman of the SHEC Committee.

The purpose of the SHEC Committee is to assist the Board in the effective discharge of its responsibilities in relation to safety, health, environmental and community matters arising out of the activities of the Group as they affect employees, contractors and the communities in which the Group operates.

The terms of reference of the SHEC Committee are posted on the Company's website.

### Disclosure Committee

The Company adopted a Disclosure Policy on 24 January 2011 to ensure its compliance with the disclosure obligations under the Listing Rules and the timely disclosure of price-sensitive information to the market. In addition, the Company has also established a Disclosure Committee, which comprises the CEO, CFO, General Counsel, Head of Investor Relations and Company Secretary. The Disclosure Policy requires employees to refer all information that potentially requires disclosure to a member of the Disclosure Committee.

## ACCOUNTABILITY AND AUDIT

### Financial Reporting

The directors acknowledge their responsibility for preparing all information and representations contained in the financial statements for the year ended 31 December 2010 as disclosed in this annual report. The directors consider that the financial statements have been prepared in conformity with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and reflect amounts that are based on the best estimates and reasonable, informed and prudent judgement of the Board and management with an appropriate consideration to materiality. As at 31 December 2010, the directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Group's and the Company's ability to continue as a going concern.

**Alumina filtration at Guangxi Huayin Guangxi Province, China.**

Accordingly, the directors have prepared the financial statements on a going concern basis.

The statement of the auditor of the Company regarding their responsibilities for the financial statements is set out in the Independent Auditor's Report on page 74 of this annual report.

### Internal Controls

The Board is entrusted with overall responsibility for establishing and maintaining the Group's internal control system and reviewing its effectiveness to safeguard the Group's assets and to protect shareholders' interest. The management throughout the Group maintains and monitors the internal control system on an ongoing basis. During the year, the Group engaged international independent external professional consultants (the Consultants), to perform the internal control reviews over the Group's operations (including MMG's operations in Australia and overseas). The reviews were based on the internal control framework recommended by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), a globally recognised framework. The internal control reviews covered certain key operational and financial processes of the selected entities of the Group and a follow up review of the action plans to address the findings from last year's review. The Consultants reported their findings and recommendations directly to the Audit Committee. The Audit Committee reported the findings to the Board.

## AUDITOR'S REMUNERATION

An analysis of the remuneration of the external auditor, PricewaterhouseCoopers (which for these purposes includes any entity under common control, ownership or management with the external auditors or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally), for the year ended 31 December 2010 is set out as follows:

| SERVICES RENDERED | FEE PAID/PAYABLE US$'000 |
|---|---|
| STATUTORY AUDIT SERVICES | 1,290 |
| OTHER AUDIT RELATED SERVICES – MAINLY INCLUDING REPORTING ACCOUNTANTS IN CONNECTION WITH THE VERY SUBSTANTIAL ACQUISITION DURING THE YEAR | 1,269 |
| NON-AUDIT SERVICES | |
| TAX SERVICES IN CONNECTION WITH THE VERY SUBSTANTIAL ACQUISITION DURING THE YEAR | 619 |
| OTHER TAX SERVICES – INCLUDING TAX COMPLIANCE, ADVISORY, DUE DILIGENCE AND PLANNING SERVICES | 498 |
| OTHER SERVICES (INCLUDING TAXATION SERVICES) | 61 |
| | 3,737 |

## COMMUNICATION WITH SHAREHOLDERS

The Company endeavours to develop and maintain continuing relationships and effective communication with its shareholders and investors. In an effort to facilitate and enhance the relationships and communication, the Company has established the following various channels:

(i) The AGM provides a forum for shareholders of the Company to raise comments and exchange views with the Board. The directors are available at the AGMs of the Company to address shareholders' queries.

(ii) Separate resolutions are proposed at the general meetings on each substantially separate issue.

(iii) An explanation of the detailed procedures of conducting a poll is provided to shareholders at the commencement of the general meetings, to ensure that shareholders are familiar with such procedures.

(iv) Interim and annual results are announced as early as possible, to keep shareholders of the Company informed of the Group's performance and operations.

(v) Updated key information of the Group is available on the Company's website to enable the shareholders of the Company and the investors to have timely access to information about the Group.

(vi) Notice of meeting is sent to shareholders at least 20 clear business days before AGMs and at least 10 clear business days before EGMs.

羅兵咸永道

# INDEPENDENT AUDITOR'S REPORT

**TO THE SHAREHOLDERS OF**
**MINMETALS RESOURCES LIMITED**
*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Minmetals Resources Limited (the Company) and its subsidiaries (together, the Group) set out on pages 78 to 157 which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, 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 information.

## Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 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 Hong Kong Companies Ordinance.

**PricewaterhouseCoopers**
Certified Public Accountants

Hong Kong, 28 March, 2011

*PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong*
*T: +852 2289 8888, F:+852 2810 9888, www.pwchk.com*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# FINANCIAL REPORT



# CONSOLIDATED INCOME STATEMENT

| | NOTE | YEAR ENDED 31 DECEMBER 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|---|
| **Revenue** | 6 | 3,582.1 | 1,649.7 |
| Cost of sales | | (2,642.3) | (1,267.2) |
| **Gross profit** | | **939.8** | **382.5** |
| Selling expenses | | (87.0) | (64.8) |
| Administrative expenses | | (78.8) | (44.0) |
| Exploration expenses | | (50.9) | (10.1) |
| Other (losses)/gains – net | 7(a) | (1.5) | 6.6 |
| Other operating expenses | 7(b) | (86.3) | (73.0) |
| Other income | 7(c) | 11.1 | 3.5 |
| Gain on disposal of available-for-sale financial assets | 20 | – | 41.7 |
| Business acquisition expenses | | (86.4) | – |
| **Operating profit** | 8 | **560.0** | **242.4** |
| Finance income | 9 | 8.6 | 4.2 |
| Finance costs | 9 | (49.5) | (30.5) |
| Share of net profits of associates and jointly-controlled entities accounted for using the equity method | 19 | 41.0 | 4.2 |
| **Profit before income tax** | | 560.1 | 220.3 |
| Income tax (expense)/benefit | 10 | (129.7) | 4.5 |
| **Profit for the year** | | **430.4** | **224.8** |
| **Attributable to:** | | | |
| Equity holders of the Company | | 409.4 | 215.8 |
| Non-controlling interests | | 21.0 | 9.0 |
| | | **430.4** | **224.8** |
| **Earnings per share for profit attributable to the equity holders of the Company** | 12 | | |
| – Basic | | US 13.80 cents | US 8.37 cents |
| – Diluted | | US 9.04 cents | US 6.18 cents |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | NOTE | YEAR ENDED 31 DECEMBER 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|---|
| **Profit for the year** | | **430.4** | **224.8** |
| **Other comprehensive income/(loss)** | | | |
| Net change in fair value of available-for-sale financial assets and cash flow hedge, net of tax | | 44.9 | 2.8 |
| Currency translation differences | | 13.1 | 3.8 |
| Transfer to income statement on disposal of available-for-sale financial assets | | – | (31.9) |
| **Other comprehensive income/(loss) for the year** | | **58.0** | **(25.3)** |
| **Total comprehensive income for the year** | | **488.4** | **199.5** |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | 466.7 | 190.5 |
| Non-controlling interests | | 21.7 | 9.0 |
| | | **488.4** | **199.5** |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

# CONSOLIDATED BALANCE SHEET

| | NOTE | AS AT 31 DECEMBER 2010 US$ million | 2009 US$ million (Restated) | AS AT 1 JANUARY 2009 US$ million (Restated) |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Non-current assets** | | | | |
| Property, plant and equipment | 16 | 1,671.5 | 1,600.8 | 81.3 |
| Investment properties | 16 | 2.0 | 1.7 | 1.7 |
| Intangible assets | 17 | 132.0 | 140.0 | 148.0 |
| Investments accounted for using the equity method | 19 | 227.3 | 171.5 | 155.7 |
| Inventories | 22 | 24.4 | 23.5 | – |
| Available-for-sale financial assets | 20 | – | – | 39.8 |
| Deferred income tax assets | 21 | 98.8 | 70.6 | 7.7 |
| Other assets | | 1.5 | 0.9 | 23.6 |
| | | 2,157.5 | 2,009.0 | 457.8 |
| **Current assets** | | | | |
| Inventories | 22 | 363.8 | 300.5 | 89.0 |
| Trade and other receivables | 23 | 360.4 | 283.7 | 168.5 |
| Current income tax assets | | 3.5 | 0.9 | 2.2 |
| Other financial assets | 24 | 19.4 | 33.0 | 5.4 |
| Available-for-sale financial assets | 20 | 164.1 | – | – |
| Cash and cash equivalents | 25 | 398.2 | 471.1 | 239.5 |
| | | 1,309.4 | 1,089.2 | 504.6 |
| **Total assets** | | **3,466.9** | **3,098.2** | **962.4** |
| **EQUITY** | | | | |
| **Capital and reserves attributable to equity holders of the Company** | | | | |
| Share capital | 26 | 19.0 | 13.0 | 13.0 |
| Perpetual sub-ordinated convertible securities | 28 | 690.0 | – | – |
| Reserves and retained profits | 27 | (232.0) | 1,131.4 | 604.1 |
| | | 477.0 | 1,144.4 | 617.1 |
| **Non-controlling interests** | | 56.4 | 67.7 | 24.8 |
| **Total equity** | | **533.4** | **1,212.1** | **641.9** |

## CONSOLIDATED BALANCE SHEET continued

| | NOTE | AS AT 31 DECEMBER 2010 US$ million | AS AT 31 DECEMBER 2009 US$ million (Restated) | AS AT 1 JANUARY 2009 US$ million (Restated) |
|---|---|---|---|---|
| **LIABILITIES** | | | | |
| **Non-current liabilities** | | | | |
| Deferred income | 29 | 5.1 | 5.1 | 3.1 |
| Derivative financial instruments | | – | – | 1.0 |
| Deferred income tax liabilities | 21 | 20.1 | 0.8 | 0.4 |
| Borrowings | 30 | 1,144.3 | 1,183.1 | 69.5 |
| Loan from a related party | 38 | 694.2 | – | – |
| Provisions | 34 | 317.6 | 231.4 | – |
| | | 2,181.3 | 1,420.4 | 74.0 |
| **Current liabilities** | | | | |
| Trade and other payables | 31 | 368.5 | 223.2 | 119.6 |
| Receipts in advance | | 71.0 | 62.1 | 44.4 |
| Advances from banks for discounted bills | | 43.6 | 25.1 | 11.2 |
| Amounts due to related parties | 38 | 2.5 | 0.7 | 25.7 |
| Derivative financial instruments | 24 | 1.2 | 10.1 | 6.1 |
| Current income tax liabilities | | 129.1 | 60.7 | 0.2 |
| Borrowings | 30 | 83.2 | 48.3 | 39.3 |
| Provisions | 34 | 53.1 | 35.5 | – |
| | | 752.2 | 465.7 | 246.5 |
| **Total liabilities** | | **2,933.5** | **1,886.1** | **320.5** |
| **Total equity and liabilities** | | **3,466.9** | **3,098.2** | **962.4** |
| **Net current assets** | | **557.2** | **623.5** | **258.1** |
| **Total assets less current liabilities** | | **2,714.7** | **2,632.5** | **715.9** |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

**ANDREW MICHELMORE**
CEO AND EXECUTIVE DIRECTOR

**DAVID LAMONT**
CFO AND EXECUTIVE DIRECTOR

# BALANCE SHEET

| | NOTE | AS AT 31 DECEMBER 2010 US$ million | 2009 US$ million |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 16(b) | 0.3 | 0.4 |
| Investment properties | 16 | 1.8 | 1.5 |
| Interests in subsidiaries | 18 | 1,780.9 | 406.0 |
| | | 1,783.0 | 407.9 |
| **Current assets** | | | |
| Other receivables | | 0.1 | 0.4 |
| Loans to subsidiaries | 18 | – | 7.3 |
| Cash and cash equivalents | 25 | 17.1 | 40.5 |
| | | 17.2 | 48.2 |
| **Total assets** | | 1,800.2 | 456.1 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 26 | 19.0 | 13.0 |
| Perpetual sub-ordinated convertible securities | 28 | 690.0 | – |
| Reserves and retained profits | 27 | 1,085.7 | 440.8 |
| **Total equity** | | 1,794.7 | 453.8 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Other payables | | 0.5 | 0.6 |
| Amounts due to subsidiaries | 18 | 5.0 | 1.7 |
| | | 5.5 | 2.3 |
| **Total liabilities** | | 5.5 | 2.3 |
| **Total equity and liabilities** | | 1,800.2 | 456.1 |
| **Net current assets** | | 11.7 | 45.9 |
| **Total assets less current liabilities** | | 1,794.7 | 453.8 |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

**ANDREW MICHELMORE**
CEO AND EXECUTIVE DIRECTOR

**DAVID LAMONT**
CFO AND EXECUTIVE DIRECTOR

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| US$ million | Share capital | Perpetual sub-ordinated convertible securities | Total other reserves | Retained profits | Non-controlling interests | Total |
|---|---|---|---|---|---|---|
| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | | |
| At 1 January 2010, as previously reported | 13.0 | – | 567.2 | 212.5 | 25.7 | 818.4 |
| Change in accounting policy (Note 2.2(a)) | – | – | (149.3) | (8.7) | – | (158.0) |
| Business combination under common control (Note 2.2(b)) | – | – | 337.2 | 172.5 | 42.0 | 551.7 |
| **At 1 January 2010, as restated** | 13.0 | – | 755.1 | 376.3 | 67.7 | 1,212.1 |
| Profit for the year | – | – | – | 409.4 | 21.0 | 430.4 |
| **Other comprehensive income** | | | | | | |
| Cash flow hedge | – | – | 1.0 | – | – | 1.0 |
| Available-for-sale financial assets, net of tax | – | – | 43.9 | – | – | 43.9 |
| Currency translation differences | – | – | 12.4 | – | 0.7 | 13.1 |
| **Total comprehensive income for the year** | – | – | 57.3 | 409.4 | 21.7 | 488.4 |
| **Transactions with owners** | | | | | | |
| Transfer from/(to) reserves | – | – | 0.5 | (0.5) | – | – |
| Dividends paid | – | – | – | (340.0) | – | (340.0) |
| Dividends paid to non-controlling interests | – | – | – | – | (33.0) | (33.0) |
| Issue of shares | 6.0 | – | 646.6 | – | – | 652.6 |
| Issue of perpetual sub-ordinated convertible securities (PSCS) | – | 690.0 | – | – | – | 690.0 |
| Grant of share option | – | – | 0.1 | – | – | 0.1 |
| Business combination under common control | – | – | (2,136.8) | – | – | (2,136.8) |
| **Total transactions with owners** | 6.0 | 690.0 | (1,489.6) | (340.5) | (33.0) | (1,167.1) |
| At 31 December 2010 | 19.0 | 690.0 | (677.2) | 445.2 | 56.4 | 533.4 |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY continued

| | ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | | | | |
|---|---|---|---|---|---|
| US$ million | Share capital | Total other reserves | Retained profits | Non-controlling interests | Total |
| At 1 January 2009, as previously reported | 13.0 | 582.5 | 185.6 | 24.8 | 805.9 |
| Change in accounting policy (Note 2.2(a)) | – | (135.1) | (28.9) | – | (164.0) |
| **At 1 January 2009, as restated** | 13.0 | 447.4 | 156.7 | 24.8 | 641.9 |
| Profit for the year | – | – | 215.8 | 9.0 | 224.8 |
| **Other comprehensive income/(loss)** | | | | | |
| Transfer to income statement on disposal of available-for-sale financial assets | – | (31.9) | – | – | (31.9) |
| Cash flow hedge | – | 2.6 | – | – | 2.6 |
| Available-for-sale financial assets, net of tax | – | 0.2 | – | – | 0.2 |
| Currency translation differences | – | 3.8 | – | – | 3.8 |
| **Total comprehensive income/(loss) for the year** | – | (25.3) | 215.8 | 9.0 | 199.5 |
| **Transactions with owners** | | | | | |
| Repurchase of the Company's shares (Note 26) | – | – | (0.3) | – | (0.3) |
| Transfer (from)/to reserves | – | (1.6) | 1.6 | – | – |
| Transfer upon lapse of share options | – | (2.5) | 2.5 | – | – |
| Acquisition through business combination | – | – | – | 35.8 | 35.8 |
| Dividends paid to non-controlling interests | – | – | – | (2.2) | (2.2) |
| Increase in fair values of proportionate holding of an associate | – | 0.1 | – | 0.3 | 0.4 |
| 2010 Business combination under common control | – | 337.0 | – | – | 337.0 |
| **Total transactions with owners** | – | 333.0 | 3.8 | 33.9 | 370.7 |
| At 31 December 2009 | 13.0 | 755.1 | 376.3 | 67.7 | 1,212.1 |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

| | NOTE | YEAR ENDED 31 DECEMBER 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | 35 | 907.6 | 338.8 |
| Income tax paid | | (91.4) | (49.8) |
| Net cash generated from operating activities | | **816.2** | **289.0** |
| **Cash flows from investing activities** | | | |
| Acquisition of subsidiaries | | (100.0) | – |
| Cash flow attributable to acquisition of MMG, net of cash acquired | | – | (648.7) |
| Capital injection into jointly-controlled entities | | (10.7) | (10.8) |
| Purchase of property, plant and equipment | | (323.2) | (172.8) |
| Proceeds from disposal of property, plant and equipment | | 3.7 | 0.4 |
| Proceeds from disposal of available-for-sale financial assets | | – | 49.6 |
| Proceeds from disposal of investments | | 0.3 | 2.0 |
| Purchase of available-for-sale financial assets | | (100.2) | – |
| Dividends received from investments accounted for using the equity method | | 2.5 | 1.0 |
| Interest received | | 8.6 | 4.2 |
| Decrease/(increase) in time deposits and pledged bank deposits | | 13.4 | (27.7) |
| Net cash used in investing activities | | **(505.6)** | **(802.8)** |
| **Cash flows from financing activities** | | | |
| Repurchase of the Company's shares | | – | (0.4) |
| Net proceeds from new borrowings | | 17.0 | 421.3 |
| Proceeds from issue of shares | | – | 337.0 |
| Interest paid | | (32.2) | (19.4) |
| Dividends paid to non-controlling interests | | (33.0) | (2.2) |
| Dividends paid to former owner of Album Resources Private Limited | | (340.0) | – |
| Repayments of finance lease liabilities | | (1.7) | (2.6) |
| Net cash (used in)/generated from financing activities | | **(389.9)** | **733.7** |
| **Net (decrease)/increase in cash and cash equivalents** | | (79.3) | 219.9 |
| Cash and cash equivalents at 1 January | | 471.1 | 239.5 |
| Exchange gains on cash and bank balances | | 6.4 | 11.7 |
| **Cash and cash equivalents at 31 December** | | **398.2** | **471.1** |
| **Analysis of balances of cash and cash equivalents** | | | |
| Cash and bank balances | | **398.2** | **471.1** |

The notes on pages 86 to 157 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

Minmetals Resources Limited (Company) is a limited liability company and was incorporated in Hong Kong on 29 July 1988. The address of its registered office is 12/F, China Minmetals Tower, 79 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong.

Prior to the very substantial acquisition of Album Resources, which holds the Minerals and Metals Group (MMG), the Company was an investment holding company and is listed on the Stock Exchange of Hong Kong. The principal activities of the Group and its jointly-controlled entities and associates were the trading of aluminium, copper and nickel, production of alumina, and the manufacturing and distribution of aluminium and copper products. Following the very substantial acquisition of Album Resources, principal activities of the Group and jointly-controlled entities and associates also include the exploration for, and the mining, processing and sale of zinc, copper, lead, gold, silver and other minerals into both metal and metal in concentrates (collectively Mining Business).

The consolidated financial statements for the year ended 31 December 2010 comprise the Group and the Group's interest in jointly-controlled entities and associates. These consolidated financial statements are presented in United States dollars (US$) unless otherwise stated and have been approved for issue by the Board of Directors on 28 March 2011.

### Very substantial acquisition by the Company of Album Resources (2010 Business Combination)

Under a Share Sale Deed dated 19 October 2010, All Glorious, a wholly-owned subsidiary of the Company, agreed to acquire Album Resources from Album Enterprises, a wholly-owned subsidiary of CMN. CMN is also a controlling indirect shareholder of the Company.

In an EGM of the Company held on 9 December 2010, the proposed acquisition by All Glorious from Album Enterprises for the entire equity interest in Album Resources was approved by the shareholders of the Company. The 2010 Business Combination was completed on 31 December 2010 for a total consideration of US$2,136.8 million satisfied as follows:

a) US$100.0 million in cash;

b) US$694.2 million from the proceeds of a loan from Album Enterprises to All Glorious;

c) US$652.6 million by the issue of 940,779,090 Consideration Shares of the Company; and

d) US$690.0 million by the issue of PSCS; convertible into 1,560 million conversion shares of the Company.

The fair value of the Consideration Shares disclosed above has been determined, consistent with Hong Kong Financial Reporting Standards (HKFRS) HKFRS 3 *Business Combinations*, based on the MMR share price at the acquisition date on 31 December 2010 of HK$5.39. Applying this fair value to the Consideration Shares issued to acquire the MMG assets resulted in a value of US$652.6 million as compared to the indicative values presented in the Shareholder Circular of US$361.8 million.

Album Resources, incorporated on 8 April 2009, is the holding company for MMG. MMG is a significant producer of zinc, copper, lead, gold and silver. MMG currently operates four mines: (i) the Sepon copper and gold operations located in Laos; (ii) Century, one of the world's largest zinc mines, located in Queensland, Australia, also producing lead and silver; (iii) Golden Grove, a zinc, copper, lead and precious metals mine located in Western Australia; and (iv) Rosebery, a zinc, lead, copper and precious metals mine located in Tasmania, Australia. In addition, MMG owns the Avebury nickel mine in Tasmania, Australia (which is currently on care and maintenance) and has several other development projects and an active minerals exploration program.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### 2.1 Basis of preparation

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

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

### (a) Change in presentation currency

Prior to 2010, the presentation currency of the Company was the HK$ for the purpose of preparing its consolidated financial statements. The Directors have determined to change the presentation currency from HK$ to US$ in preparing the consolidated financial statement for the year ended 31 December 2010 as the Directors consider the change will result in a more meaningful presentation of the operating results and financial position of the Group. The comparative figures in these consolidated financial statements are translated from HK$ to US$ using the rates that approximate the closing rates for balance sheet items and average rates for the year for income statement items. The change in presentation currency had no significant impact on the financial position of the Group as at 1 January 2009, 31 December 2009 and 31 December 2010, and the results and cash flows of the Group for the year ended 31 December 2009 and 2010.

### (b) Change in rounding of amounts

Prior to 2010, the Company rounded data to the nearest thousand for the purpose of preparing its consolidated financial statements. Amounts in this financial report have been rounded off in millions of dollars to one decimal place except where rounding to the nearest one thousand dollars is required.

### (c) New and amended standards adopted by the Group

The Hong Kong Institute of Certified Public Accountants (HKICPA) has issued the following new and revised standards, amendments to standards and interpretations that are effective or early adopted in 2010 and relevant to the Group's operation. The adoption of these revised standards, amendments to standards and interpretations does not have any significant impact on the Group's results and financial position.

| | |
|---|---|
| HKFRSs (Amendments) | Amendments to HKFRS 5 as part of improvements to HKFRSs issued in 2008 |
| HKFRSs (Amendment) | Improvements to HKFRSs issued in 2009 |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 39 (Amendment) | Eligible hedged items |
| HKFRS 1 (Revised) | First-time adoption of HKFRS |
| HKFRS 1 (Amendment) | Additional exemptions for first-time adopters |
| HKFRS 2 (Amendment) | Group cash-settled share-based payment transactions |
| HKFRS 3 (Revised) | Business combinations |
| HK – Int 5 | Presentation of financial statements – classification by the borrower of a term loan that contains a repayment on demand clause |
| HK (IFRIC) – Int 17 | Distributions of non-cash assets to owners |

The Group has early adopted HKAS 24 (revised), "Related Party Disclosures" in whole which is effective for years beginning on or after 1 January 2011 in preparing the consolidated financial statements for the year ended 31 December 2010. The amendment introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions with the government and other government related entities. Those disclosures are replaced with a requirement to disclose the name of the government and the nature of their relationship, the nature and amount of any individually-significant transactions, and the extent of any collectively-significant transactions qualitatively or quantitatively. It also clarifies and simplifies the definition of a related party.

### (d) New standards, amendments to standards and interpretations that have been issued but are not effective

The Group has not early adopted the following new/revised standards, amendments and interpretations to standards that have been issued but are not effective for 2010. The Group is in the process of assessing their impact to the Group's results and financial position.

| | |
|---|---|
| HKFRSs (Amendment) | Improvements to HKFRSs 2010(1) |
| HKAS 12 (Amendment) | Deferred tax – recovery of underlying assets(2) |
| HKAS 32 (Amendment) | Classification of right issues(1) |
| HKFRS 7 (Amendment) | Disclosures – transfers of financial assets(2) |
| HKFRS 9 | Financial instruments(3) |
| HK(IFRIC) – Int 14 (Amendment) | Prepayments of a minimum funding requirement(1) |
| HK(IFRIC) – Int 19 | Extinguishing financial liabilities with equity instruments(1) |

(1) Effective for the Group for annual period beginning 1 January 2011
(2) Effective for the Group for annual period beginning 1 January 2012
(3) Effective for the Group for annual period beginning 1 January 2013

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.2 Change in accounting policy and business combination under common control

#### (a) Change in accounting policy

In previous years, the Group adopted the purchase method of accounting to account for all its acquisitions of subsidiaries, including the business combinations under common control, in accordance with HKFRS 3 *Business Combinations*. In the current year, for the purpose of aligning the Group's accounting policy with its holding companies, the Directors of the Company reviewed the appropriateness and practicality of the change of method of accounting for business combinations under common control taking into account merger accounting as allowed under Accounting Guideline 5 *Merger Accounting for Common Control Combinations* (AG 5) issued by the HKICPA. The Directors consider that merger accounting is more appropriate and would provide reliable and more relevant information in respect of the Group's business combinations under common control as it can better reflect the underlying economic substance of these transactions. Accordingly, the Group has changed to apply the principle of merger accounting in accordance with the requirements set out in AG 5 to business combinations involving entities under the common control of its ultimate holding company.

The change in accounting policy has been applied retrospectively to the acquisition of the alumina and aluminium businesses (mainly comprising Minmetals Aluminium Company Limited and its subsidiaries) by the Group from a subsidiary of the Group's ultimate holding company on 6 October 2005.

The relevant adjustments on the Group's financial statements are set out in Note 2.2(c).

#### (b) Business combinations under common control

The 2010 Business Combination discussed in Note 1 was regarded as a business combination under common control since the Company and Album Resources are under common control of CMN. Thus, the financial information of Album Resources has been consolidated into the financial statements of the Company under merger accounting in accordance with the requirements of AG 5. No adjustment has been made to the net assets or net profit to achieve consistency of accounting policies as a consequence of the combination. Business acquisition expenses of US$86.4 million in relation to the 2010 Business Combination, comprising stamp duty and professional fees, were recognised in the income statement as incurred.

The Group has restated its 2009 comparative amounts as if the very substantial acquisition had been completed since the date when the combining entities first came under common control. The relevant adjustments on the Group's financial statements are presented in Note 2.2(c).

The full accounting policy for a common control combination using the principles of merger accounting has been set out in Note 2.3.

#### (c) Effect of the adoption of merger accounting

The effect of the adoption of merger accounting on the consolidated income statement for the year ended 31 December 2009 is as follows:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.2 Change in accounting policy and business combination under common control continued

(c) Effect of the adoption of merger accounting continued

| | YEAR ENDED 31 DECEMBER 2009 | | | |
|---|---|---|---|---|
| US$ million | As previously reported | Impact of change in accounting policy | Impact of business combination | Restated |
| **Revenue** | 796.9 | – | 852.8 | 1,649.7 |
| Cost of sales | (766.2) | 7.2 | (508.2) | (1,267.2) |
| **Gross profit** | 30.7 | 7.2 | 344.6 | 382.5 |
| Selling expenses | (9.7) | – | (55.1) | (64.8) |
| Administrative expenses | (20.8) | – | (23.2) | (44.0) |
| Exploration expenses | – | – | (10.1) | (10.1) |
| Other (losses)/gains – net | 5.0 | – | 1.6 | 6.6 |
| Other operating expenses | (6.4) | – | (66.6) | (73.0) |
| Other income | 2.8 | – | 0.7 | 3.5 |
| Gain on disposal of available-for-sale financial assets | 27.5 | 14.2 | – | 41.7 |
| **Operating profit** | 29.1 | 21.4 | 191.9 | 242.4 |
| Finance income | 3.1 | – | 1.1 | 4.2 |
| Finance costs | (7.3) | – | (23.2) | (30.5) |
| Share of net profits of associates and jointly-controlled entities accounted for using the equity method | 4.2 | – | – | 4.2 |
| **Profit before income tax** | 29.1 | 21.4 | 169.8 | 220.3 |
| Income tax (expense)/benefit | (5.2) | (1.2) | 10.9 | 4.5 |
| **Profit for the year** | 23.9 | 20.2 | 180.7 | 224.8 |
| **Attributable to:** | | | | |
| Equity holders of the Company | 23.1 | 20.2 | 172.5 | 215.8 |
| Non-controlling interests | 0.8 | – | 8.2 | 9.0 |
| | 23.9 | 20.2 | 180.7 | 224.8 |
| **Earnings per share for profit attributable to equity holders of the Company** | | | | |
| – Basic | US 1.15 cents | | | US 8.37 cents |
| – Diluted | US 1.15 cents | | | US 6.18 cents |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.2 Change in accounting policy and business combination under common control continued

(c) Effect of the adoption of merger accounting continued

The effect of the adoption of merger accounting on the consolidated balance sheet as at 31 December 2009 and 1 January 2009 is as follows:

| | AS AT 31 DECEMBER 2009 | | | | AS AT 1 JANUARY 2009 | | |
|---|---|---|---|---|---|---|---|
| US$ million | As previously reported | Impact of change in accounting policy | Impact of business combination | Restated | As previously reported | Impact of change in accounting policy | Restated |
| **ASSETS** | | | | | | | |
| **Non-current assets** | | | | | | | |
| Property, plant and equipment | 107.1 | – | 1,493.7 | 1,600.8 | 81.3 | – | 81.3 |
| Investment properties | 1.7 | – | – | 1.7 | 1.7 | – | 1.7 |
| Intangible assets | 310.3 | (170.3) | – | 140.0 | 328.1 | (180.1) | 148.0 |
| Investments accounted for using the equity method | 171.5 | – | – | 171.5 | 155.7 | – | 155.7 |
| Inventories | – | – | 23.5 | 23.5 | – | – | – |
| Available-for-sale financial assets | – | – | – | – | 39.8 | – | 39.8 |
| Deferred income tax assets | 5.1 | – | 65.5 | 70.6 | 7.7 | – | 7.7 |
| Other assets | 0.9 | – | – | 0.9 | 23.6 | – | 23.6 |
| | 596.6 | (170.3) | 1,582.7 | 2,009.0 | 637.9 | (180.1) | 457.8 |
| **Current assets** | | | | | | | |
| Inventories | 125.6 | (2.6) | 177.5 | 300.5 | 89.0 | – | 89.0 |
| Trade and other receivables | 171.4 | – | 112.3 | 283.7 | 168.5 | – | 168.5 |
| Current income tax assets | 0.9 | – | – | 0.9 | 2.2 | – | 2.2 |
| Other financial assets | 33.0 | – | – | 33.0 | 5.4 | – | 5.4 |
| Cash and cash equivalents | 219.8 | – | 251.3 | 471.1 | 239.5 | – | 239.5 |
| | 550.7 | (2.6) | 541.1 | 1,089.2 | 504.6 | – | 504.6 |
| **Total assets** | 1,147.3 | (172.9) | 2,123.8 | 3,098.2 | 1,142.5 | (180.1) | 962.4 |
| **EQUITY** | | | | | | | |
| **Capital and reserves** | | | | | | | |
| Share capital | 13.0 | – | – | 13.0 | 13.0 | – | 13.0 |
| Reserves and retained profits | 779.7 | (158.0) | 509.7 | 1,131.4 | 768.1 | (164.0) | 604.1 |
| | 792.7 | (158.0) | 509.7 | 1,144.4 | 781.1 | (164.0) | 617.1 |
| **Non-controlling interests** | 25.7 | – | 42.0 | 67.7 | 24.8 | – | 24.8 |
| **Total equity** | 818.4 | (158.0) | 551.7 | 1,212.1 | 805.9 | (164.0) | 641.9 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.2 Change in accounting policy and business combination under common control continued

(c) Effect of the adoption of merger accounting continued

| | AS AT 31 DECEMBER 2009 | | | | AS AT 1 JANUARY 2009 | | |
|---|---|---|---|---|---|---|---|
| US$ million | As previously reported | Impact of change in accounting policy | Impact of business combination | Restated | As previously reported | Impact of change in accounting policy | Restated |
| **LIABILITIES** | | | | | | | |
| **Non-current liabilities** | | | | | | | |
| Deferred income | 5.1 | – | – | 5.1 | 3.1 | – | 3.1 |
| Derivative financial instruments | – | – | – | – | 1.0 | – | 1.0 |
| Deferred income tax liabilities | 15.7 | (14.9) | – | 0.8 | 16.5 | (16.1) | 0.4 |
| Borrowings | 82.3 | – | 1,100.8 | 1,183.1 | 69.5 | – | 69.5 |
| Provisions | – | – | 231.4 | 231.4 | – | – | – |
| | 103.1 | (14.9) | 1,332.2 | 1,420.4 | 90.1 | (16.1) | 74.0 |
| **Current liabilities** | | | | | | | |
| Trade and other payables | 79.5 | – | 143.7 | 223.2 | 119.6 | – | 119.6 |
| Receipts in advance | 62.1 | – | – | 62.1 | 44.4 | – | 44.4 |
| Advances from banks for discounted bills | 25.1 | – | – | 25.1 | 11.2 | – | 11.2 |
| Amounts due to related parties | 0.7 | – | – | 0.7 | 25.7 | – | 25.7 |
| Derivative financial instruments | 10.1 | – | – | 10.1 | 6.1 | – | 6.1 |
| Current income tax liabilities | 1.1 | – | 59.6 | 60.7 | 0.2 | – | 0.2 |
| Borrowings | 47.2 | – | 1.1 | 48.3 | 39.3 | – | 39.3 |
| Provisions | – | – | 35.5 | 35.5 | – | – | – |
| | 225.8 | – | 239.9 | 465.7 | 246.5 | – | 246.5 |
| **Total liabilities** | 328.9 | (14.9) | 1,572.1 | 1,886.1 | 336.6 | (16.1) | 320.5 |
| **Total equity and liabilities** | 1,147.3 | (172.9) | 2,123.8 | 3,098.2 | 1,142.5 | (180.1) | 962.4 |
| **Net current assets** | 324.9 | (2.6) | 301.2 | 623.5 | 258.1 | – | 258.1 |
| **Total assets less current liabilities** | 921.5 | (172.9) | 1,883.9 | 2,632.5 | 896.0 | (180.1) | 715.9 |

The effect of the change in accounting policy as at and for the year ended 31 December 2010 is as follows:

| US$ million | |
|---|---|
| Decrease in alumina purchasing rights | 160.6 |
| Decrease in deferred income tax liabilities | 13.7 |
| Decrease in cost of sales | 9.7 |
| Increase in deferred income tax expense | 1.2 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.3 Consolidation

#### (a) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquirees' identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or business first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date unless they first came under common control at a later date.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, incurred in relation to the common control combination that is to be accounted for by using merger accounting are recognised as expenses in the year in which they are incurred.

#### (b) Purchase method of accounting for non-common control combination

The Group uses the purchase method of accounting to account for business combinations other than common control combination. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

#### (c) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

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

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

#### (d) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly-controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

### Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27, *Consolidated and separate financial statements*, became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28, *Investments in associates*, and HKAS 31, *Interests in joint ventures*.

Previously, transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as an associate, jointly-controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

### (e) Jointly-controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly-controlled entities. The Group's interests in jointly-controlled entities are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in jointly-controlled entities includes goodwill identified on acquisition, net of any accumulated impairment loss.

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

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

Dilution gains and losses arising in investments in jointly-controlled entities are recognised in the income statement.

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

### (f) Associates

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

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

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

Dilution gains and losses arising in investments in associates are recognised in the income statement.

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Company's Executive Directors and other senior management of the Group.

### 2.5 Foreign currency translation

#### (a) Functional and presentation currency

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

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

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

#### (c) Group companies

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

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

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

(iii) all resulting exchange differences are recognised in other comprehensive income.

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

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

### 2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items and costs incurred in bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Cost also includes transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Major spare parts and stand-by equipment are carried as property, plant and equipment when an entity expects to use them during more than one period or when they can be used only in connection with an item of property, plant and equipment.

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

Mine property and development assets include costs transferred from exploration and evaluation assets once technical feasibility and commercial viability of an area of interest are demonstrable, and also includes subsequent costs to develop the mine to the production phase.

#### (a) Depreciation and amortisation

For assets that are not mine property and development assets, depreciation of property, plant and equipment is calculated using the straight-line method to allocate costs to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20-50 years |
| Leasehold improvements | shorter of 5 years or the unexpired periods of the leases |
| Plant and machinery | 3-15 years |

Amortisation of mine property and development assets and mining related property, plant and equipment is calculated on the basis of units of production unless their useful life is less than that of the mine. Amortisation is based on assessments of proven and probable reserves and a proportion of resources available to be mined by the current production equipment to the extent that such resources are considered to be economically recoverable.

The amortisation of mine property and development assets commences when the mine starts commercial production. All other items of mining related property, plant and equipment are depreciated over the shorter of the asset's useful life or the life of mine on a straight-line basis, as follows:

| | |
|---|---|
| Freehold Land and buildings | lower of life of mine or 20 years |
| Plant and equipment | lower of life of mine or 3-5 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

### (b) Overburden and waste removal

Overburden and other waste removal costs incurred in the development of a mine before production commences are capitalised as part of the construction of the mine as mine property and development assets. These costs include direct costs and an allocation of relevant overhead expenditure. These costs are subsequently amortised over the life of mine on a units of production basis upon commencement of commercial production.

Overburden and other waste costs incurred once an operation commences production activity (production stripping costs) are capitalised as mine property and development assets. A proportion of the costs is charged to the income statement as an operating cost on the basis of the quantity of ore mined or the quantity of the minerals contained in the ore, as a proportion of the known mineral reserves of the operation.

Changes in technical and/or other economic parameters that impact on reserves will also have an impact on the depreciation and amortisation of capitalised mine property and development assets. These changes are accounted for prospectively from the date of change.

### (c) Disposal of property, plant and equipment

On disposal of an item of property, plant and equipment, the difference between the disposal proceeds and its carrying amount is recognised in the income statement within other income or other (losses)/gains – net as applicable.

### (d) Exploration and evaluation expenditure

Exploration and evaluation costs, including costs of acquiring licences, are capitalised as exploration and evaluation assets on an area of interest basis. Costs incurred before the Group has obtained the legal right to explore an area are recognised in the income statement.

Exploration and evaluation assets are classified as part of property plant and equipment. As the assets are not yet ready for use they are not depreciated.

Exploration and evaluation assets are only recognised if the rights to the area of interest are current and either:

- the expenditures are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- activities in the area of interest have not at the reporting date, reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in, or in relation to, the area of interest are continuing.

Exploration and evaluation assets are assessed for impairment if:

- sufficient data exists to determine technical feasibility and commercial viability; and
- facts and circumstances suggest that the carrying amount exceeds the recoverable amount (see recoverable amount and fair value estimation accounting policy Note 2.9).

For the purposes of the impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. The cash generating units shall not be larger than the area of interest. Refer to Note 2.9 for further details.

Once the technical feasibility and commercial viability of the extraction of mineral reserves in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mine property and development assets within property, plant and equipment.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.6 Property, plant and equipment continued

#### (d) Exploration and evaluation expenditure continued

Acquired mineral rights comprise identifiable exploration and evaluation assets including mineral reserves and mineral resources, which are acquired as part of a business combination and are recognised at fair value at the date of acquisition. The acquired mineral rights are reclassified as mine property and development from commencement of development and amortised when commercial production commences on a unit of production basis over the estimated economic reserve of the mine.

### 2.7 Investment properties

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

Investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, alternative valuation methods such as recent prices on less active markets or discounted cash flow projections are used. These valuations are performed in accordance with the *HKIS Valuation Standards on Properties (First Edition 2005)* published by the Hong Kong Institute of Surveyors. Investment property is valued annually by external valuers. Changes in fair values are recognised in the consolidated income statement.

### 2.8 Intangible assets

#### (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or jointly-controlled entity at the date of acquisition. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill in respect of subsidiaries is disclosed as goodwill. Goodwill relating to a jointly-controlled entity is included within the carrying amount of the interest in a jointly-controlled entity.

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

#### (b) Alumina purchasing rights

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

### 2.9 Impairment of investments in subsidiaries, associates, jointly-controlled entities and non-financial assets

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

Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.10 Non-current assets held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

### 2.11 Financial assets

*Classification*

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determine the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period, in which case they are classified as non-current assets.

(c) Available-for-sale financial assets

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

*Recognition and measurements*

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

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the consolidated income statement within other gains/(losses) in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement when the Group's right to receive payments is established.

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

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payments is established.

*Impairment of financial assets*

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists. 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. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the income statement.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.11 Financial assets continued

#### (a) Assets carried at amortised cost continued

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 (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

#### (b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

### 2.12 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(3) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair value or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 24. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

#### (a) Fair value hedge

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

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

#### (b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement.

Amounts accumulated in equity are recycled in the consolidated income statement in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the consolidated income statement within finance costs. The gain or loss relating to the ineffective portion is recognised in the consolidated income statement within other gains/(losses).

However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset.

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

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement within other gains/(losses).

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

(d) Derivatives that do not qualify for hedge accounting

Certain derivatives instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the consolidated income statement within other gains/(losses).

**2.13 Financial guarantee contract**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*.

**2.14 Inventories**

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

Cost of commodities purchased for re-sale, mainly comprising purchase costs and custom duty, is determined using the first-in, first-out method. The cost of work in progress and finished goods, comprising raw materials, direct labour, other direct costs and an appropriate proportion of related production overheads, is determined using the weighted average method. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs include the costs of direct materials, overburden removal, mining, processing, labour, related transportation cost to the point of sale, mine rehabilitation costs incurred in the extraction process and other fixed and variable costs directly related to mining activities.

**2.15 Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

**2.16 Cash and cash equivalents**

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

**2.17 Financial liabilities and equity**

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. Financial liabilities are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Equity instruments (including ordinary shares and PSCS) are any contract that does not meet the definition of financial liability and evidences a residual interest in the assets of the Group after deducting all of its liabilities. Subsequent to initial recognition, the equity instrument is not re-measured.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.18 Share capital

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

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

### 2.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are recognised in the consolidated income statement on a straight-line basis over the expected useful lives of the related assets.

### 2.20 Mine rehabilitation, restoration and dismantling obligations

Provisions are made for the estimated cost of rehabilitation, restoration and dismantling relating to areas disturbed during the mine's operations up to the reporting date but not yet rehabilitated. Provision has been made in full for all the disturbed areas at the reporting date based on current estimates of costs to rehabilitate such areas, discounted to their present value based on expected future cash flows. The estimated cost of rehabilitation includes the current cost of re-contouring, topsoiling and re-vegetation to meet legislative requirements. Changes in estimates are dealt with on a prospective basis as they arise.

Uncertainty exists as to the amount of rehabilitation obligations which will be incurred due to the impact of changes in environmental legislation, and many other factors, including future developments, changes in technology, price increases and changes in interest rates. The amount of the provision relating to mine rehabilitation, restoration and dismantling obligations is recognised at the commencement of the mining project and/or construction of the assets where a legal or constructive obligation exists at that time.

The provision is recognised as a liability, separated into current (estimated costs arising within 12 months) and non-current components based on the expected timing of these cash flows. A corresponding asset is included in mine property and development assets, only to the extent that it is probable that future economic benefits associated with the restoration expenditure will flow to the entity. The capitalised cost of this asset is recognised in property, plant and equipment and is amortised over the life of the mine.

At each reporting date the rehabilitation liability is re-measured in line with changes in discount rates, and timing or amounts of the costs to be incurred. Rehabilitation, restoration and dismantling provisions are adjusted for changes in estimates. Adjustments to the estimated amount and timing of future rehabilitation and restoration cash flows are a normal occurrence in light of the significant judgements and estimates involved. Changes in the liability relating to mine rehabilitation, restoration and dismantling obligations are added to or deducted from the related asset (where it is probable that future economic benefits will flow to the entity), other than the unwinding of the discount which is recognised as a finance cost in the income statement. Changes to capitalised cost result in an adjustment to future depreciation charges.

The provisions referred to above do not include any amounts related to remediation costs associated with unforeseen circumstances.

### 2.21 Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

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

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

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract is lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

A provision is recognised for the amount expected to be paid under short-term or long-term bonus entitlements if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the Director or employee and the obligation can be estimated reliably.

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

*Workers' compensation*

Provision is made for outstanding claims, including any incurred but not reported claims, where any subsidiary self-insures for risks associated with workers' compensation. Outstanding claims are recognised when an incident occurs that may give rise to a claim and are measured at the cost that the entity expects to incur in settling the claims, discounted using a rate that reflects current market assessments of the time value of money and risks specific to the liability. An independent actuary provides the calculation of the value of outstanding claims. Each period the impact of the unwind of discounting is recognised in the income statement as a financing cost.

**2.22 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

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

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed as incurred.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the Group's outstanding interest-bearing liabilities.

**2.23 Current and deferred income tax**

The tax expense or credit recognised for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the places where the Company's subsidiaries, jointly-controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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

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

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES continued

### 2.23 Current and deferred income tax continued

*Tax consolidation – Australia*

The Australian subsidiaries of Album Resources elected to form an income tax consolidation group as of 16 June 2009 and will be taxed as a single entity from this date. MMG Australia Limited was elected to be the head company of the MMG Australian tax consolidated group.

The subsidiaries in the MMG Australian tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone tax payer in its own right. In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from the other entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements between entities within the tax consolidated group entities are utilised as amounts receivable from or payable to other entities within the tax consolidated group.

### 2.24 Trade and other payables

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Trade and other payables are classified as current liabilities if payment is due with one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

### 2.25 Revenue recognition

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

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

#### (a) Sales of goods

Revenue from the sale of goods and disposal of other assets is recognised when persuasive evidence of an arrangement exists, usually in the form of an executed sales agreement, indicating there has been a transfer of the significant risks and rewards to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. This is generally when title passes, which for the majority of commodity sales is the bill of lading date when the commodity is delivered for shipment. For non-commodity sales, it is usually the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there are no unfulfilled obligations that could affect the customer's acceptance of the products.

Revenue on provisionally priced sales is recognised at the estimated fair value of the total consideration received or receivable. Contract terms for many of the Group's zinc, copper, lead, gold, silver and metal in concentrate sales allow for a price adjustment based on a final assay of the goods by the customer to determine content. Recognition of the sales revenue for these commodities is based on the most recently determined estimate of product specifications with a subsequent adjustment made to revenue upon final determination.

The terms of concentrate sales contracts with third parties contain provisional pricing arrangements whereby the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer. Adjustment to the sales price occurs based on movements in quoted market prices up to the date of final settlement. The period between provisional invoicing and final settlement is typically between 60 and 120 days.

The fair value of the final sales price adjustment is re-estimated continuously and changes in fair value are recognised as an adjustment to revenue. In all cases, fair value is estimated by reference to forward market prices.

Revenue is reported net of discounts and pricing adjustments. Royalties paid and payable are separately reported as expenses.

#### (b) Servicing income

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

#### (c) Interest income

Interest income is recognised on a time proportion basis, using the effective interest method.

(d) Rental income

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

**2.26 Employee benefits**

(a) Employee leave entitlements

Employee entitlements to annual leave are recognised when they are accrued by employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations – defined contribution plans

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

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

(c) Long-term employee benefits

Long service leave is a period of paid leave granted to an employee in recognition of a long period of service to an employer. The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(d) Share-based compensation

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market service and performance vesting conditions (for example, profitability and sales growth targets and remaining employees of the entity over a specified time period).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

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

**2.27 Leases**

Leases of property, plant and equipment where the Group has substantially transferred all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as interest-bearing liabilities. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), including upfront payment made for leasehold land and land use rights, are charged to the consolidated income statement on a straight-line basis over the period of the lease.

**2.28 Dividend distribution**

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or the Board of Directors, as appropriate.

**2.29 Comparatives**

As stated in Note 2.2, comparative figures have been restated to reflect the effects of the 2010 Business Combination under common control, which is accounted for using merger accounting in accordance with HKFRS. Certain comparative figures have also been reclassified to conform with the current year presentation to align the financial statements presentation subsequent to the very substantial acquisition of Album Resources.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks, including commodity price risk, equities price risk, interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group's overall risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The use of financial derivative instruments should strictly follow the yearly plans approved by the Board of Directors of the Company and its subsidiaries. The Group does not and is prohibited to enter into derivative contracts for speculative purposes.

The core management team identifies, evaluates and monitors financial risks in close cooperation with the Group's operating units to ensure derivative financial instruments are employed solely for hedging purposes.

#### (a) Commodity price risk

The principal activities of the Group are the trading of alumina, aluminium ingot and other non-ferrous metals, the production and sale of aluminium foils and extrusions, and the mining and sale of zinc, copper, lead, gold and silver. As commodity markets are influenced by global as well as regional supply and demand conditions, any unexpected price changes in the market exchanges might affect the Group's earnings and performance. To mitigate this risk, the Group closely monitors any significant exposures. The Group may enter into commodity derivative contracts in its aluminium operations from time to time in accordance with the policies and yearly plans approved by the Board of Directors. Further details of these commodity derivative contracts are set out in Note 24. The Group generally believes commodity price hedging in relation to the mining operations would not provide long-term benefits to its shareholders.

The following table details the Group's sensitivity to movement in commodity prices. At reporting date, if the commodity prices increased/(decreased) by the market consensus 12-month forecast commodity price movement and all other variables were held constant, the Group's after tax profit would have increased/(decreased) as set out below.

| | 2010 | | |
|---|---|---|---|
| Commodity | Forecast 12-month commodity price movement | Increase profit US$ million | Decrease profit US$ million |
| Aluminium | 5.3% | 1.7 | (1.7) |
| Zinc | 1.4% | 0.3 | (0.3) |
| Copper | 2.9% | 1.2 | (1.2) |
| Gold | 0.2% | – | – |
| **Total** | | **3.2** | **(3.2)** |

| | 2009 | | |
|---|---|---|---|
| Commodity | Forecast 12-month commodity price movement | Increase profit US$ million | Decrease profit US$ million |
| Aluminium | 5.0% | 3.1 | (3.1) |
| Zinc | 5.6% | 1.5 | (1.5) |
| Copper | 1.3% | 0.4 | (0.4) |
| Gold | 9.1% | 0.6 | (0.6) |
| **Total** | | **5.6** | **(5.6)** |

## (b) Equities price risk

The Group is exposed to equity securities price risk. This arises from investments held by the Group and classified in the balance sheet as available-for-sale.

The majority of the Group's equity investments are publicly traded.

The table below summarises the impact of an increase/(decrease) of an index of securities traded on relevant exchanges on the Group's equity.

EQUITIES PRICE RISK

| Available-for-sale financial assets | Equity securities | 12-month movement in price (increase 21%) | Impact on equity (net of tax) | 12-month movement in price (decrease 21%) | Impact on equity (net of tax) |
|---|---|---|---|---|---|
| US$ million | | | | | |
| Value of investment at year-end | 164.1 | 198.6 | 24.2 | 129.6 | (24.2) |

Equity would increase/(decrease) as a result of gains/losses on equity securities classified as available-for-sale.

## (c) Interest rate risk

The Group is exposed to interest rate volatility on deposits and borrowings. Deposits and borrowings at variable rates expose the Group to cash flow interest rate risk. Deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. Details of the Group's cash and cash equivalents have been disclosed in Note 25 while the details of the Group's borrowings are set out in Note 30.

The Group regularly monitors its interest rate risk to ensure there are no undue exposures to significant interest rate movements. The Group has used interest rate swaps to manage the interest rate risk of its floating rate bank borrowings. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Details of the Group's interest rate swaps are disclosed in Note 24.

As at 31 December 2010, if the interest rate had increased/decreased by 100 basis points with all other variables held constant, post-tax profit for the year (as a result of the change in interest expense for floating rate borrowings) would have increased/(decreased) as follows:

2010

| | +100 basis points | | -100 basis points | |
|---|---|---|---|---|
| US$ million | Profit | Equity | Profit | Equity |
| Financial assets | | | | |
| – Cash and cash equivalents | 2.5 | – | (2.5) | – |
| Financial liabilities | | | | |
| – Borrowings | (8.7) | – | 8.7 | – |
| Total | (6.2) | – | 6.2 | – |

2009

| | +100 basis points | | -100 basis points | |
|---|---|---|---|---|
| US$ million | Profit | Equity | Profit | Equity |
| Financial assets | | | | |
| – Cash and cash equivalents | 2.8 | – | (2.8) | – |
| Financial liabilities | | | | |
| – Borrowings | (7.8) | – | 7.8 | – |
| Total | (5.0) | – | 5.0 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 3. FINANCIAL RISK MANAGEMENT continued

### 3.1 Financial risk factors continued

#### (d) Foreign exchange risk

The Group operates internationally and is exposed to foreign currency exchange risk. The Group's reporting currency and functional currency of the majority of subsidiaries with the Group is US$. The majority of revenue received by the Group is US$. The Group's foreign currency exchange risk arises predominantly from the currency in which the Group's operations are located.

The Group is exposed to foreign exchange risk primarily with respect to Renminbi (RMB), Australian dollars (A$), Hong Kong dollars (HK$) and the Canadian dollar (C$). Given the exchange rate peg between HK$ and US$, it is not foreseen that the Group will be exposed to significant exchange rate risk for the transactions conducted in HK$ or US$. However, exchange rate fluctuations of RMB, C$ or A$ against US$ could affect the Group's performance and asset value.

Under normal market conditions, the Group does not believe that active currency hedging of transactions would provide long-term benefit to shareholders. The Group tries to minimise these exposures through natural hedges wherever possible. For instance, the majority of external debt and surplus cash is denominated in US$. A portion of cash may be held in Australian dollars and Renminbi to meet operating costs.

The long-term relationship between commodity prices and the currencies of the countries where the Group operates provides a degree of natural protection. However, the Group may choose to hedge large foreign currency exposures such as capital expenditure, dividends or tax payments.

The sensitivity analysis includes only outstanding foreign currency denominated monetary items at the reporting date and adjusts their translation for a 2.5% change in the A$/US$, a 6.8% change in the RMB/US$ and a 5.5% change in the C$/US$ foreign exchange rate. This percentage change reflects the market consensus 12-month forecast foreign exchange rate movement.

As at 31 December 2010, if the foreign currency exchange rates strengthened/(weakened) against the functional currency by the above foreign exchange rate changes, and all other variables were held constant, the Group's after-tax profit and equity would have increased/(decreased) by US$4.1 million.

#### (e) Credit risk

Credit risk arises primarily from: (i) trade and bills receivables, and (ii) derivative financial instruments and bank deposits. The Group's maximum exposure to this risk, without taking account of any collateral held, is represented by the carrying amounts of these financial assets in the consolidated balance sheet after deducting any provision for impairment.

(i) Trade and bills receivables

*Trading and Fabrication business*

For the Group's trading business, customers are normally required to make payments before or upon delivery of goods. For the aluminium fabrication business, the Group has control procedures in place to evaluate customers' credit standing and ability to pay on an ongoing basis. Slow-moving debts are regularly monitored with timely follow-up actions taken.

Bills receivable, which are mostly drawn from reputable financial institutions, accounted for 50.8% (2009: 40.6%) of the Group's trade and bills receivables as at 31 December 2010.

*Mining business*

Credit risk arising from sales to the Nyrstar group of companies and other large concentrate customers is managed by contracts that stipulate a provisional payment of at least 90% of the estimated value of each sale. This is payable either promptly after vessel loading or upon vessel arriving at the discharge port. Title to the concentrate does not pass to the buyer until this provisional payment is made. For most sales a second provisional payment is received within 60 days of the vessel arriving at the port of discharge. Final payment is recorded after completion of the quotation period and assaying.

*Group*

The largest trade receivable and the five largest trade receivables accounted for 10.1% (2009: 10.8%) and 27.4% (2009: 32.5%) of the Group's trade and bills receivables as at 31 December 2010, respectively.

The Group's most significant customer is the Nyrstar group of companies. The revenue earned from the Nyrstar group of companies by the Group was approximately 21.7% of consolidated revenue for 2010 (2009: 18.4%). Due to the timing of payments only US$17.8 million of the trade receivables related to the Nyrstar group of companies at 31 December 2010 (2009: US$19.6 million).

(ii) Derivative financial instruments and bank deposits

The Group's derivative transactions and bank deposits are made with various high-credit-quality financial institutions in different countries. Credit risk in this regard is limited. Counterparties are assessed prior to, during and after the conclusion of transactions to ensure exposure to credit risk is limited to acceptable levels. The limits are set to minimise the concentration of risks and therefore mitigate the potential for financial loss through counterparty failure.

### (f) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

Management utilises short and long-term cash flow forecasts and other consolidated information to ensure appropriate liquidity buffers are maintained to support the Group's activities.

The table below analyses the Group's non-derivative financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Derivative financial liabilities are included in the analysis if their contractual maturities are essential for an understanding of the timing of the cash flows. The amounts disclosed in the table are the contractual undiscounted cash flows.

| US$ million | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **At 31 December 2010** | | | | | |
| Financial liabilities | | | | | |
| – Trade and other payables | 368.2 | 0.1 | 0.2 | – | 368.5 |
| – Advances from banks for discounted bills | 43.6 | – | – | – | 43.6 |
| – Amounts due to related parties | 2.5 | – | – | – | 2.5 |
| – Loan from a related party | 14.1 | 14.1 | 778.5 | – | 806.7 |
| – Borrowings | 107.2 | 821.6 | 168.4 | 220.7 | 1,317.9 |
| | 535.6 | 835.8 | 947.1 | 220.7 | 2,539.2 |
| Derivative financial liabilities | | | | | |
| – Net settled derivative financial instruments | 1.2 | – | – | – | 1.2 |
| Financial guarantee issued: | | | | | |
| – Maximum amount guaranteed | 5.4 | – | – | – | 5.4 |

| US$ million | Within 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| **At 31 December 2009, as restated** | | | | | |
| Financial liabilities | | | | | |
| – Trade and other payables | 223.1 | 0.1 | – | – | 223.2 |
| – Advances from banks for discounted bills | 25.1 | – | – | – | 25.1 |
| – Amounts due to related parties | 0.7 | – | – | – | 0.7 |
| – Borrowings | 73.3 | 43.8 | 818.3 | 389.4 | 1,324.8 |
| | 322.2 | 43.9 | 818.3 | 389.4 | 1,573.8 |
| Derivative financial liabilities | | | | | |
| – Net settled derivative financial instruments | 10.1 | – | – | – | 10.1 |
| Financial guarantee issued: | | | | | |
| – Maximum amount guaranteed | – | 5.3 | – | – | 5.3 |

## 3. FINANCIAL RISK MANAGEMENT continued

### 3.2 Fair value estimation

HKFRS 7 requires disclosure of financial instruments that are measured in the balance sheet at fair value by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value.

| At 31 December 2010<br>US$ million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Derivative financial instruments | | | | |
| – Aluminium futures contracts | – | 0.2 | – | 0.2 |
| Available-for-sale financial assets | 164.1 | – | – | 164.1 |
| | 164.1 | 0.2 | – | 164.3 |
| Liabilities | | | | |
| Derivative financial instruments | | | | |
| – Aluminium futures contracts | – | 1.2 | – | 1.2 |

| At 31 December 2009<br>US$ million | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets | | | | |
| Derivative financial instruments | | | | |
| – Aluminium futures contracts | – | 0.5 | – | 0.5 |
| Liabilities | | | | |
| Derivative financial instruments | | | | |
| – Aluminium futures contracts | – | 8.7 | – | 8.7 |
| – Interest rate swap | – | 1.4 | – | 1.4 |
| | – | 10.1 | – | 10.1 |

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the relevant reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of aluminium futures contracts is determined by using valuation techniques, that reference the listed market prices as quoted on the London Metal Exchange and Shanghai Futures Exchange. The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swaps at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate for a similar instrument at the balance sheet date.

The nominal values less any credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair values of non-current bank borrowings equal their carrying amounts, as the impact of discounting is not significant. As the fair value of the issued financial guarantee contract of the Company is not material, no disclosure of its fair value has been made.

### 3.3 Capital risk management

The Group's objectives on managing capital are to safeguard the Group's ability to continue as a going concern, support the Group's sustainable growth, enhance shareholders' value and provide capital for potential acquisitions and investment.

The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and business strategies. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payments to shareholders, issue new shares or raise/repay debts.

The Group monitors capital by using a gearing ratio defined as total borrowings less cash and bank deposits divided by shareholders' equity.

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Cash and cash equivalents | 398.2 | 471.1 |
| Time deposits | 12.8 | 28.0 |
| Pledged bank deposits | 6.4 | 4.5 |
| Less: Total borrowings including a loan from a related party and advances from banks for discounted bills. | 1,965.3 | 1,256.5 |
| Net debt | 1,547.9 | 752.9 |
| Total equity | 533.4 | 1,212.1 |
| Gearing ratio | 2.9 | 0.6 |

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

### (a) Determination of fair values in a business combination

The Group has applied estimates and judgements in order to determine the fair value of assets acquired and liabilities and contingent liabilities assumed by way of a business combination. The assets, liabilities and contingent liabilities recognised at acquisition date are recognised at fair value. In determining fair value the Group has utilised valuation methodologies including discounted cash flow analysis. The assumptions made in performing this valuation include assumptions as to discount rates, foreign exchange rates, commodity prices, the timing of development, capital costs, and future operating costs. Any significant change in key assumptions may cause the acquisition accounting to be revised including recognition of goodwill or a discount on acquisition. Additionally, the determination of the acquirer and the acquisition date also requires significant judgement to be made by the Group.

### (b) Impairment assessment of alumina purchasing rights

The Group performs an impairment test at each balance sheet date to determine whether alumina purchasing rights have suffered any impairment in accordance with the accounting policy stated in Note 2.9. This determination requires significant judgement and the use of estimates. Discounted cash flow techniques are used to estimate the recoverable amount of alumina purchasing rights. Forecasted projections used in the discounted cash flow model are subject to numerous assumptions, risks and uncertainties which include, among others, determining appropriate discount rates, forecasting future alumina prices and sourcing costs as well as assessing economic outlook and environment in general and for the industry. Any changes in these assumptions and estimates can affect the result of assessment.

### (c) Recoverability of non-financial assets

The recoverable amount of each cash-generating unit is determined as the higher of the asset's fair value less costs to sell and its value in use in accordance with the accounting policy in Note 2.9. These value-in-use calculations require the use of estimates and assumptions including discount rates, exchange rates, commodity prices, future capital requirements and future operating performance.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS continued

### (d) Income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred income tax provisions in the accounting period in which such determination is made.

Deferred tax assets are utilised for deductible temporary differences and unused tax losses only if it is probable that future taxable profits will be available to utilise those temporary differences and losses, and the tax losses continue to be available having regard to the nature and timing of their origination and compliance with the relevant tax legislation associated with their recoupment.

### (e) Mine rehabilitation, restoration and dismantling obligations

Provision is made for the anticipated costs of future restoration, rehabilitation and dismantling of mining areas from which natural resources have been extracted in accordance with the accounting policy in Note 2.20. These provisions include future cost estimates associated with reclamation, plant closures, waste site closures, monitoring, demolition, decontamination, water purification and permanent storage of historical residues. These future cost estimates are discounted to their present value. The calculation of these provision estimates requires assumptions such as application of environmental legislation, plant closure dates, available technologies, engineering cost estimates and discount rates. A change in any of the assumptions used may have a material impact on the carrying value of mine rehabilitation, restoration and dismantling provisions.

### (f) Ore reserves and resources estimates

The estimated quantities of economically recoverable reserves and resources are based upon interpretations of geological and geophysical models and require assumptions to be made regarding factors such as estimates of short and long-term exchange rates, estimates of short and long-term commodity prices, future capital requirements and future operating performance. Changes in reported reserves and resources estimates can impact the carrying value of property, plant and equipment, provisions for mine rehabilitation, restoration and dismantling obligations, the recognition of deferred tax assets, as well as the amount of depreciation and amortisation charged to the income statement.

### (g) Functional currency

An entity's functional currency is the currency of the primary economic environment in which the entity operates in accordance with accounting policy in Note 2.5. Determination of an entity's functional currency requires management judgement when considering a number of factors including the currency that mainly influences sales prices, costs of production, and competitive forces and regulations that impact sales prices. In addition, consideration must be given to the currency in which financing and operating activities are undertaken. Applying the principles described above, management has come to the conclusion that the functional currency of the majority of subsidiaries within the Group is US$ based on the following factors:

- Sales are predominantly denominated in US$;
- A significant portion of costs are denominated in US$;
- A significant portion of debt and finance costs are denominated in US$; and
- Senior management and Board reporting is conducted in US$.

## 5. ACQUISITION OF BUSINESS

**Minerals and Metals Group (MMG)**

MMG was formed on 16 June 2009, from Album Investment's acquisition of certain companies from OZ Minerals. The acquisition resulted in the formation of MMG creating a leading minerals and metals business with mining operations in Australia and Laos and exploration and development projects in Australia, South-East Asia, the PRC and North America. Consistent with the sale agreement on a 'cash free, debt free' basis and based on normal levels of working capital, the actual amount paid by the Album Investment for MMG at completion of the transaction of US$661.2 million was subject to certain adjustments related to the working capital, net debt and agreed tax liabilities of the assets acquired.

The assets acquired by the Album Resources from the acquisition are listed below:

- Century mine
- Sepon copper and Sepon gold mines
- Golden Grove mine
- Rosebery mine
- Avebury mine (which was placed under care and maintenance in March 2009)
- The Canadian projects
- The Dugald River project
- Certain other exploration and development assets

These assets were involved in the mining of zinc, copper, lead, gold and silver and various exploration and development projects.

The values of assets, liabilities and contingent liabilities recognised on acquisition are their fair values at the date of acquisition. Where the initial accounting for a business combination is incomplete, accounting standards permit up to 12 months for the accounting to be finalised following the acquisition date if any subsequent information provides better evidence of the item's fair value at the date of acquisition.

At the time acquisition, Album Resources and Album Investment undertook a detailed review to determine the fair value of assets, liabilities and contingent liabilities recognised on the date of acquisition. This review included engaging an external third party to determine the fair values of the property, plant and equipment acquired, resulting in the reallocation of mineral rights within cash generating units at the date of acquisition.

The details of the fair values at the date of acquisition are set out below:

| US$ million | Acquirees carrying amount on 1-Jun-09 | Fair value adjustments | Fair values |
|---|---|---|---|
| Cost of acquisition | | | |
| Cash paid | 661.2 | – | 661.2 |
| Acquisition costs | 16.0 | – | 16.0 |
| **Total cost of acquisition** | **677.2** | **–** | **677.2** |
| Fair values of assets and liabilities | | | |
| Cash and cash equivalents | 28.5 | – | 28.5 |
| Trade and other receivables | 0.2 | – | 0.2 |
| Inventories | 172.2 | 15.7 | 187.9 |
| Other assets | 20.6 | – | 20.6 |
| Property, plant and equipment | 1,775.2 | (308.3) | 1,466.9 |
| Deferred tax assets | 22.7 | (5.6) | 17.1 |
| Trade and other payables | (28.3) | – | (28.3) |
| Current tax payable | (64.9) | – | (64.9) |
| Provisions | (205.3) | – | (205.3) |
| Deferred tax liabilities | – | (5.8) | (5.8) |
| Interest-bearing liabilities | (703.9) | – | (703.9) |
| **Fair value of assets and liabilities before non-controlling interest** | **1,017.0** | **(304.0)** | **713.0** |
| Less non-controlling interest | | | (35.8) |
| **Fair value of assets and liabilities** | | | 677.2 |
| Cash flow attributable to acquisition of MMG | | | |
| Cash paid | 661.2 | – | 661.2 |
| Acquisition costs | 16.0 | – | 16.0 |
| Net cash acquired | (28.5) | – | (28.5) |
| **Net cash outflow** | **648.7** | **–** | **648.7** |

### Pro-forma results

If the acquisition had occurred on 8 April 2009, being the date of incorporation of the Album Resources Private Limited Group, consolidated revenue and consolidated profit would have been US$1,096.4 million and US$232.3 million respectively. The pro-forma financial information does not necessarily represent what would have occurred if the transaction had taken place on 8 April 2009, and should not be taken as representative of the Group's future consolidated results of operations or financial position. The pro-forma information does not include all costs relating to the integration of MMG and the Group.

## 6. SEGMENT INFORMATION

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resources to the segment and assess its performance.

The chief operating decision-maker has been identified as the Company's Executive Directors and senior management of the Group. They review the Group's internal reporting of these subsidiaries in order to assess performance and allocate resources. The identification of operating segments is based on the stage of operation along the supply chain for the Group's aluminium operations and on a site basis for the Group's mining operations.

The Group's reportable segments are as follows:

| | |
|---|---|
| Trading | This segment engages in the trading of alumina and aluminium ingot. Alumina is sourced under spot contracts and long-term contracts signed with international and domestic alumina suppliers as well as a jointly-controlled entity of the Group. |
| Fabrication | This segment engages in the production and sale of aluminium foil, plate, strip and extrusions. |
| Century mine | The Century mine is an open-cut zinc and lead mine located approximately 250 kilometres north of Mount Isa, near to the Gulf of Carpentaria in Queensland, Australia. |
| Sepon mines | Sepon comprises two distinct operations where copper and gold are mined from two open-cut mines and processed separately. The operations are located approximately 40 kilometres north of the town of Sepon, in Savannakhet Province of Laos. |
| Golden Grove mine | Golden Grove mine is a volcanic hosted massive sulphide base and precious metals deposit of zinc, copper, lead, silver and gold, located approximately 450 kilometres north-east of Perth and 280 kilometres east of Geraldton in Western Australia. |
| Rosebery mine | The Rosebery mine is a medium-scale underground zinc, lead, silver, gold and copper mine located on the West Coast of Tasmania in Australia. |
| Other Operations | Operating segments that do not meet the quantitative thresholds are combined as 'Other Operations'. The Group has built a portfolio of exploration and development projects in Australia, Canada, Laos, Thailand and Indonesia. These exploration and development projects, including the Dugald River Project and the Canadian projects, are not required to be disclosed as a separate segment at this stage, and accordingly these amounts are included within Other Operations. Other Operations also include the Avebury mine, which remains on care and maintenance, the production and sale of aluminium processing equipment, the production and sale of plica tubes and the provision of port logistics services and other head office entities. |

A segment result represents the profit earned by each segment without share of profits less losses of jointly-controlled entities and associates. This is the measure reported to the chief operating decision-maker for the purposes of resource allocation and assessment of segment performance. Other information provided, except as disclosed in the following paragraph, to the chief operating decision-maker is measured in a manner consistent with that in the financial statements.

Segment assets exclude current income tax assets, deferred income tax assets, available-for-sale financial assets and interests in jointly-controlled entities and associates. Segment liabilities exclude current income tax liabilities and deferred income tax liabilities. The excluded assets and liabilities are presented as part of the reconciliation to total balance sheet assets or liabilities.

Inter-segment sales are priced with reference to prices charged to external third parties for similar transactions. Finance costs for inter-segment loans are charged at prevailing market interest rates.

The segment revenue and result for the year ended 31 December 2010 are as follows:

| US$ million | Trading | Fabrication | Century mine | Sepon mines | Golden Grove mine | Rosebery mine | Other Operations | Inter-segment elimination | Group |
|---|---|---|---|---|---|---|---|---|---|
| | FOR THE YEAR ENDED 31 DECEMBER 2010 | | | | | | | | |
| External revenue | 1,282.8 | 259.5 | 659.8 | 542.7 | 384.4 | 220.5 | 49.0 | – | 3,398.7 |
| Revenue from related parties | 70.9 | – | 51.6 | 54.0 | 6.9 | – | – | – | 183.4 |
| Inter-segment revenue | 90.6 | – | – | – | – | – | 9.4 | (100.0) | – |
| Revenue | 1,444.3 | 259.5 | 711.4 | 596.7 | 391.3 | 220.5 | 58.4 | (100.0) | 3,582.1 |
| EBITDA | 42.5 | 13.7 | 356.2 | 358.6 | 192.4 | 104.5 | (189.3) | (0.1) | 878.5 |
| Depreciation and Amortisation | (8.1) | (9.6) | (219.5) | (14.9) | (36.8) | (25.7) | (3.9) | – | (318.5) |
| Operating profit/(loss) (EBIT) | 34.4 | 4.1 | 136.7 | 343.7 | 155.6 | 78.8 | (193.2) | (0.1) | 560.0 |
| Finance income | 4.0 | 0.1 | – | 0.5 | – | – | 4.5 | (0.5) | 8.6 |
| Finance costs | (2.8) | (4.4) | (14.3) | (10.0) | (7.9) | (2.0) | (8.6) | 0.5 | (49.5) |
| Segment result | 35.6 | (0.2) | 122.4 | 334.2 | 147.7 | 76.8 | (197.3) | (0.1) | 519.1 |
| Share of net profits of investments accounted for using the equity method | | | | | | | | | 41.0 |
| Income tax expense | | | | | | | | | (129.7) |
| Profit for the year | | | | | | | | | 430.4 |
| Non-controlling interests | | | | | | | | | (21.0) |
| Profit attributable to equity holders of the Company | | | | | | | | | 409.4 |
| Other segment information: | | | | | | | | | |
| Additions to non-current assets | 0.1 | 9.4 | 187.2 | 102.1 | 61.1 | 36.9 | 19.4 | – | 416.2 |

**6. SEGMENT INFORMATION** continued

The segment revenue and result for the year ended 31 December 2009 are as follows:

| | FOR THE YEAR ENDED 31 DECEMBER 2009 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **US$ million** | Trading | Fabrication | Century mine* | Sepon mines* | Golden Grove mine* | Rosebery mine* | Other Operations* | Inter-segment elimination | Group |
| External revenue | 552.0 | 183.2 | 233.8 | 281.4 | 159.2 | 151.5 | 33.6 | – | 1,594.7 |
| Revenue from related parties | 28.1 | – | 13.7 | 6.4 | 6.8 | – | – | – | 55.0 |
| Inter-segment revenue | 110.9 | 0.4 | – | – | – | – | 10.5 | (121.8) | – |
| Revenue | 691.0 | 183.6 | 247.5 | 287.8 | 166.0 | 151.5 | 44.1 | (121.8) | 1,649.7 |
| EBITDA | 13.1 | 13.4 | 86.3 | 161.3 | 71.5 | 74.4 | (2.7) | 0.1 | 417.4 |
| Depreciation and Amortisation | (8.1) | (7.8) | (97.9) | (22.2) | (20.6) | (16.0) | (2.4) | – | (175.0) |
| Operating profit/(loss) (EBIT) | 5.0 | 5.6 | (11.6) | 139.1 | 50.9 | 58.4 | (5.1) | 0.1 | 242.4 |
| Finance income | 2.2 | – | – | – | – | – | 2.7 | (0.7) | 4.2 |
| Finance costs | (4.1) | (3.9) | (9.0) | (2.4) | (5.9) | (0.4) | (5.5) | 0.7 | (30.5) |
| Segment result | 3.1 | 1.7 | (20.6) | 136.7 | 45.0 | 58.0 | (7.9) | 0.1 | 216.1 |
| Share of net profits of investments accounted for using the equity method | | | | | | | | | 4.2 |
| Income tax benefit | | | | | | | | | 4.5 |
| Profit for the year | | | | | | | | | 224.8 |
| Non-controlling interests | | | | | | | | | (9.0) |
| Profit attributable to equity holders of the Company | | | | | | | | | 215.8 |
| Other segment information: | | | | | | | | | |
| Additions to non-current assets | 0.1 | 29.1 | 104.0 | 22.7 | 16.0 | 14.4 | 34.8 | – | 221.1 |

* The segment revenue and results for the segments noted above are for the seven-month period ended 31 December 2009. Other operations include MMG operations acquired on 1 June 2009.

The segment assets and liabilities are as follows:

| US$ million | Trading | Fabrication | Century mine | Sepon mines | Golden Grove mine | Rosebery mine | Other Operations | Group |
|---|---|---|---|---|---|---|---|---|
| | | | | AT 31 DECEMBER 2010 | | | | |
| **Segment assets** | 437.6 | 230.8 | 654.1 | 753.3 | 328.7 | 281.2 | 287.5 | 2,973.2 |
| Investments accounted for using the equity method | | | | | | | | 227.3 |
| Available-for-sale financial assets | | | | | | | | 164.1 |
| Deferred income tax assets | | | | | | | | 98.8 |
| Current income tax assets | | | | | | | | 3.5 |
| | | | | | | | | 3,466.9 |
| **Segment liabilities** | 172.4 | 154.3 | 150.8 | 262.8 | 114.7 | 80.4 | 1,848.9 | 2,784.3 |
| Deferred income tax liabilities | | | | | | | | 20.1 |
| Current income tax liabilities | | | | | | | | 129.1 |
| | | | | | | | | 2,933.5 |

| US$ million | Trading | Fabrication | Century mine | Sepon mines | Golden Grove mine | Rosebery mine | Other Operations | Group |
|---|---|---|---|---|---|---|---|---|
| | | | | AT 31 DECEMBER 2009 | | | | |
| **Segment assets** | 477.0 | 202.8 | 630.8 | 630.7 | 316.8 | 242.3 | 354.8 | 2,855.2 |
| Investments accounted for using the equity method | | | | | | | | 171.5 |
| Deferred income tax assets | | | | | | | | 70.6 |
| Current income tax assets | | | | | | | | 0.9 |
| | | | | | | | | 3,098.2 |
| **Segment liabilities** | 128.7 | 120.1 | 80.0 | 176.9 | 85.6 | 71.3 | 1,162.0 | 1,824.6 |
| Deferred income tax liabilities | | | | | | | | 0.8 |
| Current income tax liabilities | | | | | | | | 60.7 |
| | | | | | | | | 1,886.1 |

No geographical segment information is presented as the information is not available and the cost to develop it would be excessive.

## 7. OTHER INCOME AND EXPENSES

| | 2010<br>US$ million | 2009<br>US$ million<br>(Restated) |
|---|---|---|
| **(a) Other (losses)/gains – net** | | |
| Exchange (losses)/gains – net | (13.2) | 7.2 |
| Net gains/(losses) in derivative financial instruments | 12.0 | (0.5) |
| Fair value gains on investment properties | 0.3 | – |
| Other expenses | (0.6) | (0.1) |
| | (1.5) | 6.6 |
| **(b) Other operating expenses** | | |
| Other operating expenses | (57.1) | (48.8) |
| Contributions to defined contribution plans | (13.5) | (5.9) |
| Operating lease expenses | (13.1) | (11.9) |
| Provision for impairment of receivables | (2.6) | (6.4) |
| | (86.3) | (73.0) |
| **(c) Other income** | | |
| Proceeds from sale of other assets | 4.3 | – |
| Agency commission | 2.2 | – |
| Sales of by-products and other services income | 1.0 | 0.9 |
| Gains on disposal of property, plant and equipment | 0.6 | 0.1 |
| Compensation received from customers for cancellation of contracts | – | 1.3 |
| Other Income | 3.0 | 1.2 |
| | 11.1 | 3.5 |

## 8. OPERATING PROFIT

Operating profit is determined after charging the following:

| | 2010<br>US$ million | 2009<br>US$ million<br>(Restated) |
|---|---|---|
| Cost of inventories | 1,761.7 | 845.6 |
| Employee benefit expense (including Directors' emoluments) (Note 14) | 280.5 | 130.4 |
| Depreciation and amortisation | 318.5 | 175.0 |
| Contracting and consulting expenses | 166.7 | 56.3 |
| Royalties expense | 76.7 | 37.0 |
| Energy cost | 125.1 | 74.3 |
| Operating lease rental on properties | 13.4 | 12.4 |
| Auditor's remuneration | 1.1 | 1.1 |

## 9. FINANCE COSTS – NET

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Finance costs | | |
| – Interest on borrowings wholly repayable within five years | (23.2) | (13.4) |
| – Interest on borrowings not wholly repayable within five years | (8.8) | (7.4) |
| – Interest for discounted bills | (0.5) | (0.5) |
| – Fair value losses on interest rate swaps | (0.5) | (3.1) |
| – Unwind of discount provisions | (17.7) | (7.7) |
| | (50.7) | (32.1) |
| Less: Interest expense capitalised into construction in progress | 1.2 | 1.6 |
| | (49.5) | (30.5) |
| Finance income | | |
| – Interest income | 8.6 | 4.2 |
| Finance costs – net | (40.9) | (26.3) |

Capitalisation rate of 5.9% per annum (2009: 5.9%) was used, representing the weighted average rate of the cost of borrowings to finance the construction in progress.

## 10. INCOME TAX (EXPENSE)/BENEFIT

No provision for Hong Kong profits tax has been made as the Group has tax losses brought forward to offset the assessable profit generated in Hong Kong for the year (2009: US$Nil). Taxation on profits arising from other jurisdictions has been calculated on the estimated assessable profits for the year at the rates prevailing in the relevant jurisdictions.

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Current income tax expense | | |
| PRC corporate income tax | (6.3) | (3.4) |
| Overseas income tax | (151.0) | (43.3) |
| | (157.3) | (46.7) |
| Deferred income tax (Note 21) | 27.6 | 51.2 |
| Income tax (expense)/benefit | (129.7) | 4.5 |

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

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Profit before income tax | 560.1 | 220.3 |
| Calculated at a taxation rate of 25% (2009: 25%) | (140.0) | (55.0) |
| Effect of different taxation rates in other countries | (46.2) | (11.7) |
| Non-taxable/(non-deductible) amounts (net) | (6.3) | 17.6 |
| Recognition and utilisation of previously unrecognised deferred tax assets | 65.8 | 54.0 |
| Under provision in prior years | (3.0) | (0.4) |
| Income tax (expense)/benefit | (129.7) | 4.5 |

Note: The taxation rates applicable in Australia and Laos are 30% and 33% respectively.

## 11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The loss attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of US$1.7 million (2009: US$142.9 million).

## 12. EARNINGS PER SHARE

### (a) Basic

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company and the weighted average number of ordinary shares in issue during the year, as adjusted to reflect the 2010 Business Combination.

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Profit attributable to equity holders of the Company | 409.4 | 215.8 |

| | NUMBER OF SHARES | |
|---|---|---|
| | 2010 '000 | 2009 '000 |
| Weighted average number of ordinary shares in issue | 2,026,217 | 2,026,385 |
| Adjustment for the weighted average number of ordinary shares to reflect the business combination of MMG | 940,779 | 551,580 |
| Weighted average number of ordinary shares used in the calculation of the basic earnings per share | 2,966,996 | 2,577,965 |
| Basic earnings per share | US 13.80 cents | US 8.37 cents |

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: share options and PSCS. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options. The PSCS are assumed to have been converted into ordinary shares.

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Profit attributable to equity holders of the Company | 409.4 | 215.8 |

| | NUMBER OF SHARES | |
|---|---|---|
| | 2010 '000 | 2009 '000 |
| Weighted average number of ordinary shares used in the calculation of the basic earnings per share | 2,966,996 | 2,577,965 |
| Adjustments for: | | |
| – Share options | 2,380 | – |
| – Perpetual sub-ordinated convertible securities | 1,560,000 | 914,630 |
| Weighted average number of ordinary shares used in the calculation of the diluted earnings per share | 4,529,376 | 3,492,595 |
| Diluted earnings per share | US 9.04 cents | US 6.18 cents |

## 13. DIVIDENDS

No interim dividend was paid (2009: US$Nil) and the Directors do not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: US$Nil).

## 14. EMPLOYEE BENEFIT EXPENSE, INCLUDING DIRECTORS' EMOLUMENTS

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Salaries and other benefits | 263.6 | 120.4 |
| Retirement scheme contributions (Note 32) | 15.4 | 8.7 |
| Social security costs | 1.5 | 1.3 |
| | 280.5 | 130.4 |

The total employee headcount for the Group as at 31 December 2010 was 5,797.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of every Director for the year ended 31 December 2010 is set out below:

| Name of Director | Fees US$'000 | Salaries US$'000 | Other Benefits[h] US$'000 | Discretionary bonuses US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Mr Li Fuli | 13 | – | – | – | 13 |
| Mr Hao Chuanfu[a] | – | 246 | 63 | 82 | 391 |
| Mr Andrew Gordon Michelmore[b] | – | – | – | – | – |
| Mr David Mark Lamont[c] | – | – | – | – | – |
| Mr Li Liangang[d] | 13 | 208 | 3 | 191 | 415 |
| Mr Wang Lixin | 13 | – | – | – | 13 |
| Mr Xu Jiqing | 13 | – | – | – | 13 |
| Mr Jiao Jian[e] | – | – | – | – | – |
| Mr Ting Leung Huel, Stephen | 29 | – | – | – | 29 |
| Mr Loong Ping Kwan | 29 | – | – | – | 29 |
| Dr Peter William Cassidy[f] | – | – | – | – | – |
| Mr Zhan Wei[g] | – | 143 | 37 | 81 | 261 |
| Ms Shen Ling[g] | 13 | – | – | – | 13 |
| Mr Zong Qingsheng[g] | 13 | – | – | – | 13 |
| Mr Li Dongsheng[g] | 29 | – | – | – | 29 |
| | 165 | 597 | 103 | 354 | 1,219 |

Note:
(a) Re-designated as the Vice Chairman while remaining as an Executive Director on 31 December 2010.
(b) Appointed as an Executive Director and Chief Executive Officer on 31 December 2010.
(c) Appointed as an Executive Director and Chief Financial Officer on 31 December 2010.
(d) Re-designated as an Executive Director on 31 December 2010.
(e) Appointed as a Non-executive Director on 31 December 2010.
(f) Appointed as an independent Non-executive Director on 31 December 2010.
(g) Resigned on 31 December 2010.
(h) Other benefits include housing allowances and leave pay.

The remuneration of every Director for the year ended 31 December 2009 is set out below:

| Name of Director | Fees US$'000 | Salaries US$'000 | Other Benefits[k] US$'000 | Discretionary bonuses US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Mr Li Fuli[a] | 8 | – | – | – | 8 |
| Mr Hao Chuanfu | – | 222 | 56 | 29 | 307 |
| Mr Zhan Wei[b] | – | 15 | 4 | 56 | 75 |
| Ms Shen Ling | 13 | – | – | – | 13 |
| Mr Wang Lixin[c] | 13 | – | – | – | 13 |
| Mr Zong Qingsheng | 13 | – | – | – | 13 |
| Mr Xu Jiqing[d] | 8 | – | – | – | 8 |
| Mr Li Liangang[e] | 1 | 149 | 12 | 106 | 268 |
| Mr Li Dongsheng | 29 | – | – | – | 29 |
| Mr Ting Leung Huel, Stephen | 29 | – | – | – | 29 |
| Mr Loong Ping Kwan[f] | 11 | – | – | – | 11 |
| Mr Zhou Zhongshu[g] | – | – | – | – | – |
| Mr Xu Huizhong[g] | 111 | – | 43 | 30 | 184 |
| Mr Ren Suotang[h] | – | 115 | 48 | 22 | 185 |
| Mr Cui Hushan[i] | 12 | – | – | – | 12 |
| Mr Chan Wai Dune[j] | 19 | – | – | – | 19 |
| | 267 | 501 | 163 | 243 | 1,174 |

Note:
(a) Appointed as a Non-executive Director on 25 May 2009 and re-designated as the Chairman and a Non-executive Director on 1 July 2009.
(b) Appointed as an Executive Director on 1 November 2009.
(c) Re-designated as the Vice Chairman and a Non-executive Director on 1 July 2009. Resigned as the Vice Chairman on 7 December 2009 but remained as a Non-executive Director.
(d) Appointed as a Non-executive Director on 25 May 2009.
(e) Appointed as a Non-executive Director on 7 December 2009.
(f) Appointed as an Independent Non-executive Director on 18 August 2009.
(g) Resigned on 1 July 2009.
(h) Resigned on 1 November 2009.
(i) Resigned on 7 December 2009.
(j) Resigned on 18 August 2009.
(k) Other benefits include housing allowances and leave pay.

## 15. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS continued

### (b) Five highest-paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two newly appointed Directors as of 31 December 2010 effective with the 2010 Business Combination. Emoluments payable to all five individuals during the year are as follows:

| | 2010 US$'000 | 2009 US$'000 (Restated) |
|---|---|---|
| Basic salaries and other benefits | 5,684 | 2,631 |
| Long Term Incentives (LTI) | 1,136 | 1,583 |
| Bonuses | 2,729 | 955 |
| | 9,549 | 5,169 |

The emoluments fell within the following bands:

| | NUMBER OF INDIVIDUALS 2010 | 2009 (Restated) |
|---|---|---|
| HK$3,000,001 – HK$3,600,000 (US$400,001 – US$500,000) | – | 2 |
| HK$6,000,001 – HK$6,500,000 (US$700,001 – US$800,000) | – | 1 |
| HK$7,000,001 – HK$7,500,000 (US$900,001 – US$1,000,000) | – | 1 |
| HK$8,000,001 – HK$8,500,000 (US$1,000,001 – US$1,100,000) | 1 | – |
| HK$10,000,001 – HK$10,500,000 (US$1,200,001 – US$1,300,000) | 1 | – |
| HK$11,000,001 – HK$11,500,000 (US$1,400,001 – US$1,500,000) | 1 | – |
| HK$13,000,001 – HK$13,500,000 (US$1,600,001 – US$1,700,000) | 1 | – |
| HK$19,500,001 – HK$20,000,000 (US$2,500,001 – US$2,600,000) | – | 1 |
| HK$31,500,001 – HK$32,000,000 (US$4,000,001 – US$4,100,000) | 1 | – |
| | 5 | 5 |

During the year, no Director waived any emoluments and no emoluments were paid or payable by the Group to the Directors or any of the five highest-paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 16. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

| US$ million | Land and buildings | Plant and machinery | Mine property and development | Exploration and evaluation | Construction in progress | Total property, plant and equipment |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | | | |
| **Cost** | | | | | | |
| At the beginning of the year, as previously reported | 29.3 | 131.2 | – | – | 41.4 | 201.9 |
| Business combination under common control (Note 2.2(b)) | 144.8 | 871.6 | 587.8 | 3.9 | 43.9 | 1,652.0 |
| At the beginning of the year, as restated | 174.1 | 1,002.8 | 587.8 | 3.9 | 85.3 | 1,853.9 |
| Additions | 2.7 | 57.4 | 239.9 | – | 116.2 | 416.2 |
| Transfer from construction in progress | (7.4) | 62.3 | 25.4 | (2.0) | (78.3) | – |
| Disposals | (0.4) | (2.3) | – | – | – | (2.7) |
| Exchange differences | 0.8 | 3.2 | – | – | 1.1 | 5.1 |
| At the end of the year | 169.8 | 1,123.4 | 853.1 | 1.9 | 124.3 | 2,272.5 |
| **Accumulated depreciation** | | | | | | |
| At the beginning of the year, as previously reported | 11.6 | 83.2 | – | – | – | 94.8 |
| Business combination under common control (Note 2.2(b)) | 11.1 | 90.9 | 56.3 | – | – | 158.3 |
| At the beginning of the year, as restated | 22.7 | 174.1 | 56.3 | – | – | 253.1 |
| Depreciation | 15.1 | 109.8 | 222.4 | 0.1 | – | 347.4 |
| Written back on disposals | (0.2) | (1.8) | – | – | – | (2.0) |
| Exchange differences | 0.3 | 2.2 | – | – | – | 2.5 |
| Transfers | – | – | (0.5) | 0.5 | – | – |
| At the end of the year | 37.9 | 284.3 | 278.2 | 0.6 | – | 601.0 |
| **Net book amount at 31 December 2010** | 131.9 | 839.1 | 574.9 | 1.3 | 124.3 | 1,671.5 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 16. PROPERTY, PLANT AND EQUIPMENT continued

### (a) The Group continued

| US$ million | Land and buildings | Plant and machinery | Mine property and development | Exploration and evaluation | Construction in progress | Total property, plant and equipment |
|---|---|---|---|---|---|---|
| **Year ended 31 December 2009** | | | | | | |
| **Cost** | | | | | | |
| At the beginning of the year | 26.7 | 128.3 | – | – | 13.3 | 168.3 |
| Acquisition through business combination | 114.7 | 829.8 | 438.4 | 2.9 | 82.1 | 1,467.9 |
| Additions | 21.6 | 27.2 | 130.7 | 1.0 | 40.6 | 221.1 |
| Transfer from construction in progress | 11.1 | 20.9 | 18.7 | – | (50.7) | – |
| Disposals | – | (3.4) | – | – | – | (3.4) |
| At the end of the year | 174.1 | 1,002.8 | 587.8 | 3.9 | 85.3 | 1,853.9 |
| **Accumulated depreciation** | | | | | | |
| At the beginning of the year | 10.4 | 76.6 | – | – | – | 87.0 |
| Acquisition through business combination | – | 0.4 | – | – | – | 0.4 |
| Depreciation | 12.3 | 98.4 | 56.3 | – | – | 167.0 |
| Written back on disposals | – | (1.3) | – | – | – | (1.3) |
| At the end of the year | 22.7 | 174.1 | 56.3 | – | – | **253.1** |
| **Net book amount at 31 December 2009** | 151.4 | 828.7 | 531.5 | 3.9 | 85.3 | **1,600.8** |

Land use rights of US$2.6 million (2009: US$1.1 million) representing prepaid operating lease payments, are included in Land and buildings. These pieces of land are located in the PRC and held on leases between 10 to 50 years.

Certain banking facilities of the Group are secured by the Group's land use rights (disclosed within Land and buildings) for the carrying amount of approximately US$0.2 million (2009: US$0.4 million).

(b) The Company

| US$ million | Land and buildings | Plant and machinery | Total property, plant and equipment | Investment properties |
|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | |
| **Cost** | | | | |
| At the beginning of the year | 0.5 | 0.4 | 0.9 | 1.5 |
| Revaluation surplus | – | – | – | 0.3 |
| Disposals | – | (0.1) | (0.1) | – |
| At the end of the year | 0.5 | 0.3 | 0.8 | 1.8 |
| **Accumulated depreciation** | | | | |
| At the beginning of the year | 0.2 | 0.3 | 0.5 | – |
| Charge for the year | 0.1 | – | 0.1 | – |
| Written back on disposals | – | (0.1) | (0.1) | – |
| At the end of the year | 0.3 | 0.2 | 0.5 | – |
| **Net book value at end of year** | 0.2 | 0.1 | 0.3 | 1.8 |
| **Year ended 31 December 2009** | | | | |
| **Cost** | | | | |
| At the beginning of the year | 0.5 | 0.4 | 0.9 | 1.4 |
| Revaluation surplus | – | – | – | 0.1 |
| At the end of the year | 0.5 | 0.4 | 0.9 | 1.5 |
| **Accumulated depreciation** | | | | |
| At the beginning of the year | 0.1 | 0.3 | 0.4 | – |
| Charge for the year | 0.1 | – | 0.1 | – |
| At the end of the year | 0.2 | 0.3 | 0.5 | – |
| **Net book value at end of year** | 0.3 | 0.1 | 0.4 | 1.5 |

Buildings of the Group and the Company are located in the PRC and held on leases of between 10 to 50 years. Certain banking facilities of the Group are secured by the property, plant and equipment of the Group for the carrying amount of approximately US$31.4 million (2009: US$14.9 million).

(c) Investment properties

A revaluation of investment properties was performed by Ascent Partners Transaction Service Limited, an independent firm of registered professional surveyors and valuers, on 31 December 2010. The valuation was prepared in accordance with the *HKIS Valuation Standards on Properties (First Edition 2005)* published by the Hong Kong Institute of Surveyors.

The investment properties of the Group and the Company are located in the PRC and held on leases of between 10 to 50 years.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 17. INTANGIBLE ASSETS – THE GROUP

**Alumina purchasing rights – The Group**

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Costs | | |
| At 1 January | 466.0 | 466.0 |
| Change in accounting policy (Note 2.2(a)) | (292.0) | (292.0) |
| At 31 December, as restated | 174.0 | 174.0 |
| Accumulated amortisation | | |
| At 1 January | (77.9) | (60.2) |
| Change in accounting policy (Note 2.2(a)) | 43.9 | 34.2 |
| At 1 January, restated | (34.0) | (26.0) |
| Amortisation | (8.0) | (8.0) |
| At 31 December, as restated | (42.0) | (34.0) |
| Net book amount | | |
| At 31 December | 132.0 | 140.0 |

The alumina purchasing rights represent the Group's rights to source alumina from a third party supplier, amounting to approximately 400,000 tonnes per annum up to mid-2027, at prices which correlate to the production costs of the supplier.

The Group's alumina purchasing rights have been pledged to a bank to secure certain banking facilities of the Group.

## 18. INTERESTS IN SUBSIDIARIES

| | THE COMPANY | |
|---|---|---|
| | 2010 US$ million | 2009 US$ million |
| Investments in subsidiaries | | |
| Unlisted shares/investments at cost | 316.8 | 317.2 |
| Less: Provision for impairment | (0.4) | (0.4) |
| | 316.4 | 316.8 |
| Amounts due from subsidiaries (Note (i)) | 1,587.1 | 211.9 |
| Less: Provision for impairment | (122.6) | (122.7) |
| | 1,464.5 | 89.2 |
| | 1,780.9 | 406.0 |
| Loans to subsidiaries (Note (ii)) | – | 7.3 |
| Amounts due to subsidiaries (Note (iii)) | (5.0) | (1.7) |

Note:
(i) The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.
(ii) The loans to subsidiaries as at 31 December 2009 were unsecured, bear interest at prevailing market interest rates and have repayment terms of less than one year.
(iii) The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

The following is a list of the principal subsidiaries as at 31 December 2010:

| Name of company | Place of incorporation/ operation | Principal activities | Particulars of issued or paid up capital | Proportion of issued capital held by the Company | |
|---|---|---|---|---|---|
| | | | | Directly | Indirectly |
| Allegiance Metals Pty Ltd | Australia | Mineral exploration and production | 1,015 Ordinary Shares at A$1 a share | – | 100% |
| Allegiance Mining Pty Ltd | Australia | Investment holding | 782,455,310 Ordinary Shares at A$1 a share | – | 100% |
| MMG Australia Limited | Australia | Mineral exploration and production, management and employment services | 490,000,000 Ordinary Shares at A$1 a share | – | 100% |
| MMG Century Limited | Australia | Mineral exploration and production | 30 Ordinary Shares at A$1 a share | – | 100% |
| MMG Exploration Pty Ltd | Australia | Investment holding | 1 Ordinary Share at A$1 a share | – | 100% |
| MMG Golden Grove Pty Ltd | Australia | Mineral exploration and production | 1 Ordinary Share at A$1 a share | – | 100% |
| MMG Management Pty Ltd | Australia | Treasury and management services | 1 Ordinary Share at A$1 a share | – | 100% |
| All Glorious Limited | The British Virgin Islands (BVI) | Investment holding | 1 share of US$1 | 100% | – |
| MMG Resources Inc. | Canada | Mineral exploration | 90,750,378 Common Shares at C$1 a share | – | 100% |
| Sino Mining International Limited | Cayman Islands | Investment holding | 115,000,000 shares of US$1 each[1] | – | 100% |
| Sino Mining Alumina Limited | Cayman Islands | Purchase and supply of alumina | 85,000,000 shares of US$1 each[1] | – | 100% |
| Minmetals Resources Copper Company Limited | Hong Kong | Non-ferrous metals trading | 28,800 shares of HK$100 each[1] | 100% | – |
| Minmetals Resources Aluminium Company Limited | Hong Kong | Non-ferrous metals trading | 28,800 shares of HK$100 each[1] | 100% | – |
| Orienmet Industry Company Limited | Hong Kong | Investment holding | 5,000,000 shares of HK$1 each[1] | 100% | – |
| Lane Xang Minerals Limited | Laos | Mineral exploration and production | 342,979 Ordinary Shares at US$1 a share | – | 90% |
| Minmetals Aluminium Company Limited[2] | The PRC | Trading of alumina and other aluminium products | RMB2,380,000,000 | 100% | – |
| North China Aluminium Company Limited[3] | The PRC | Production and sale of aluminium foils and extrusions | RMB478,100,000 | – | 72.8% |
| Yingkou Orienmet Plica Tube Company Limited[3] | The PRC | Production and sale of plica tubes | US$4,000,000 | – | 51% |
| Minmetals Non-ferrous Lianyungang Company Limited[2] | The PRC | Provision of logistics services | RMB1,000,000 | – | 100% |
| Album Investment Pte Ltd | Singapore | Investment holding | 488,211,900 Ordinary Share at S$1 a share | – | 100% |
| Album Resources Pte Ltd | Singapore | Investment holding | 488,211,901 Ordinary Share at S$1 a share | – | 100% |

Note:
1 The class of shares held is ordinary.
2 Wholly foreign-owned enterprises registered under the PRC law. Statutory financial statements of these entities are not audited by PricewaterhouseCoopers.
3 Sino-foreign equity joint ventures registered under the PRC law. Statutory financial statements of these entities are not audited by PricewaterhouseCoopers.

## 19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Interests in jointly-controlled entities (a) | 208.5 | 156.3 |
| Interests in associates (b) | 18.8 | 15.2 |
| Total investments accounted for using the equity method | 227.3 | 171.5 |
| | | |
| Interests in jointly-controlled entities (a) | 38.9 | 2.4 |
| Interests in associates (b) | 2.1 | 1.8 |
| Share of net profits of associates and jointly-controlled entities accounted for using the equity method | 41.0 | 4.2 |

### (a) Interests in jointly-controlled entities – The Group

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Share of net assets at 1 January | 127.5 | 115.3 |
| Share of jointly-controlled entities' results | | |
| – Profit before income tax | 44.9 | 5.7 |
| – Income tax expense | (6.0) | (3.3) |
| | 38.9 | 2.4 |
| Capital injection into jointly-controlled entities | 10.4 | 10.8 |
| Dividends received | (2.3) | (1.0) |
| Exchange differences | 4.5 | – |
| | 51.5 | 12.2 |
| Share of net assets at 31 December | 179.0 | 127.5 |
| Goodwill | 29.5 | 28.8 |
| Interests in jointly-controlled entities at 31 December | 208.5 | 156.3 |

The Group's share of the results of its jointly-controlled entities, all of which are unlisted, and its aggregated assets and liabilities and capital commitments are as follows:

| Name | Country of incorp-oration | Assets US$ million | Liabilities US$ million | Revenues US$ million | Profit/(loss) US$ million | Capital commit-ments US$ million | Interest Held |
|---|---|---|---|---|---|---|---|
| **2010** | | | | | | | |
| Changzhou Jinyuan Copper Company Limited[1] | The PRC | 130.1 | (105.6) | 568.3 | 2.5 | – | 36.29% |
| Guangxi Huayin Aluminium Company Limited[2] | The PRC | 424.4 | (269.9) | 197.4 | 36.4 | 4.0 | 33% |
| Mincenco Limited[3] | Jamaica | – | – | – | – | – | 51% |
| | | 554.5 | (375.5) | 765.7 | 38.9 | 4.0 | |
| **2009** | | | | | | | |
| Changzhou Jinyuan Copper Company Limited[1] | The PRC | 87.6 | (64.0) | 347.4 | 5.0 | 0.6 | 36.29% |
| Guangxi Huayin Aluminium Company Limited[2] | The PRC | 407.2 | (303.3) | 112.7 | (2.4) | 1.1 | 33% |
| Mincenco Limited[3] | Jamaica | – | – | – | (0.2) | – | 51% |
| | | 494.8 | (367.3) | 460.1 | 2.4 | 1.7 | |

Note:
1 Sino-foreign equity joint venture registered under The PRC law.
2 Limited liability company incorporated under The PRC law.
3 Limited liability company incorporated in Jamaica.

The recoverable amount of the investment in a jointly-controlled entity, to which the goodwill relates, has been determined based on a value-in-use calculation. The calculation is based on a one-year budget. Key estimates were based on past performance, management's expectations on market development and the assumptions of no material change in the existing scope of business and business environment. Cash flows beyond the one year period are extrapolated for 10 years by reference to the aluminium futures prices or by assuming an annual growth rate of not more than 3%. The discount rate applied to the cash flow projection is 12% and it reflects specific risks relating to the jointly-controlled entity. The Directors are of the opinion that there was no impairment of goodwill at 31 December 2010.

The Company provided a corporate guarantee of RMB36,000,000 (equivalent to approximately US$5.4 million) (2009: RMB36,000,000 (equivalent to approximately US$5.3 million)) to a bank in respect of a banking facility granted to a jointly-controlled entity.

There are no contingent liabilities relating to the Group's interest in the jointly-controlled entities, and no contingent liabilities of the jointly-controlled entities themselves.

## 19. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD continued

### (b) Interests in associates – The Group

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Share of net assets at 1 January | 15.0 | 11.0 |
| Share of associates' results | | |
| – Profit before income tax | 2.9 | 2.5 |
| – Income tax expense | (0.8) | (0.7) |
| | 2.1 | 1.8 |
| Associate reclassified as subsidiary as a result of the acquisition of additional interest by the Group (Note(i)) | – | (0.2) |
| Dividends received | (0.2) | – |
| Exchange differences | 1.9 | 2.4 |
| | 3.8 | 4.0 |
| Share of net assets at 31 December | 18.8 | 15.0 |
| Amounts due from associates (Note(ii)) | – | 3.2 |
| Provision for impairment | – | (3.0) |
| | – | 0.2 |
| Interests in associates at 31 December | 18.8 | 15.2 |

Note:
(i) After the completion of a capital injection by the Group on 5 November 2009, the Group's equity interest in Zhuozhou Yin Fa Transportation Company Limited (Yin Fa) increased from 48.5% to 65% which required Yin Fa to be included in the Group's consolidated financial statements.
(ii) The amounts due from associates are unsecured, interest-free and have no fixed repayment terms.

On 1 April 2010, the Group entered into the Share Transfer Agreement with an independent third party, to conditionally dispose of the Group's entire equity interest (42%) in an associate, Yantai Penghui Copper Industry Company Limited at a consideration of RMB85,590,000 (equivalent to approximately US$12.5 million). Accordingly, the carrying amount of the investment in this associate was re-classified to non-current asset held for sale. This reclassification does not have a material impact on the consolidated financial statements as full provision had already been made for this associate and the net carrying amount was nil at the balance sheet date.

The transaction would be completed upon the fulfilment of conditions as stipulated in the agreement and the transfer of significant risks and rewards of the ownership concerned. As at 31 December 2010, the transaction remains open.

The Group's share of the results of its principal associates, all of which are unlisted, and its aggregated assets and liabilities, are as follows:

| Name | Country of Incorporation | Assets US$ million | Liabilities US$ million | Revenues US$ million | Profit US$ million | Interest Held |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| Qingdao M. C. Packaging Limited[1] | The PRC | 6.7 | (2.7) | 7.8 | 0.5 | 20% |
| Sino Nickel Pty Ltd[2] | Australia | 21.2 | (6.4) | 51.0 | 1.6 | 40% |
| | | 27.9 | (9.1) | 58.8 | 2.1 | |
| **2009** | | | | | | |
| Qingdao M. C. Packaging Limited[1] | The PRC | 6.3 | (2.8) | 8.0 | 0.6 | 20% |
| Sino Nickel Pty Ltd[2] | Australia | 12.4 | (0.9) | 41.3 | 1.2 | 40% |
| | | 18.7 | (3.7) | 49.3 | 1.8 | |

Note:
1 Sino-foreign equity joint venture registered under The PRC law.
2 Limited liability company incorporated in Australia.

## 20. AVAILABLE-FOR-SALE FINANCIAL ASSETS – THE GROUP

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| At 1 January | – | 39.8 |
| Additions | 100.2 | – |
| Fair value transferred to other comprehensive income | 63.9 | – |
| Disposals | – | (39.8) |
| At 31 December | 164.1 | – |

Available-for-sale financial assets represent:

| | US$ million | US$ million (Restated) |
|---|---|---|
| Listed equity securities – outside of Hong Kong | 164.1 | – |
| Market value of listed securities | 164.1 | – |

In 2009, the Group disposed 11,492,912 ordinary shares of Sino Gold Mining Limited to certain independent third parties for an aggregate consideration of approximately A$62.3 million (equivalent to approximately US$49.6 million). The disposal resulted in a net gain of approximately US$41.7 million (restated) and US$31.9 million (restated) was transferred from available-for-sale financial assets reserve to the income statement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 21. DEFERRED INCOME TAX – THE GROUP

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

| | PROPERTY, PLANT AND EQUIPMENT | | PROVISIONS | |
|---|---|---|---|---|
| US$ million | 2010 | 2009 (Restated) | 2010 | 2009 (Restated) |
| At 1 January, as previously reported | – | – | – | – |
| Change in accounting policy (Note 2.2(a)) | – | – | – | – |
| Business combination under common control (Note 2.2(b)) | 51.7 | – | – | – |
| At 1 January, as restated | 51.7 | – | – | – |
| Acquired through business combinations | – | 17.1 | – | – |
| Credited/(charged) to the income statement | (23.8) | 34.6 | 62.8 | – |
| Credited/(charged) to equity | – | – | – | – |
| Exchange differences | – | – | – | – |
| At 31 December | 27.9 | 51.7 | 62.8 | – |

(b) The Group only recognises deferred tax assets for deductible temporary differences and unused tax losses if it is probable that future taxable amounts will be available to utilise those temporary differences and tax losses. Management will continue to assess the recognition of deferred tax assets in future reporting periods. At 31 December 2010, the Group has unrecognised deferred tax assets in respect of the following items:

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Tax losses | 5.1 | 5.6 |
| Deductible temporary differences | 55.2 | 121.0 |
| | 60.3 | 126.6 |

| TAX LOSSES | | WRITE-DOWN OF INVENTORIES | | ALUMINA PURCHASING RIGHTS | | OTHERS | | TOTAL | |
|---|---|---|---|---|---|---|---|---|---|
| **2010** | 2009 (Restated) | **2010** | 2009 (Restated) | **2010** | 2009 (Restated) | **2010** | 2009 (Restated) | **2010** | 2009 (Restated) |
| – | – | – | 4.2 | (14.9) | (16.1) | 4.3 | 3.1 | (10.6) | (8.8) |
| – | – | – | – | 14.9 | 16.1 | – | – | 14.9 | 16.1 |
| 13.8 | – | – | – | – | – | – | – | 65.5 | – |
| 13.8 | – | – | 4.2 | – | – | 4.3 | 3.1 | 69.8 | 7.3 |
| – | – | – | (5.8) | – | – | – | – | – | 11.3 |
| (13.8) | 13.8 | – | 1.6 | – | – | 2.4 | 1.2 | 27.6 | 51.2 |
| – | – | – | – | – | – | (18.8) | – | (18.8) | – |
| – | – | – | – | – | – | 0.1 | – | 0.1 | – |
| – | 13.8 | – | – | – | – | (12.0) | 4.3 | 78.7 | 69.8 |

(c) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to income tax levied by the same taxation authority on either the taxation entity or different taxation entities, there is an intention to settle the balances on a net basis. The following amounts, determined after appropriate offsetting, are shown in the balance sheet:

| | **2010 US$ million** | 2009 US$ million (Restated) |
|---|---|---|
| Deferred income tax assets | 98.8 | 70.6 |
| Deferred income tax liabilities | (20.1) | (0.8) |
| | 78.7 | 69.8 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 22. INVENTORIES – THE GROUP

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| **Current** | | |
| Stores and consumables | 90.3 | 58.8 |
| Less: impairment | (20.1) | (14.0) |
| | 70.2 | 44.8 |
| Raw materials | 9.3 | 15.3 |
| Work in progress | 110.3 | 116.2 |
| Finished goods | 114.0 | 51.4 |
| Commodities held for sales | 37.0 | 69.6 |
| Goods-in-transit | 23.0 | 3.2 |
| | 363.8 | 300.5 |
| **Non-Current** | | |
| Work in progress | 24.4 | 25.8 |
| Less: impairment | – | (2.3) |
| | 24.4 | 23.5 |
| **Total** | 388.2 | 324.0 |

The cost of inventories recognised as expense and included in cost of sales amounted to US$1,761.7 million (2009: US$845.6 million).

As at 31 December 2010, certain banking facilities of the Group were secured by the Group's inventories with a carrying amount of US$33.8 million (2009: US$31.7 million).

## 23. TRADE AND OTHER RECEIVABLES – THE GROUP

In the aluminium operations, the majority of sales derived from the trading segment are under the arrangement of delivery upon payment from customers, with the remaining amounts on letters of credit while for the aluminium fabrication and other industrial operations segment, sales are normally made with credit periods ranging from 30 to 90 days. The majority of sales for mining operations are made under contractual arrangements whereby provisional payment is received promptly after delivery and the balance within 30 to 90 days from delivery. The ageing analysis of the trade receivables is as follows:

| | 2010 | | 2009 (RESTATED) | |
|---|---|---|---|---|
| | US$ million | % | US$ million | % |
| Trade receivables | | | | |
| Less than 6 months | 145.2 | 95.3 | 115.5 | 94.3 |
| 6 months-1 year | 0.5 | 0.3 | 0.8 | 0.7 |
| 1-2 years | 0.6 | 0.4 | 0.4 | 0.3 |
| Over 2 years | 6.0 | 4.0 | 5.8 | 4.7 |
| | 152.3 | 100.0 | 122.5 | 100.0 |
| Less: Provision for impairment | (6.9) | | (7.0) | |
| Trade receivables – net | 145.4 | | 115.5 | |
| Bills receivable | 150.0 | | 78.9 | |
| Prepayments, deposits and other receivables | 65.0 | | 89.3 | |
| | 360.4 | | 283.7 | |

Note: Bills receivable are with maturity of less than 6 months. As at 31 December 2010, bills receivable of approximately US$117.1 million (2009: US$51.0 million) were discounted to banks or endorsed to suppliers.

As at 31 December 2010, the Group's trade receivables included an amount of US$1.2 million (2009: US$3.8 million), which was due from a related company of the Group.

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

| | **2010 US$ million** | 2009 US$ million (Restated) |
|---|---|---|
| Renminbi | 175.8 | 95.4 |
| US dollars | 119.6 | 99.0 |
| | 295.4 | 194.4 |

Movements on the provision for impairment of trade receivables are as follows:

| | **2010 US$ million** | 2009 US$ million (Restated) |
|---|---|---|
| At 1 January | 6.4 | 6.2 |
| Provision for impairment of receivables | 0.6 | 1.0 |
| Receivables written off as uncollectable | (0.1) | (0.2) |
| At 31 December | 6.9 | 7.0 |

As at 31 December 2010, trade receivables of US$6.9 million were impaired (2009: US$7.0 million). The ageing analysis of these receivables is as follows:

| | **2010 US$ million** | 2009 US$ million (Restated) |
|---|---|---|
| Less than 6 months | 0.7 | 0.2 |
| 6 months-1 year | – | 0.6 |
| 1-2 years | 0.4 | 0.4 |
| Over 2 years | 5.8 | 5.8 |
| | 6.9 | 7.0 |

As at 31 December 2010, trade receivables of US$3.1 million (2009: US$1.7 million) were past due but not impaired. These receivables were aged within one year.

### 23. TRADE AND OTHER RECEIVABLES – THE GROUP continued

Prepayments, deposits and other receivables consist of the following:

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Prepayments | 33.0 | 39.4 |
| Cash accounts kept at futures brokerage firms | 9.3 | 18.1 |
| Value added tax refundable | 8.2 | 13.9 |
| Other | 14.5 | 17.9 |
| | 65.0 | 89.3 |

As at 31 December 2010, the prepayments, deposits and other receivables of the Group included an amount of US$7.9 million (2009: US$6.4 million), which was due from intermediate and ultimate holding companies and fellow subsidiaries of the Group.

Note: As at 31 December 2010, the Group's other receivables included an amount due from an aluminium smelter of approximately US$12.4 million (2009: US$12.6 million), representing certain prepayments previously made by the Group for its tolling operation and were re-designated as other receivables upon the cancellation of the tolling contracts with this aluminium smelter. A power generation unit of this aluminium smelter was pledged as collateral for these receivables. As at 31 December 2010, in view of the uncertainty of the recoverability of these receivables, a provision for impairment of approximately US$12.4 million (2009: US$6.3 million) was provided for.

### 24. OTHER FINANCIAL ASSETS – THE GROUP

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Derivative financial instruments (a) | 0.2 | 0.5 |
| Time deposits (b) | 12.8 | 28.0 |
| Pledged bank deposits (c) | 6.4 | 4.5 |
| | 19.4 | 33.0 |

#### (a) Derivative financial instruments

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Assets US$ million | Liabilities US$ million | Assets US$ million (Restated) | Liabilities US$ million (Restated) |
| Carried at fair value | | | | |
| – Aluminium futures contracts | 0.2 | (1.2) | 0.5 | (8.7) |
| – Interest rate swaps | – | – | – | (1.4) |
| Total, current portion | 0.2 | (1.2) | 0.5 | (10.1) |

The table below sets out the details of the outstanding aluminium futures contracts as at 31 December 2010 and 2009.

| | 2010 | | 2009 (RESTATED) | |
|---|---|---|---|---|
| | Buy | Sell | Buy | Sell |
| **Contract type** | | | | |
| Quantity (tonnes) | 3,050 | 18,080 | 5,625 | 37,595 |
| Notional principal amount (US$ million) | 7.2 | 43.8 | 11.5 | 83.6 |

### (b) Time deposits

Time deposits represent the deposits with banks with initial terms of maturity over three months. The weighted average effective interest rate as at 31 December 2010 was 2.15% (2009: 1.0%). These deposits have an average maturity of 269 days (2009: 291 days). The balance is denominated in the following currencies:

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Renminbi | 12.8 | 12.8 |
| US dollars | – | 15.2 |
| | 12.8 | 28.0 |

### (c) Pledged bank deposits

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | 2010 US$ million | 2009 US$ million (Restated) | 2010 US$ million | 2009 US$ million (Restated) |
| Pledged bank deposits | 6.4 | 4.5 | – | – |

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

The carrying amount of pledged bank deposits is denominated in RMB.

## 25. CASH AND CASH EQUIVALENTS

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010 US$ million** | 2009 US$ million (Restated) | **2010 US$ million** | 2009 US$ million (Restated) |
| Cash and cash equivalents | | | | |
| – Cash at bank and in hand | 198.6 | 280.2 | 7.1 | 3.3 |
| – Money market funds | – | 0.7 | – | – |
| – Short-term bank deposits | 199.6 | 190.2 | 10.0 | 37.2 |
| | 398.2 | 471.1 | 17.1 | 40.5 |

The weighted average effective interest rate on short-term bank deposits as at 31 December 2010 was 1.4% (2009: 0.4%). These deposits have an average maturity of 24 days (2009: 48 days).

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

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2010 US$ million** | 2009 US$ million (Restated) | **2010 US$ million** | 2009 US$ million (Restated) |
| US dollars | 256.9 | 230.0 | 15.5 | 38.0 |
| Renminbi | 88.3 | 57.8 | – | – |
| Australian dollars | 47.8 | 177.6 | – | – |
| Hong Kong dollars | 3.0 | 3.3 | 1.6 | 2.5 |
| Others | 2.2 | 2.4 | – | – |
| | 398.2 | 471.1 | 17.1 | 40.5 |

## 26. SHARE CAPITAL

| | NUMBER OF ORDINARY SHARES | | NOMINAL VALUE | |
|---|---|---|---|---|
| | **2010** **'000** | 2009 '000 | **2010** **US$ million** | 2009 US$ million |
| Authorised: | | | | |
| Ordinary shares of HK$0.05 each | | | | |
| At 1 January | 6,000,000 | 6,000,000 | 38.5 | 38.5 |
| Increase in authorised share capital | 12,000,000 | – | 76.9 | – |
| At 31 December | 18,000,000 | 6,000,000 | 115.4 | 38.5 |
| Issued and fully paid: | | | | |
| At 1 January | 2,026,217 | 2,029,105 | 13.0 | 13.0 |
| Shares repurchased and cancelled during the year | – | (2,088) | – | – |
| Shares repurchased in 2008 and cancelled in 2009 | – | (800) | – | – |
| Issue of new shares | 940,779 | – | 6.0 | – |
| At 31 December | 2,966,996 | 2,026,217 | 19.0 | 13.0 |

Notes:

(a) Pursuant to a resolution passed on 9 December 2010, the authorised share capital of the Company was increased from HK$300,000,000 (equivalent to US$38.5 million) divided into 6,000,000,000 shares to HK$900,000,000 (equivalent to US$115.4 million) divided into 18,000,000,000 shares by the creation of an additional 12,000,000,000 new shares of HK$0.05 each. These shares rank pari passu in all respects with the then existing shares.

(b) The Company issued 940,779,090 new shares on 31 December 2010 to Album Enterprises as part of the purchase consideration for the acquisition of the entire issued share capital of Album Resources (refer to Note 2.2(b)). These shares rank pari passu in all respects with the then existing shares. The fair value of the new shares issued at the completion date of the acquisition amounted to approximately US$652.6 million (HK$5.39 per share).

(c) In 2009, the Company repurchased 2,088,000 shares of its own shares from the market. The repurchased shares were cancelled during the year. Pursuant to Section 49H of the Hong Kong Companies Ordinance, an amount equivalent to the nominal value of the repurchased and cancelled shares of approximately HK$144,000 (equivalent to approximately US$18,000) was transferred from retained profits to capital redemption reserve. The premium paid and expenses incurred in relation to the above shares repurchased as well as 800,000 shares repurchased in 2008 and subsequently cancelled in 2009, amounting to approximately HK$3,016,000 (equivalent to approximately US$387,000) and HK$30,000 (equivalent to US$4,000) respectively, were deducted from the retained profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. RESERVES AND RETAINED PROFITS

(a) The Group

| US$ million | Share premium | Capital reserve | Special capital reserve |
|---|---|---|---|
| At 1 January 2010, as previously reported | 505.3 | 11.2 | 9.3 |
| Change in accounting policy (Note 2.2(a)) | – | – | – |
| Business combination under common control (Note 2.2(b)) | – | – | – |
| At 1 January 2010, as restated | 505.3 | 11.2 | 9.3 |
| **Profit for the year** | – | – | – |
| **Other comprehensive (loss)/income** | | | |
| Change in fair value of available-for-sale financial assets, net of tax | – | – | – |
| Cash flow hedge | – | – | – |
| Currency translation differences | – | – | – |
| **Total comprehensive income for the year** | – | – | – |
| **Transactions with owners** | | | |
| Transfer from/(to) reserves | – | – | – |
| Dividends paid to former owner of Album Resources | – | – | – |
| Issue of shares | 646.6 | – | – |
| Grant of share option | – | – | – |
| Business combination under common control (Note 2.2(b)) | – | – | – |
| **Total transactions with owners** | 646.6 | – | – |
| **At 31 December 2010** | 1,151.9 | 11.2 | 9.3 |

| PRC statutory reserves | Exchange translation reserve | Available-for-sale financial assets reserve | Merger reserve | Other reserves | Total other reserves | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| 19.3 | 22.7 | – | – | (0.6) | 567.2 | 212.5 | 779.7 |
| 0.1 | (2.3) | – | (147.1) | – | (149.3) | (8.7) | (158.0) |
| – | – | 0.2 | 337.0 | – | 337.2 | 172.5 | 509.7 |
| 19.4 | 20.4 | 0.2 | 189.9 | (0.6) | 755.1 | 376.3 | 1,131.4 |
| – | – | – | – | – | – | 409.4 | 409.4 |
| | | | | | | | |
| – | – | 43.9 | – | – | 43.9 | – | 43.9 |
| – | – | – | – | 1.0 | 1.0 | – | 1.0 |
| – | 13.0 | (0.6) | – | – | 12.4 | – | 12.4 |
| – | 13.0 | 43.3 | – | 1.0 | 57.3 | 409.4 | 466.7 |
| | | | | | | | |
| 0.5 | – | – | – | – | 0.5 | (0.5) | – |
| – | – | – | – | – | – | (340.0) | (340.0) |
| – | – | – | – | – | 646.6 | – | 646.6 |
| – | – | – | – | 0.1 | 0.1 | – | 0.1 |
| – | – | – | (2,136.8) | – | (2,136.8) | – | (2,136.8) |
| 0.5 | – | – | (2,136.8) | 0.1 | (1,489.6) | (340.5) | (1,830.1) |
| 19.9 | 33.4 | 43.5 | (1,946.9) | 0.5 | (677.2) | 445.2 | (232.0) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 27. RESERVES AND RETAINED PROFITS continued

### (a) The Group continued

| US$ million | Share premium | Capital reserve | Special capital reserve |
|---|---|---|---|
| At 1 January 2009, as previously reported | 505.3 | 11.2 | 9.3 |
| Change in accounting policy (Note 2.2(a)) | – | – | – |
| At 1 January 2009, as restated | 505.3 | 11.2 | 9.3 |
| **Profit for the year** | – | – | – |
| **Other comprehensive (loss)/income** | | | |
| Transfer to income statement on disposal of available-for-sale financial assets | – | – | – |
| Change in fair value of available-for-sale financial assets, net of tax | – | – | – |
| Cash flow hedge | – | – | – |
| Currency translation differences | – | – | – |
| **Total comprehensive income for the year** | – | – | – |
| **Transactions with owners** | | | |
| Business combination under common control (Note 2.2(b)) | – | – | – |
| Repurchase of the Company's shares (Note 26) | – | – | – |
| Transfer to/(from) reserves | – | – | – |
| Transfer upon lapse of share options | – | – | – |
| Increase in fair values of proportionate holding of an associate | – | – | – |
| **Total transactions with owners** | – | – | – |
| **At 31 December 2009** | 505.3 | 11.2 | 9.3 |

### (b) The Company

| US$ million | Share premium | Capital reserve | Special capital reserve |
|---|---|---|---|
| **At 1 January 2009** | 505.3 | 6.2 | 9.4 |
| Loss for the year | – | – | – |
| Transfer upon lapse of share options | – | – | – |
| Repurchase of the Company's shares | – | – | – |
| Transfer (from)/to reserves | – | – | – |
| **At 31 December 2009** | 505.3 | 6.2 | 9.4 |
| Loss for the year | – | – | – |
| Issue of shares upon 2010 business combination under common control | 646.6 | – | – |
| **At 31 December 2010** | 1,151.9 | 6.2 | 9.4 |

| PRC statutory reserves | Exchange translation reserve | Available-for-sale financial assets reserve | Merger reserve | Other reserves | Total other reserves | Retained profits | Total |
|---|---|---|---|---|---|---|---|
| 18.9 | 18.9 | 17.7 | – | 1.2 | 582.5 | 185.6 | 768.1 |
| 0.1 | (2.3) | 14.2 | (147.1) | – | (135.1) | (28.9) | (164.0) |
| 19.0 | 16.6 | 31.9 | (147.1) | 1.2 | 447.4 | 156.7 | 604.1 |
| – | – | – | – | – | – | 215.8 | 215.8 |
| | | | | | | | |
| – | – | (31.9) | – | – | (31.9) | – | (31.9) |
| – | – | 0.2 | – | – | 0.2 | – | 0.2 |
| – | – | – | – | 2.6 | 2.6 | – | 2.6 |
| – | 3.8 | – | – | – | 3.8 | – | 3.8 |
| – | 3.8 | (31.7) | – | 2.6 | (25.3) | 215.8 | 190.5 |
| | | | | | | | |
| – | – | – | 337.0 | – | 337.0 | – | 337.0 |
| – | – | – | – | – | – | (0.3) | (0.3) |
| 0.4 | – | – | – | (2.0) | (1.6) | 1.6 | – |
| – | – | – | – | (2.5) | (2.5) | 2.5 | – |
| – | – | – | – | 0.1 | 0.1 | – | 0.1 |
| 0.4 | – | – | 337.0 | (4.4) | 333.0 | 3.8 | 336.8 |
| 19.4 | 20.4 | 0.2 | 189.9 | (0.6) | 755.1 | 376.3 | 1,131.4 |

| Capital redemption reserve | General reserve | Share options reserve | Retained profits | Total |
|---|---|---|---|---|
| 0.2 | 2.0 | 2.5 | 58.5 | 584.1 |
| – | – | – | (142.9) | (142.9) |
| – | – | (2.5) | 2.5 | – |
| – | – | – | (0.4) | (0.4) |
| – | (2.0) | – | 2.0 | – |
| 0.2 | – | – | (80.3) | 440.8 |
| – | – | – | (1.7) | (1.7) |
| – | – | – | – | 646.6 |
| 0.2 | – | – | (82.0) | 1,085.7 |

## 27. RESERVES AND RETAINED PROFITS continued

### (c) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) Capital reserve

The capital reserve comprises the following:

- the excess of consideration of US$6.2 million paid by Coppermine Resources Limited, the previous immediate holding company of the Company, over the nominal value of 475,376,917 shares of the Company issued on 12 January 2004; and
- the transfer of US$5.0 million from the PRC statutory reserves in 2008 as a result of North China Aluminium Company Limited (NCA), a non-wholly owned subsidiary in the PRC, utilised part of its PRC statutory reserves to increase its registered capital.

(iii)Special capital reserve

In relation to the capital reorganisation as confirmed by the high court of the Hong Kong Special Administrative Region on 13 February 2007, the Company has provided an undertaking (Undertaking) for its petition to the court that as long as any debt or liability of claim against the Company as at the effective date of this capital reorganisation remains outstanding, the Company should credit the following amounts to a special reserve (Special Reserve):

- all retained profits, if any, accruing to the Company between 1 November 2006 and 13 February 2007 (the effective date of the Capital Reorganisation);
- any recovery in excess of the written down value of or the reversal of impairment loss in respect of certain investments in subsidiaries, listed securities, properties and loans or receivables of the Company as at 31 October 2006; and
- an amount equal to the change in fair value in respect of certain share options not yet vested as at 31 October 2006.

The standing to the credit of the Special Reserve shall not be treated as realised profit. It shall be treated as an undistributable reserve of the Company for the purposes of Section 79C of the Hong Kong Companies Ordinance. As at 31 December 2010, the standing to the credit of the Company's special capital reserve, which had been made in accordance with the Undertaking, amounted to approximately US$9.4 million (2009: US$9.4 million).

(iv) PRC statutory reserves

PRC statutory reserves comprise statutory reserve fund and enterprise expansion reserve, which are reserves required by the relevant PRC laws applicable to the Group's subsidiaries and cannot be used for distribution in the form of cash dividends.

For the Group's subsidiaries registered under the PRC law on jointly-controlled entities with Chinese and foreign investment, the appropriations to statutory reserve fund and enterprise expansion reserve are determined at the discretion of the Board of Directors of the respective subsidiaries.

For the Group's subsidiaries registered under the PRC law on Enterprises Operated Exclusively with Foreign Capital, the appropriations to statutory reserve fund and enterprise expansion reserve are determined at the discretion of the Board of Directors of the respective subsidiaries. However, the appropriation to the statutory reserve fund should not be less than 10% of their profit after income tax as stated in the PRC statutory financial statements unless the statutory reserve fund reaches 50% of their registered capital.

The statutory reserve fund can be used to set off accumulated losses while the enterprise expansion reserve can be used for expansion of production facilities or to increase the capital of the subsidiaries upon approval by the regulatory authority.

(v) Exchange translation reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2.5(c).

(vi) Hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges in note 2.12(b).

(vii) Available-for-sale financial assets reserve

In 2009, the Group acquired a subsidiary through piecemeal acquisition. Available-for-sale financial assets reserve represents the increase in fair value of the identifiable net assets attributable to the initial interest held by the Group immediately before the completion of the piecemeal acquisition in the acquired business. This reserve also reflects revaluation of the listed equity securities acquired in 2010.

(viii) Merger reserve

Merger reserve represents the excess of investment cost in entities that have been accounted for under merger accounting for common control combinations in accordance with AG5 against their share capital.

### (d) Distributability of reserves

At 31 December 2010 and 2009, the Company did not have reserves available for distribution to shareholders.

## 28. PERPETUAL SUB-ORDINATED CONVERTIBLE SECURITIES (PSCS)

The Company issued an aggregate principal sum of US$690.0 million PSCS on 31 December 2010 to Album Enterprises as part of the purchase consideration for the acquisition of the entire issued share capital of Album Resources (refer to Note 2.2(b)). These PSCS being convertible into 1,560,000,000 new shares of the Company at an initial conversion price of HK$3.45 per share. The fair value of these PSCS issued at the completion date of the acquisition amounted to approximately US$690.0 million.

The PSCS constitutes direct, unsecured and sub-ordinated obligations of the Company and rank pari passu without any preference or priority among themselves. In the event of the winding-up of the Company, the rights and claims of the PSCS Holder(s) shall; (i) rank ahead of those persons whose claims are in respect of any class of share capital (including preference shares) of the Company, (ii) be sub-ordinated in right of payment to the claims of all other present and future senior creditors of the Company, and (iii) pari passu with each other and with claims of holders of any security issued or guaranteed by the Company which ranks or is expressed to rank pari passu with the PSCS (Parity Securities). The PSCS Holder(s) will not be entitled to receive notice of, attend or vote at general meetings of the Company by reason only of its being a PSCS holder.

The PSCS confers a right to receive distribution(s) from and including the date of issue of the PSCS at 1% per annum on any outstanding principal amount of distribution payable annually in arrears on 31 July each year, subject to the terms of the PSCS. However, the Company may, at its sole discretion, elect to defer a distribution pursuant to the terms of the PSCS, provided that no dividend or distribution or other payment is made on any class of its share capital (including preference shares) or Parity Securities. Any arrears of distribution(s) due in respect of the PSCS shall be extinguished by the Company in full through the delivery by the Company of its shares issuable by it upon the exercise of the PSCS holder's conversion right.

## 29. DEFERRED INCOME – THE GROUP

| | 2010<br>US$ million | 2009<br>US$ million<br>(Restated) |
|---|---|---|
| At 1 January | 5.1 | 3.1 |
| Government grants obtained | 0.2 | 2.4 |
| Exchange differences | 0.2 | – |
| Amortisation | (0.4) | (0.4) |
| At 31 December | 5.1 | 5.1 |

Deferred income represents grants obtained from the PRC government in relation to: i) the construction of new production line; and ii) the purchase of certain plant and machinery by the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 30. BORROWINGS – THE GROUP

| | 2010<br>US$ million | 2009<br>US$ million<br>(Restated) |
|---|---|---|
| **Non-current** | | |
| Borrowings | 1,141.1 | 1,177.3 |
| Finance lease liabilities | 3.2 | 4.9 |
| Other loans | – | 0.9 |
| | 1,144.3 | 1,183.1 |
| **Current** | | |
| Borrowings | 81.8 | 47.2 |
| Finance lease liabilities | 1.1 | 1.1 |
| Other loans | 0.3 | – |
| | 83.2 | 48.3 |
| Total borrowings | 1,227.5 | 1,231.4 |
| Analysed as: | | |
| – Secured | 1,171.0 | 1,181.4 |
| – Unsecured | 56.5 | 50.0 |
| | 1,227.5 | 1,231.4 |
| Borrowings are repayable as follows: | | |
| – Within 1 year | 83.2 | 48.3 |
| – Between 1 and 2 years | 799.6 | 37.8 |
| – Between 2 and 5 years | 136.5 | 890.1 |
| – Repayable within 5 years | 1,019.3 | 976.2 |
| – Over 5 years | 208.2 | 255.2 |
| | 1,227.5 | 1,231.4 |
| Borrowings are: | | |
| – wholly repayable within 5 years | 834.5 | 803.2 |
| – not wholly repayable within 5 years | 393.0 | 428.2 |
| | 1,227.5 | 1,231.4 |

An analysis of the carrying amounts of the borrowings by type and currency is as follows:

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Renminbi | | |
| – at fixed rates | 9.0 | 30.8 |
| – at floating rates | 69.9 | 43.7 |
| | 78.9 | 74.5 |
| United States dollars | | |
| – at floating rates | 1,144.0 | 1,150.0 |
| | 1,222.9 | 1,224.5 |

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

| | 2010 | | 2009 (RESTATED) | |
|---|---|---|---|---|
| | US$ | RMB | US$ | RMB |
| Borrowings | 2.0% | 5.59% | 2.0% | 5.67% |

As at 31 December 2010, the borrowings of the Group were secured by:

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

(ii) certain property, plant and equipment, land use rights and inventories of the Group with a total carrying amount of approximately US$65.4 million (2009: US$46.9 million); and

(iii) pledged bank deposits of approximately US$6.4 million (2009: US$4.5 million).

(iv) An external borrowing of US$200.0 million is secured by a share charge to the lender of 100% of the shares held in its wholly owned subsidiary, Album Investments, a mortgage over 70% of the shares in certain subsidiaries of Album Investment and a mortgage over 70% of shares of MMG Laos Holdings Limited.

(v) Borrowings of US$51.9 million (2009: US$43.1 million) were secured by corporate guarantees given by the ultimate holding company.

(vi) Certain borrowings of the Group are secured by guarantees from an intermediate holding company, China Minmetals Non-Ferrous Metals Company Limited (CMN). The US$366.0 million facility with China Development Bank (CDB), US$144.0 million facility with Bank of China (Singapore Branch) and US$385.0 million facility with Bank of China (Sydney Branch) are guaranteed by CMN.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 31. TRADE AND OTHER PAYABLES – THE GROUP

The ageing analysis of the trade payables is as follows:

| | 2010 | | 2009 (RESTATED) | |
|---|---|---|---|---|
| | US$ million | % | US$ million | % |
| Trade payables | | | | |
| Less than 6 months | 186.5 | 99.7% | 179.3 | 99.4% |
| 6 months-1 year | 0.3 | 0.2% | 1.0 | 0.5% |
| 1-2 years | 0.1 | 0.0% | 0.1 | 0.1% |
| Over 2 years | 0.2 | 0.1% | – | 0.0% |
| | 187.1 | 100.0% | 180.4 | 100.0% |
| Other payables and accruals | 107.9 | | 16.8 | |
| Trade payables under endorsed bills | 73.5 | | 26.0 | |
| | 368.5 | | 223.2 | |

As at 31 December 2010, the Group's trade payables included US$Nil (2009: US$3.8 million), which was due to a related company of the Group. As at 31 December 2010, the Group's accruals included payables in respect of the transaction cost arising from the 2010 Business Combination (refer to Note 2.2(b)) of approximately US$78.1 million (2009: US$Nil), of which approximately US$74.4 million are denominated in A$.

## 32. RETIREMENT SCHEMES

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

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

The Group contributes to a superannuation fund for all Australian employees, which is established to provide benefits for employees and their dependants in retirement, disabilities or death. The superannuation plan requires defined contributions by reference to accumulated contributions plus income from fund contributed. In accordance with the applicable regulation in Australia, the Group is required to contribute at a minimum rate of 9% of basic salaries of the Australia employees. Total contributions made to these schemes for the year ended 31 December 2010 amounted to approximately US$15.4 million (2009: US$8.7 million).

## 33. SHARE OPTION SCHEME

On 3 June 2010, a total of 15,400,000 share options were granted to certain Directors of the Company and employees of the Group pursuant to the Company's 2004 Share Option Scheme, which was approved by the shareholders of the Company on 28 May 2004.

The validity period of the options is five years from 3 June 2010 to 2 June 2015. The options are exercisable in three tranches starting from 24 months after the grant date in accordance with the table shown below and subject to the achievement of certain performance targets by the Group and the grantee.

| NUMBER OF OPTIONS (IN THOUSAND) GRANTED TO | | | | EXERCISE PRICE PER SHARE | |
|---|---|---|---|---|---|
| Directors | Employees | Total | Vesting period | HK$ | Exercise period |
| 2,046 | 2,112 | 4,158 | 3 June 2010 to 2 June 2012 | 2.75 | 3 June 2012 to 2 June 2015 |
| 2,108 | 2,176 | 4,284 | 3 June 2010 to 2 June 2013 | 2.75 | 3 June 2013 to 2 June 2015 |
| 2,046 | 2,112 | 4,158 | 3 June 2010 to 2 June 2014 | 2.75 | 3 June 2014 to 2 June 2015 |
| 6,200 | 6,400 | 12,600 | | | |

The options granted on 3 June 2010 remained outstanding at 31 December 2010. Except for 2,800,000 options that lapsed in 2010 due to cessation of employment, no share options were exercised, forfeited or expired in the year ended 31 December 2010. The estimated fair value of the options granted on 3 June 2010 was approximately US$1,822,000 (US$0.1183 each) of which the Group recognised a share option expense of approximately US$116,000 for the year ended 31 December 2010 (2009: US$Nil).

The fair value of equity-settled share options granted was estimated as at the date of grant by using the binomial option pricing model and taking into account the terms and conditions (except vesting conditions other than market conditions) upon which the options were granted. No other feature of the options granted was incorporated into the measurement of fair value. The major inputs used in the measurement of the fair value at the grant date of the options are as follows:

| | |
|---|---|
| Expected volatility | 36.09% |
| Risk-free interest rate | 1.594% |
| Expected dividend yield | 0% |

Expected volatility was estimated by using the historical volatility of the Company's share price for the past 30 days before the grant date. Risk-free interest rate was determined by using the average yield of the Hong Kong Exchange Fund Notes of comparable term. The binomial option pricing model is subject to certain fundamental limitations because of the subjective nature of and uncertainty relating to the assumptions and inputs to the model as well as certain inherent limitations of the model itself. Any changes in the above assumptions or inputs may materially affect the fair value estimation.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 34. PROVISIONS

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| **Current** | | |
| Employee benefits | 40.2 | 23.4 |
| Workers' compensation | 2.0 | 1.4 |
| Mine rehabilitation, restoration and dismantling (note a) | 4.9 | – |
| Other provisions (note b) | 6.0 | 10.7 |
| **Total current provisions** | 53.1 | 35.5 |
| **Non-current** | | |
| Employee benefits | 6.8 | 5.7 |
| Workers' compensation | 5.3 | 4.4 |
| Mine rehabilitation, restoration and dismantling (note a) | 305.5 | 221.3 |
| **Total non-current provisions** | 317.6 | 231.4 |
| **Aggregate** | | |
| Employee benefits | 47.0 | 29.1 |
| Workers' compensation | 7.3 | 5.8 |
| Mine rehabilitation, restoration and dismantling (note a) | 310.4 | 221.3 |
| Other provisions (note b) | 6.0 | 10.7 |
| **Total provisions** | 370.7 | 266.9 |
| **(a) Mine rehabilitation, restoration and dismantling** | | |
| Opening carrying amount | 221.3 | – |
| Acquisition through business combination | – | 169.6 |
| Additional provisions recognised | 71.6 | 49.0 |
| Reversal of provisions | (0.2) | - |
| Payments made | – | (5.0) |
| Unwind of discount | 17.7 | 7.7 |
| **Closing carrying amount** | 310.4 | 221.3 |

The provision for mine rehabilitation, restoration and dismantling includes the anticipated costs of future rehabilitation, restoration and dismantling of mining areas from which natural resources have been extracted. These provisions include future cost estimates associated with reclamation, plant closures, waste site closures, monitoring, demolition, decontamination, water purification, and permanent storage of historical residues. Refer to Note 2.20 for further details regarding the uncertainties about the timing of the cash outflows and other assumptions.

Of the above mine rehabilitation, a restoration and dismantling provision of US$16 million (2009: US$16 million) relates to exploration activities.

## 34. PROVISIONS continued

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| **(b) Other provisions** | | |
| Opening carrying amount | 10.7 | – |
| Acquisition through business combination | – | 5.9 |
| Additional provisions recognised | 0.7 | 6.9 |
| Payments made | – | (2.1) |
| Write back of onerous leases | (5.4) | – |
| **Closing carrying amount** | 6.0 | 10.7 |

Other provisions relate predominantly to provisions for other taxes and onerous contracts where the expected benefit to be derived by the Group from a contract is lower than the unavoidable cost of meeting its obligation under the contract. The obligation for the discounted future payments has been provided for.

## 35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| **Profit for the year** | 430.4 | 224.8 |
| **Adjustments for:** | | |
| – Income tax expense/(benefit) | 129.7 | (4.5) |
| – Share of net profits of associates and jointly-controlled entities accounted for using the equity method | (41.0) | (4.2) |
| – Finance income | (8.6) | (4.2) |
| – Finance expenses | 32.2 | 19.4 |
| – Depreciation and amortisation | 310.4 | 167.0 |
| – (Gain)/loss on disposal of property, plant and equipment | (3.0) | 1.7 |
| – Provision for impairment of receivables | 6.3 | 6.4 |
| – Gain on disposal of available-for-sale financial assets | – | (41.7) |
| – Fair value gains on investment properties | (0.3) | – |
| – Amortisation of deferred income | (0.4) | (0.4) |
| – Amortisation of alumina purchasing rights | 8.0 | 8.0 |
| – Share options granted to Directors and employees | 0.1 | – |
| – Non-cash borrowing costs | 17.7 | 7.7 |
| – Other non-cash items | 8.7 | (6.4) |
| – Foreign exchange gain/(loss) | 17.1 | (1.6) |
| **Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):** | | |
| – Amounts due from a jointly-controlled entity and associates | 0.2 | 0.6 |
| – Inventories | (64.2) | (47.1) |
| – Trade and other receivables | (82.9) | (92.7) |
| – Trade payables and accruals, receipts in advance and other payables | 154.3 | 126.6 |
| – Other assets | (1.6) | (3.6) |
| – Deferred income | 0.2 | 2.4 |
| – Derivative financial instruments | (7.5) | 5.6 |
| – Amounts due to holding companies | (0.3) | 0.1 |
| – Amounts due to fellow subsidiaries | – | 0.4 |
| – Amounts due to an associate and a jointly-controlled entity | 2.1 | (25.5) |
| **Net cash generated from operations** | 907.6 | 338.8 |

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

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Net book amount (Note 16) | 0.7 | 2.1 |
| Gain/(loss) on disposal of property, plant and equipment | 3.0 | (1.7) |
| Proceeds from disposal of property, plant and equipment | 3.7 | 0.4 |

(c) Included in net cash generated from operations is US$50.9 million (2009: US$10.1 million) paid in relation to exploration activities.

## 36. COMMITMENTS

### (a) Operating leases

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

| | THE GROUP | |
|---|---|---|
| | **2010 US$ million** | 2009 US$ million (Restated) |
| Not later than one year | 3.8 | 3.4 |
| Later than one year but not later than five years | 18.6 | 12.9 |
| Later than five years | 8.9 | 6.6 |
| | 31.3 | 22.9 |

### (b) Capital and non-capital commitments

Commitments for acquisition of capital and non-capital commitments contracted for at the reporting date but not recognised as liabilities, are set out in the table below.

| | THE GROUP | |
|---|---|---|
| | **2010 US$ million** | 2009 US$ million (Restated) |
| Not later than one year | 41.0 | 43.3 |
| Later than one year but not later than five years | 18.2 | 13.0 |
| Later than five years | – | 0.9 |
| | 59.2 | 57.2 |

As at 31 December 2010, the Group had the following capital commitments not provided for, that relate to the upgrade and expansion of the Group's production facilities in the aluminium fabrication business.

| | THE GROUP | |
|---|---|---|
| | **2010 US$ million** | 2009 US$ million (Restated) |
| Property, plant and equipment | | |
| Contracted but not provided for | 4.7 | 3.4 |
| Authorised but not contracted for | – | 3.6 |
| | 4.7 | 7.0 |

## 37. CONTINGENT LIABILITIES

### Legal proceedings

The Company and its subsidiaries are defendants from time to time in legal proceedings arising from the conduct of their businesses. The Group does not consider that the outcome of any of these proceedings ongoing at balance date, either individually or in aggregate, is likely to have a material effect on its financial position. Where appropriate, provisions have been made.

### Bank guarantees

Certain bank guarantees have been provided in connection with the operations of certain of the subsidiaries of the Company, primarily associated with the terms of mining leases or exploration licences. At the end of the year, no claims have been made under these guarantees. The amount of these guarantees may vary from time to time depending upon the requirements of the relevant regulatory authority. These guarantees amount to US$112.8 million. Provision is made in the financial statements for the anticipated costs of the mine rehabilitation obligations under the mining leases and exploration licences (refer Note 34).

## 38. SIGNIFICANT RELATED PARTY TRANSACTIONS

The Group is controlled by CMN through Top Create Resources Limited, a company incorporated in the British Virgin Islands, which owns 43.29% of the Company's shares, and Album Enterprises, which owns 31.71% of the Company's shares, both of them are wholly owned subsidiaries of CMN. The remaining 25.00% of the Company's shares are widely held. The Directors of the Company consider the ultimate holding company is CMC, a company incorporated in the PRC.

CMC itself is a state-owned enterprise and is controlled by the PRC government, which also owns a significant portion of productive assets in the PRC. In accordance with HKAS 24 *Related Party Disclosures* issued by the Hong Kong Institute of Certified Public Accountants, other state-owned enterprises and their subsidiaries (other than subsidiaries of CMC), directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include CMC and its related companies, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, the Company's jointly-controlled entities and associates, and key management personnel of the Company and CMC as well as their close family members.

For the purposes of the related party transaction disclosures, the Directors of the Company believe that meaningful information in respect of related party transactions has been adequately disclosed. In addition to the related party information and transactions disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered in the ordinary course of business between the Group and its related parties during the year.

### (a) Transactions with jointly-controlled entities and associates of the Group

| | **2010 US$ million** | 2009 US$ million (Restated) |
|---|---|---|
| Revenue | | |
| Interest income from a jointly-controlled entity | – | – |
| Rental income from an associate | – | – |
| Expenses | | |
| Purchases of non-ferrous metals from a jointly-controlled entity (Note (i)) | 196.7 | 100.2 |
| Transportation fees to an associate | – | 2.8 |

Note:

(i) The purchases were made with Guangxi Huayin Aluminium Company Limited, a 33%-owned jointly-controlled entity of the Group. Details of the transactions are set out in the Company's announcement dated 4 December 2009. The transactions constituted connected transactions and continuing connected transactions as defined under the Listing Rules.

### (b) Transactions with CMC and its group companies (other than those within the Group)

| | 2010<br>US$ million | 2009<br>US$ million<br>(Restated) |
|---|---|---|
| Revenue | | |
| Sales of non-ferrous metals to a related company | 183.4 | 55.0 |
| Sales of non-ferrous metals to a fellow subsidiary | – | – |
| Expenses | | |
| Construction contract fees to a fellow subsidiary (Note (i)) | 0.8 | 0.4 |
| Transportation fees to fellow subsidiaries (Note (ii)) | 0.2 | 0.1 |
| Rental to fellow subsidiaries (Note (iii)) | 0.2 | 0.3 |
| Commission fees to fellow subsidiaries (Note (iii)) | 0.1 | – |
| Purchases of non-ferrous metals from a related company | 176.0 | 61.4 |
| Financial guarantees provided by ultimate holding company for the bank loans granted to a subsidiary | 83.3 | 43.1 |

Note:

(i) The construction contract fees were paid to Ershisanye Construction Group Co., Ltd. (Ershisanye), a non-wholly owned subsidiary of the Company's ultimate holding company, by a subsidiary of the Company. Details of the transactions are set out in the Company's announcement dated 20 March 2008. The transactions constituted connected transactions as defined under the Listing Rules.

(ii) The transportation fees were paid by the Company's subsidiaries to Minmetals Logistics & Forwarding Tianjian Company Limited, a non-wholly owned subsidiary of the Company's ultimate holding company. Details of the transactions are set out in the Company's announcement dated 6 November 2008. The transactions constituted continuing connected transactions as defined under the Listing Rules.

(iii) De minimis transactions entered into in the usual course of business and under normal commercial terms, exempted from all the reporting, announcement and independent shareholders' approval requirements by virtue of rule 14A.31 of the Listing Rules.

### (c) Transactions and balances with other state-owned enterprises

During the year ended 31 December 2010, the Group's transactions with other state-owned enterprises (excluding CMC and its subsidiaries) are sales of goods and purchases of non-ferrous metals, raw materials, electricity, property, plant and equipment and services and the related receivables and payables balances. In addition, a portion of fixed deposits, cash and cash equivalents and borrowings as of 31 December 2010 and the relevant interest earned or paid during the year are transacted with banks and other financial institutions controlled by the PRC government.

The transactions of revenues and expenses in nature conducted with government-related entities were based on terms as set out in the underlying agreements, based on statutory rates or market prices or actual cost incurred, or as mutually agreed.

### (d) Key management compensation

The key management personnel remuneration for the Group was as follows:

| | 2010<br>US$ million | 2009<br>US$ million<br>(Restated) |
|---|---|---|
| Salaries and other short-term employee benefits | 11.6 | 5.7 |
| Other long-term benefits | 3.1 | 0.4 |
| Post-employment benefits | 0.1 | – |
| Termination benefits | 1.0 | – |
| Share-based payments | 0.1 | – |
| | 15.9 | 6.1 |

## 38. SIGNIFICANT RELATED PARTY TRANSACTIONS continued

### (e) Year-end balances

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Receivables from, net | | |
| – a jointly-controlled entity | – | – |
| – associates | – | 0.2 |
| – intermediate and ultimate holding companies | 1.8 | 1.4 |
| – fellow subsidiaries | 6.1 | 5.0 |
| Payables to | | |
| – a jointly-controlled entity | 2.2 | 0.2 |
| – intermediate and ultimate holding companies | 0.1 | 0.1 |
| – fellow subsidiaries | 0.2 | 0.4 |

Note:
(i) In the opinion of the Directors, the related party transactions described above were carried out in the ordinary course of business at terms mutually agreed between the Group and the respective related parties.
(ii) Details of the balances with a jointly-controlled entity and associates are disclosed in Note 19.
(iii) The amounts due from/to fellow subsidiaries are unsecured, interest-free and repayable within 12 months.

### (f) Loan from a related party

| | 2010 US$ million | 2009 US$ million |
|---|---|---|
| Loan from a related party | 694.2 | – |

The loan from a related party represents the unsecured 5 years term loan, with fixed interest rate of 2.0% per annum for the first two years, 3.0% per annum for the third year, 4.0% per annum for the fourth year and 5.0% per annum for the fifth year, granted by Album Enterprises as part of the purchase consideration for the acquisition of MMG (refer to Note 2.2(b)). The loan is denominated in US$ and the carrying amount approximate to its fair value.

## 39. EVENTS AFTER BALANCE SHEET DATE

Other than the matters noted below, there have been no matters that have occurred subsequent to the reporting date which have significantly affected, or may significantly affect the Group's operations, results or state of affairs in future years.

*Discontinued and available-for-sale assets*

Subsequent to year end, it was resolved by the Board of the Company on 28 March 2011 that the trading and fabrication operations (the disposal group) are to be made available for immediate sale in their present condition, subject to receipt of all other necessary shareholder and regulatory approvals. These trading and fabrication operations will therefore become discontinued operations held available-for-sale with effect from 1 January 2011. The following tables summarise the results of these discontinued operations which have been included in the Group's Financial Statements.

(a) Results of trading and fabrication operations

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Revenue | 1,662.2 | 796.9 |
| Expenses | (1,620.6) | (744.0) |
| Operating profit | 41.6 | 52.9 |
| Finance income | 4.4 | 3.0 |
| Finance costs | (6.7) | (7.3) |
| Share of net profits of associates and jointly-controlled entities accounted for using the equity method | 41.0 | 4.4 |
| Profit before income tax | 80.3 | 53.0 |
| Income tax expense | (4.0) | (6.4) |
| Net profit attributable to the disposal group | 76.3 | 46.6 |

(b) Carrying amount of assets and liabilities of trading and fabrication operations

| | 2010 US$ million | 2009 US$ million (Restated) |
|---|---|---|
| Property, plant and equipment, investment properties, land use rights and construction in progress | 113.6 | 106.9 |
| Investments accounted for using the equity method | 227.3 | 171.5 |
| Alumina purchasing rights | 132.0 | 140.0 |
| Inventories | 111.9 | 123.0 |
| Trade and other receivables | 228.3 | 164.1 |
| Cash and cash equivalents | 163.6 | 179.3 |
| Other financial assets | 19.4 | 33.0 |
| Other assets | 0.8 | 0.5 |
| Current income tax assets | 3.5 | 0.9 |
| Deferred income tax assets | 8.1 | 5.1 |
| Total assets | 1,008.5 | 924.3 |
| Borrowings | 127.9 | 129.5 |
| Trade and other payables | 132.9 | 78.9 |
| Receipts in advance | 71.0 | 62.1 |
| Advances from banks for discounted bills | 43.6 | 25.1 |
| Other liabilities | 8.8 | 15.9 |
| Current income tax liabilities | 0.2 | 1.1 |
| Deferred income tax liabilities | 1.3 | 0.8 |
| Total liabilities | 385.7 | 313.4 |
| Net assets | 622.8 | 610.9 |

# FIVE-YEAR FINANCIAL SUMMARY

| US$ million | **2010** | 2009 (Restated) | 2008 (Restated) | 2007 (Restated) | 2006 (Restated) |
|---|---|---|---|---|---|
| **Results – the Group** | | | | | |
| Revenue | 3,582.1 | 1,649.7 | 1,083.4 | 940.7 | 1,362.5 |
| Operating profit | 560.0 | 242.4 | 27.2 | 96.1 | 92.8 |
| Finance income | 8.6 | 4.2 | 4.8 | 10.7 | 5.7 |
| Finance costs | (49.5) | (30.5) | (7.9) | (14.3) | (7.5) |
| Share of net profits/(losses) of associates and jointly-controlled entities accounted for using the equity method | 41.0 | 4.2 | (5.0) | 6.1 | 4.8 |
| Profit before income tax | 560.1 | 220.3 | 19.1 | 98.6 | 95.8 |
| Income tax (expense)/benefit | (129.7) | 4.5 | (0.4) | (19.4) | (20.5) |
| Profit for the year | 430.4 | 224.8 | 18.7 | 79.2 | 75.3 |
| Attributable to: | | | | | |
| Equity holders of the Company | 409.4 | 215.8 | 17.7 | 77.1 | 73.6 |
| Non-controlling interests | 21.0 | 9.0 | 1.0 | 2.1 | 1.7 |
| | 430.4 | 224.8 | 18.7 | 79.2 | 75.3 |

| US$ million | 2010 | 2009 (Restated) | 2008 (Restated) | 2007 (Restated) | 2006 (Restated) |
|---|---|---|---|---|---|
| **Assets and liabilities – the Group** | | | | | |
| Property, plant and equipment, investment properties | 1,673.5 | 1,602.5 | 83.0 | 66.4 | 67.1 |
| Investments accounted for using the equity method | 227.3 | 171.5 | 155.7 | 26.2 | 18.9 |
| Alumina purchasing rights | 132.0 | 140.0 | 148.0 | 156.0 | 164.0 |
| Inventories | 388.2 | 324.0 | 89.0 | 94.6 | 63.2 |
| Trade and other receivables | 360.4 | 283.7 | 168.5 | 157.0 | 86.5 |
| Cash and cash equivalents | 398.2 | 471.1 | 239.5 | 345.6 | 329.8 |
| Available-for-sale financial assets | 164.1 | – | 39.8 | 61.0 | 57.8 |
| Other financial assets | 19.4 | 33.0 | 5.4 | 7.0 | 5.0 |
| Other assets | 1.5 | 0.9 | 23.6 | 4.1 | 0.1 |
| Current income tax assets | 3.5 | 0.9 | 2.2 | – | – |
| Deferred income tax assets | 98.8 | 70.6 | 7.7 | 2.0 | 6.2 |
| Total assets | 3,466.9 | 3,098.2 | 962.4 | 919.9 | 798.6 |
| | | | | | |
| Capital and reserves attributable to equity holders of the Company | 477.0 | 1,144.4 | 617.1 | 628.8 | 393.1 |
| Non-controlling interests | 56.4 | 67.7 | 24.8 | 32.3 | 28.2 |
| Total equity | 533.4 | 1,212.1 | 641.9 | 661.1 | 421.3 |
| | | | | | |
| Borrowings | 1,227.5 | 1,231.4 | 108.8 | 89.4 | 106.1 |
| Trade and other payables | 368.5 | 223.2 | 119.6 | 114.7 | 98.9 |
| Advances from banks for discounted bills | 43.6 | 25.1 | 11.2 | 6.3 | 6.9 |
| Receipts in advance | 71.0 | 62.1 | 44.4 | 38.5 | 19.4 |
| Convertible bonds | – | – | – | – | 125.7 |
| Loan from a related party | 694.2 | – | – | – | – |
| Other liabilities | 8.8 | 15.9 | 35.9 | 6.5 | 11.4 |
| Current income tax liabilities | 129.1 | 60.7 | 0.2 | 3.4 | 8.3 |
| Provisions | 370.7 | 266.9 | – | – | – |
| Deferred income tax liabilities | 20.1 | 0.8 | 0.4 | – | 0.6 |
| Total liabilities | 2,933.5 | 1,886.1 | 320.5 | 258.8 | 377.3 |
| Total equity and liabilities | 3,466.9 | 3,098.2 | 962.4 | 919.9 | 798.6 |
| Net current assets | 557.2 | 623.5 | 258.1 | 411.2 | 237.8 |
| Total assets less current liabilities | 2,714.7 | 2,632.5 | 715.9 | 726.9 | 551.8 |

Note: The financial summary for the years ended 31 December 2006, 2007, 2008 and 2009 are restated using the principles of merger accounting, as prescribed in HKAG 5. Details of which were disclosed in Note 2.2 of the consolidated financial statements for the year ended 31 December 2010.

# GLOSSARY

| | |
|---|---|
| km | kilometre(s) |
| koz | thousand ounces |
| kt | thousand tonnes |
| ktpa | thousand tonnes per annum |
| kV | kilovolt |
| lb | pound(s) |
| m | metre(s) |
| Mt | million tonnes |
| moz | million ounces |
| oz | ounce(s) |
| t | tonne(s) |
| A$ | Australian dollar |
| AGM | annual general meeting |
| Album Enterprises | Album Enterprises Limited, a company incorporated on 19 January 2005 in Hong Kong with limited liability |
| Album Investment | Album Investment Private Limited, a company incorporated on 8 April 2009 in Singapore with limited liability |
| All Glorious | All Glorious Limited, a company incorporated on 8 September 2010 in the British Virgin Islands with limited liability |
| Associate | has the meaning ascribed to it under the Listing Rules |
| Australia | the Commonwealth of Australia |
| Australian Government | the Government of Australia |
| Board | the board of directors of the Company |
| Board Charter | the board charter of the Company |
| C$ | Canadian dollar |
| Changzhou Jinyuan | Changzhou Jinyuan Copper Company Limited |
| Company | Minmetals Resources Limited, a company incorporated on 29 July 1998 in Hong Kong with limited liability, the shares of which have listed and traded on the Stock Exchange. |
| Consideration Share | has the meaning ascribed to it under the Share Sale Deed |
| CMC | China Minmetals Corporation, formerly known as China National Metals and Minerals Import and Export Corporation, a State-owned enterprise incorporated on 7 April 1950 under the laws of the PRC |
| CMC Group | CMC and its subsidiaries |
| CMN | China Minmetals Non-Ferrous Metals Company Limited, a joint stock limited company incorporated on 27 December 2001 under the laws of the PRC |
| Companies Ordinance | the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) |
| Connected person | has the meaning ascribed to it under the Listing Rules |
| EBIT | earnings before net financing expenses and income tax |

| | |
|---|---|
| EBIT margin | EBIT divided by revenue |
| EBITDA | earnings before depreciation and amortisation expenses, net financing expenses and income tax |
| EBITDA margin | EBITDA divided by revenue |
| EGM | extraordinary general meeting |
| Group | the Company and its subsidiaries, excluding jointly-controlled entities |
| Guangxi Huayin | Guangxi Huayin Aluminium Company Limited |
| HK$ | Hong Kong dollar(s), the lawful currency of Hong Kong |
| HNC | Hunan Nonferrous Metals Corporation Limited |
| HNG | Hunan Nonferrous Metals Holdings Group Company Limited |
| Hong Kong | the Hong Kong Special Administrative Region of the PRC |
| Indicated Resources | as defined under the JORC Code, that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence |
| Inferred Resources | as defined under the JORC Code, that part of a Mineral Resource for which tonnage, grade and mineral content can be estimated with a low level of confidence |
| JORC Code | the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (2004 edition), as published by the Joint Ore Reserves Committee, as amended from time to time |
| Laos | the Lao People's Democratic Republic |
| LME | the London Metal Exchange |
| Listing Rules | the Rules Governing the Listing of Securities on the Stock Exchange |
| LXML | Lane Xang Minerals Limited, a company incorporated on 30 September 1993 in Laos |
| Measured Resources | as defined under the JORC Code, that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence |
| MEPA | a Mineral Exploration and Production Agreement dated 15 June 1993 entered into between MMG Laos Holdings Limited with the Government of Laos (as amended by the Memorandum of Understanding dated 30 November 2004) |
| Mincenco | Mincenco Limited |
| Mineral Resources | as defined under the JORC Code, a concentration or occurrence of material of intrinsic economic interest in or on the Earth's crust in such form, quality and quantity that there are reasonable prospects for eventual economic extraction |
| Minmetals Aluminium | Minmetals Aluminium Company Limited |
| MMG Century | MMG Century Limited, a company incorporated on 25 November 1986 in Australia with limited liability and a member of MMG |
| MMG Management | MMG Management Pty Ltd, a company incorporated on 15 July 2005 in Australia with limited liability and a member of MMG |
| MMR | the Company as defined above |
| NASDAQ | the National Association of Securities Dealers Automated Quotations |

# GLOSSARY continued

| | |
|---|---|
| **NCA** | North China Aluminium Company Limited |
| **Ore Reserves** | as defined under the JORC Code, the economically mineable part of a Measured Resource and/or Indicated Resource. |
| **PRC** | the People´s Republic of China excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan. |
| **PSCS** | the perpetual sub-ordinated convertible securities issued by the Company |
| **PSCS Holder(s)** | (in relation to the PSCS) means the person(s) in whose names the PSCS are registered |
| **Qingdao M.C.** | Qingdao M.C. Packaging Limited |
| **RMB** | Renminbi |
| **SFO** | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| **Shanxi Guanlv** | Shanxi Guanlv Company Limited |
| **Share Sale Deed** | the share sale deed entered into by Album Enterprises (as seller), All Glorious (as buyer) and the Company (as guarantor and issuer of the Consideration Shares and the PSCS) dated 19 October 2010 |
| **Shareholder Circular** | the shareholder circular released by the Company on 22 November 2010 in relation to, amongst others, the acquisition of MMG by the Company |
| **S$** | Singapore dollar(s), the lawful currency of Singapore |
| **Sino Mining** | Sino Mining Alumina Limited |
| **Sino Nickel** | Sino Nickel Pty Ltd |
| **Specific Mandate** | the specific mandate approved by the shareholders at the EGM of the Company held on 9 December 2010 |
| **Stock Exchange** | The Stock Exchange of Hong Kong Limited |
| **Subsidiary** | has the meaning ascribed to it under the Companies Ordinance |
| **Top Create** | Top Create Resources Limited, a company incorporated on 22 January 2004 in the British Virgin Islands with limited liability |
| **Trading day** | a day on which the Shares are traded on the Stock Exchange |
| **US$** | United States dollar(s), the lawful currency of the United States of America |
| **Yingkou Orienmet** | Yingkou Orienmet Plica Tube Company Limited |

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