Corporate Information

EXECUTIVE DIRECTORS
Mr. Kwok Peter Viem *(Chairman)*
Mr. Ma Ting Hung *(Vice Chairman)*
Mr. Shou Xuancheng *(Vice Chairman)*
Mr. Sun Xinguo
(President and Chief Executive Officer)
Ms. Li So Mui
Mr. Mi Zengxin
Mr. Qiu Yiyong
Mr. Zeng Chen
Mr. Zhang Jijing

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Fan Ren Da, Anthony
Mr. Ngai Man
Mr. Tsang Link Carl, Brian

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

NOMINATION COMMITTEE
Mr. Ngai Man *(Chairman)*
Mr. Fan Ren Da, Anthony
Mr. Tsang Link Carl, Brian
Mr. Kwok Peter Viem
Mr. Zhang Jijing

REMUNERATION COMMITTEE
Mr. Fan Ren Da, Anthony *(Chairman)*
Mr. Ngai Man
Mr. Tsang Link Carl, Brian
Mr. Ma Ting Hung
Mr. Sun Xinguo

COMPANY SECRETARY
Ms. Li So Mui

QUALIFIED ACCOUNTANT
Mr. Chung Ka Fai, Alan

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SHARE REGISTRAR AND TRANSFER OFFICE
Tengis Limited
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Wanchai, Hong Kong

Stock Code: 1205

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

SOLICITORS
Woo, Kwan, Lee & Lo
Room 2801, 28th Floor, Sun Hung Kai Centre
30 Harbour Road, Wanchai, Hong Kong

PRINCIPAL BANKERS
CITIC Ka Wah Bank Limited
Mizuho Corporate Bank, Ltd.
National Australia Bank Limited
Rabobank International

Financial Highlights

- Revenue grew by 60% to HK$5,786.4 million
- Net profit grew by 46 times to HK$221.7 million
- Earnings per share was HK 5.14 cents, an increase of 42 times

The board of directors (the "Board") of CITIC Resources Holdings Limited (the "Company") is pleased to deliver an encouraging 2005 annual results of the Company and its subsidiaries (collectively the "Group").

	2005 HK$ million	Restated 2004 HK$ million	Change
Revenue	**5,786.4**	3,610.8	+ 60%
Gross profit	**455.2**	250.7	+ 82%
Profit attributable to shareholders	**221.7**	4.8	+ 46 times
Total assets	**6,020.0**	5,698.3	+ 6%
Net assets	**2,967.4**	2,656.5	+ 12%
Earnings per share	**HK 5.14 cents**	HK 0.12 cent	+ 42 times

Chairman's Statement

On behalf of your Board, I am pleased to report to you our results for the year ended 31 December 2005. The Group has achieved a good financial performance for 2005, building on the encouraging results of 2004, which I believe is indicative of the progress that the Group is making.

FINANCIAL RESULTS

In 2005, Group revenue increased by 60.3% to HK$5,786.4 million. Profit attributable to shareholders was HK$221.7 million, representing a 46 times increase over the HK$4.8 million of 2004 and reflecting an increased contribution from all of our main business streams. Earnings per share were HK 5.14 cents, compared with HK 0.12 cent in 2004.

The Board does not recommend the payment of any dividend in respect of the year.

BUSINESS REVIEW AND OUTLOOK

We have been implementing our strategy as an integrated provider of key natual resources and commodities and this has improved the Group's financial performance for the second year since turning a profit in 2004.

Global demand for natual resources and commodities remained high in 2005. We are pleased with the performance of our aluminium smelting, coal mining and import and export of commodities businesses and interests, which together have been the principal contributors and formed the basis for our positive performance in 2005. The respective business lines have benefited from increasing sales volumes and higher prices.

While we continue to enhance our existing businesses organically, we have also continued with our efforts to improve shareholder value through acquisitions and new investments.

In January 2005, we agreed to form a joint venture with a Chevron Corporation subsidiary to develop a regional network of Caltex branded service stations in Southern China and to explore development possibilities in the Yangtze river delta. The completion of the transaction is subject to PRC approval which needs to be obtained before 7 June 2006.

Another noteworthy investment by the Group in 2005 was the establishment of a manganese joint venture. In August, we and CITIC United Asia Investments Limited, a wholly-owned subsidiary of CITIC Group, agreed with Guangxi Dameng Manganese Industrial Co., Ltd. to establish a joint venture to manage and operate the largest manganese mines in the PRC and one of the

Chairman's Statement

largest manufacturers and suppliers of manganese products in the world. This transaction recently closed in March 2006 and the joint venture is expected to increase the Group's long term profitability.

In 2005, we strengthened our management expertise by appointing and engaging personnel who have significant petroleum expertise and technical know-how. In particular, Mr. Shou Xuancheng joined the Board in September as a Vice Chairman. Mr. Shou brings to the Group considerable experience in the oil and gas industry having previously occupied a number of high-level positions in the China National Petroleum Corporation group of companies.

We have made steady progress during 2005 in implementing our key natual resources and commodities focused business strategy. Moving into 2006, the Group now has manganese interests, in addition to aluminium, coal and import and export of commodities. We will continue to explore appropriate natual resources and commodities investment opportunities in the PRC and elsewhere to further enhance the Group's value and maximise shareholder value. Energy resources are a particular focus as the demand for such products in the PRC and elsewhere remain robust.

Whilst global competition for natual resources and commodities is strong and represents a challenge for us, we remain confident that the Group is positively positioned to continue with the implementation of its business strategy. The Board and I believe that 2006 will be an extremely challenging year for the Company and it will see a doubling of effort by the Group to ensure sustainable growth.

APPRECIATION

I would like to express my deep thanks to my fellow directors for their valuable contribution and my heartfelt gratitude to all of our employees for their dedicated efforts and hard work. For myself and on behalf of the Board, I would like to extend my sincere thanks to our shareholders, customers, suppliers, bankers and business associates for their continued strong support.

Kwok Peter Viem
Chairman

Hong Kong, 21 April 2006

HK$'000

Management's Discussion and Analysis

FINANCIAL REVIEW

Group's financial results:

Operating results and ratios

	Year ended 31 December 2005	Restated 2004	Increase/ (decrease)
Revenue	**5,786,386**	3,610,791	60.3%
Gross profit	**455,222**	250,685	81.6%
Profit attributable to shareholders of the Company	**221,703**	4,772	45.5 times
Earnings per share	**HK 5.14 cents**	HK 0.12 cent	41.8 times
Gross profit margin [1]	**7.9%**	6.9%	
Inventory turnover [2]	**7.7 times**	9.2 times	

Financial position and ratios

	31 December 2005	Restated 2004	Increase/ (decrease)
Cash and bank balances	**1,519,595**	1,606,833	(5.4%)
Total assets	**6,020,027**	5,698,250	5.6%
Bank and other loans	**1,905,616**	2,074,324	(8.1%)
Equity attributable to shareholders of the Company	**2,941,773**	2,636,840	11.6%
Current ratio [3]	**2.0 times**	2.2 times	
Gearing ratio [4]	**39.3%**	44.0%	

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

The Group has achieved a good financial performance for 2005, building on the encouraging results of 2004, which is indicative of the progress that the Group is making. The sound financial performance principally follows the Group's decision to adopt a business strategy to diversify its activities and position itself as an integrated provider of key natural resources and commodities.

The strong increase in both revenue and profit for the year was primarily attributable to the Group's acquisitions of the Australian interests in 2004 which have made a significant contribution to the Group's earnings. The Group has been able to incorporate a full year's contribution from its Australian interests in 2005 rather than 9 months' as in 2004 (the acquisitions were completed at the end of 1Q of 2004).

Management's Discussion and Analysis

The businesses in Australia comprising aluminium smelting, coal mining and the import and export of commodities continue to perform well. The following is a comparison of the results between 2005 and 2004, but on a full year basis.

Aluminium smelting

- The Group has a 22.5% interest in the Portland Aluminium Smelter joint venture in the State of Victoria, Australia, the principal activity of which is the production and sale of aluminium ingots overseas.

- Revenue ▲ 8%
  Net profit after tax (from ordinary activities) ▼ 1%

- Revenues were driven by higher average selling prices while sales volume increased marginally. Net profit remained almost unchanged as the benefit of higher selling prices was offset by increases in production costs. Certain costs, such as alumina and electricity, are linked to the selling price of aluminium and have increased correspondingly. Other costs have also risen.

Coal mining

- The Group has:

  – a 7% interest in the Coppabella and Moorvale coal mines joint venture in the State of Queensland, Australia, the principal activity of which is the mining and sale of coal overseas;

  – a 11.81% shareholding in Macarthur Coal Limited ("Macarthur"), a company listed on the Australian Stock Exchange ("ASX") (ASX Code: MCC), which owns a 73.3% interest in, and is the operator of, the Coppabella and Moorvale coal mines; and

  – a 10-15% interest in seven separate coal exploration joint ventures with Macarthur and a 50% interest in the CB Exploration joint venture, the principal activities of which are the exploration and development of coal.

- Consolidated revenue ▲ 70%
  Consolidated net profit after tax, including ▲ 552% (net of below, ▲285%)
  – dividend income from Macarthur of HK$19.8 million
  – profits on sale of coal exploration interests of HK$55.0 million (after tax)

- Coal operations achieved a record result in 2005. Sales rose due to strong demand from the steel industry and higher contract selling prices.

  Mining costs rose more than 20% due to general cost pressures facing the industry, such as fuel and labour shortages, and demurrage costs due to congestion at loading ports. These cost increases were, however, outweighed by the increase in coal prices.

- Consistent with the strong performance of coal mining operations, the Group received higher dividends payment from Macarthur.

- In December 2005, the Group partially sold down its 25% interest in various coal exploration tenements held by the Bowen Basin Coal Exploration joint venture to Macarthur. The consideration received was 2,590,392 Macarthur shares. Based upon the Macarthur share price on the day the shares were issued, a profit of HK$78.5 million was recognised. After the sale, the Group retains interests of 10% to 15% in each of the tenements and the Bowen Basin Coal Exploration joint venture was restructured into seven separate joint ventures.

Import and export of commodities

- The Group has a 77.9% equity interest in CITIC Australia Trading Limited ("CATL"), a company incorporated in the State of Victoria, Australia and listed on the ASX (ASX code: CAL), whose principal activity is trading in various metals, minerals, manufactured products and other commodities.

- Revenue ▲ 23%
  Net profit after tax ▲ 47%

  The following table shows a breakdown of the revenue and the net profit before tax for 2005 and a comparison with the full year of 2004:

		Total	Alumina exports	Iron ore exports	Other exports	Imports	Others
Revenue	HK$ million	4,300.7	1,676.8	1,614.4	166.5	712.5	130.5
	Compare to 2004	▲ 23%	0	▲ 142%	▼ 69%	▲ 44%	▲ 45%
Net profit before tax	HK$ million	72.1	31.5	6.3	4.6	21.7	8.0
	Compare to 2004	▲ 47%	▲ 95%	▼ 25%	▲ 33%	▲ 42%	▲ 45%

- CATL is a trader which buys goods from producers and then on-sells them to its customers. Export products are alumina, aluminium ingots and iron ore, mainly destined for the People's Republic of China (the "PRC"). Imports include steel and aluminium products, batteries, tyres and wheels. CATL focuses predominantly on trade between the PRC and Australia.

  Although many commodities have continued to experience "super boom" market conditions, the operating environment in which the 2005 results were achieved has been tough. Prices of most commodities were strong during the early part of 2005, but then diverged.

- The increase in revenues reflects higher prices of alumina and steel products, as well as increased sales volume of iron ore exports. Led by alumina exports, all product lines generated record results.

  Alumina exports remained the largest revenue generator. Substantially higher than normal profit margins were achieved on a few cargoes in the rising alumina market in the first half of 2005, which boosted the results. Iron ore exports (particularly to the Chinese steel mills) grew rapidly in 2005, the second year of regular iron ore trading by CATL, but profit margins returned to normal levels. Iron ore was sourced from various origins including Australia, India, South Africa and Brazil.

Management's Discussion and Analysis

Imports continued to increase their contribution to overall profit. The steel and battery divisions performed strongly while the tyre and wheel imports faced increasing competition. The continued profit growth of the import division is very encouraging.

- CATL will continue its strategy of diversification by developing multiple trading lines to reduce its relative reliance upon earnings from alumina. However, alumina remains an important trading line. Iron ore has developed into an important new export line since its introduction two years ago.

  The most challenging task for CATL remains the trend of western producers to bypass traders and sell products directly to end-users.

As a consequence of the adoption of new Hong Kong Financial Reporting Standards, certain adjustments to fair value of assets and liabilities of our Australian interests acquired in 2004 were required which resulted in a reduction of a net amount of HK$45.1 million. The Group's results for the financial year ended 31 December 2004 were restated to HK$4.8 million. These are explained in notes 2.4(b) and 15 to the financial statements.

Other than the businesses in Australia, the Group had an interest in an oilfield in the PRC.

Crude oil

- The Group had a 40% participating interest in the development and production of petroleum in the Kongnan Block within the Dagang Oilfield in the PRC.

- Revenue ▲ 217%

- The project is in its development stage. An additional 19 wells were drilled and completed in 2005 (2004: 19 wells), which was less than scheduled. As at the end of 2005, 39 wells were in production. Net production volume was 282,582 barrels of oil equivalent ("Boe") (2004: 190,309 Boe), increasing 48% for 2005 but was much lower than anticipated.

  In the 4Q of 2005, drilling was temporarily suspended to allow for detailed evaluation of well productivity and production decline performance. As at the end of 2005, the independent engineering evaluators have revised downward their estimate of the proved reserves. Since depletion was provided on the substantial capitalised development costs incurred during the year, the project made a loss as a result.

- In February 2006, the Group exercised its option to convert its 40% participating interest into common shares in the share capital of Ivanhoe Energy Inc. ("Ivanhoe") and a loan repayable by Ivanhoe.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash

As at 31 December 2005, the Group had a cash balance of HK$1,519.6 million.

Borrowings

As at 31 December 2005, the Group had outstanding borrowings of HK$1,905.6 million, which comprised secured bank loans of HK$686.4 million, unsecured bank loans of HK$772.6 million and unsecured other loans of HK$446.6 million. The secured bank loans were secured by the Group's 22.5% interest in the Portland Aluminium Smelter joint venture. The bank trade finance facilities available to CATL are guaranteed by CITIC Resources Australia Pty Limited.

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

Of the total outstanding borrowings, HK$858.4 million was repayable within one year. The gearing ratio of the Group was 39.3%.

Financial risk management

The Group's diversified business is exposed to a variety of financial risks, such as market risks (including foreign exchange, commodity price and interest rate risks), credit risks and liquidity risks. The management of such risks is dictated by a set of internal policies and procedures designed to minimise potential adverse effects to the Group. The policies and procedures have proven to be effective. Further details are set out in note 39 to the financial statements.

New investments

In January 2005, the Group agreed to form a joint venture with a Chevron Corporation subsidiary to develop a regional network of Caltex branded service stations in Southern China and to explore development possibilities in the Yangtze river delta. The completion of the transaction is subject to PRC approval which needs to be obtained before 7 June 2006.

In August 2005, the Group, through CITIC Dameng Investments Limited ("CITIC Dameng"), entered into a joint venture contract with Guangxi Dameng Manganese Industrial Co., Ltd. ("Guangxi Dameng") to jointly establish a sino-foreign equity joint venture, CITIC Dameng Mining Industries Limited (the "Manganese Company"), to undertake the business of manganese mining and processing. The Manganese Company is owned as to 40% by Guangxi Dameng and as to 60% by CITIC Dameng. CITIC Dameng is ultimately owned as to 80% by the Group and as to 20% by CITIC United Asia Investments Limited, a wholly-owned subsidiary of CITIC Group.

In respect of capital contribution to the Manganese Company, before the end of 2005, Guangxi Dameng has contributed assets of RMB200 million (HK$192.3 million) and CITIC Dameng has paid cash of RMB300 million (HK$288.5 million). The share of the Group's capital contribution of RMB240 million (HK$230.8 million) was effected from internal resources. This acquisition was completed in March 2006 and the financial results of the Manganese Company will be included in the accounts of the Group from the 2Q of 2006.

Changes to investments

In February 2006, Richfirst Holdings Limited ("Richfirst"), a wholly-owned subsidiary of the Group, exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC, with a carrying value of US$27,386,135 (HK$213,612,000), into 8,591,434 common shares in the share capital of Ivanhoe and a non-interest bearing, unsecured loan of US$7,386,135 (HK$57,612,000) repayable by Ivanhoe. The first instalment of the loan was due in March 2006. Further details are set out in notes 16(b), 24 and 40 to the financial statements.

Opinion

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had around 120 full time employees, including management and administrative staff. Most of the employees are employed in Australia while the remainder are employed in Hong Kong.

The employees' remuneration, promotion and salary increment are assessed based on an individual's performance, professional and working experience and by reference to prevailing market practice and standards.

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The Group also operates a defined contribution retirement benefits scheme (the "RB Scheme") under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate.

Contributions are made based on a percentage of the employees' basic salaries. The assets of the MPF Scheme and the RB Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as an employer vest fully with the employees when contributed into the MPF Scheme and the RB Scheme.

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

Board of Directors and Senior Management

DIRECTORS

Mr. Kwok Peter Viem	*Chairman*
Mr. Ma Ting Hung	*Vice Chairman*
Mr. Shou Xuancheng	*Vice Chairman*
Mr. Sun Xinguo	*President and Chief Executive Officer*
Ms. Li So Mui	*Executive Director*
Mr. Mi Zengxin	*Executive Director*
Mr. Qiu Yiyong	*Executive Director*
Mr. Zeng Chen	*Executive Director*
Mr. Zhang Jijing	*Executive Director*
Mr. Fan Ren Da, Anthony	*Independent Non-executive Director*
Mr. Ngai Man	*Independent Non-executive Director*
Mr. Tsang Link Carl, Brian	*Independent Non-executive Director*

DIRECTORS - BIOGRAPHIES

Mr. Kwok Peter Viem, aged 57, is the Chairman of the Company. He has been an Executive Director of the Company since 2000. He is also a member of the nomination committee of the Company and a director of several other subsidiaries of the Group. He is responsible for the strategic planning and corporate development of the Group. He received a Bachelor of Arts Degree in Commerce from the National Taiwan University, a Master of Philosophy Degree in Management Studies from the University of Hong Kong and a Doctoral Degree in Finance from the University of California at Berkeley. Mr. Kwok has over 30 years' experience in the banking and finance industry and has held senior management positions with various financial institutions. Mr. Kwok is a member of the Chinese People's Political Consultative Conference.

Mr. Ma Ting Hung, aged 42, is a Vice Chairman of the Company. He has been an Executive Director of the Company since 2000. He is also a member of the remuneration committee of the Company and a director of several other subsidiaries of the Group. He is responsible for the business development and financial management of the Group. He holds a Bachelor of Arts Degree majoring in Economics from the University of Southern California. He is an independent non-executive director of Universe International Holdings Limited (Stock Code: 1046) listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Ma has over 18 years' experience in the banking and finance industry.

Board of Directors and Senior Management

Mr. Shou Xuancheng, aged 56, was appointed as a Vice Chairman and an Executive Director of the Company in September 2005. He is also a director of several other subsidiaries of the Group. He is responsible for the planning and development of the Group's oil investments and portfolio. He holds a Master's Degree and a Doctoral Degree in Engineering from Petroleum University of China. He held a number of high-level positions in the China National Petroleum Corporation group of companies between 1985 and 2004, including China National Oil & Gas Exploration and Development Corporation, CNPC International (Kazakhstan) Co. Ltd., PetroChina Company Limited listed on the Stock Exchange and PetroChina International Limited. He is a director of CITIC Energy Inc. and CITIC Energy Limited. Mr. Shou has over 35 years' experience in the oil and gas industry.

Mr. Sun Xinguo, aged 55, is the President and Chief Executive Officer of the Company. He has been an Executive Director of the Company since 2002. He is also a member of the remuneration committee of the Company and a director of several other subsidiaries of the Group. He is responsible for the corporate development of the Group. He holds a Bachelor of Arts Degree from Fudan University and graduated from the Advanced Management Program (AMP167) of Harvard Business School in 2004. He is a director of CITIC Group and Keentech Group Limited ("Keentech"). He also holds directorships in several other subsidiaries of CITIC Group. Mr. Sun has over 30 years' experience in project investment, marketing and operation, import and export, securities investment and corporate finance.

Ms. Li So Mui, aged 51, joined in 2000 as an Executive Director and the Company Secretary of the Company. She is also a director of several other subsidiaries of the Group. She is responsible for the financial management and general administration of the Group. She holds a Master's Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the Association of International Accountants. Ms. Li has over 28 years' experience in the accounting and banking field.

Mr. Mi Zengxin, aged 55, joined in 2004 as an Executive Director of the Company. He is responsible for the strategic development of the Group. He holds a Master's Degree in Science from Beijing University of Science and Technology. He is an executive director and the vice president of CITIC Group, the chairman of CITIC USA Holdings Limited, CITIC Australia Pty Limited ("CA") and CITIC Resources Australia Pty Limited ("CRA"), the deputy chairman of Asia Satellite Telecommunications Holdings Limited (Stock Code: 1135) listed on the Main Board of the Stock Exchange and a director of CITIC United Asia Investments Limited ("CITIC United Asia"). He also holds executive management positions in several other subsidiaries of CITIC Group. Mr. Mi has over 22 years' experience in multi-national business, corporate management and various industries.

Board of Directors and Senior Management

Mr. Qiu Yiyong, aged 49, joined in 2002 as an Executive Director of the Company. He is also a director of several other subsidiaries of the Group. He is responsible for the corporate development of the Group. He holds a Bachelor of Economics Degree from Xiamen University and is a qualified senior statistician in the People's Republic of China. He is the managing director of CITIC United Asia and a director of Keentech. He also holds directorships in several other subsidiaries of CITIC Group. Prior to joining CITIC Group, he was a director of two companies listed on the Stock Exchange. Mr. Qiu has over 24 years' experience in investment management.

Mr. Zeng Chen, aged 42, joined in 2004 as an Executive Director of the Company. He is also a director of several other subsidiaries of the Group. He is responsible for the management and operations of the Group. He holds a Master's Degree in International Finance from Shanghai University of Finance and Economics. He is the managing director of CA and CRA and the chairman of CITIC Australia Trading Limited listed on the Australian Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group. Mr. Zeng has over 17 years' experience in business operations and development, asset restructuring and the aluminium and coal industry.

Mr. Zhang Jijing, aged 50, joined in 2002 as an Executive Director of the Company. He is also a member of the nomination committee of the Company and a director of several other subsidiaries of the Group. He is responsible for the corporate development of the Group. He holds a Bachelor of Engineering Degree from Hefei Polytechnic University in Anhui Province and a Master's Degree in Economics from the Graduate School of Chinese Academy of Social Sciences in Beijing. He is a director, the assistant president and the head of Strategy & Planning Department of CITIC Group, the deputy chairman of CA, a director of CITIC Securities Co., Ltd. listed on the Shanghai Stock Exchange and Keentech. Mr. Zhang has over 20 years' experience in corporate management, industrial investment, business finance and the aluminium industry.

Mr. Fan Ren Da, Anthony, aged 45, joined in 2000 as an Independent Non-executive Director of the Company. He is also a member of the audit committee, nomination committee and remuneration committee of the Company. He holds a Master's Degree in Business Administration from the USA. He is the chairman and managing director of AsiaLink Capital Limited. Prior to that, he held senior positions with various international financial institutions and was the managing director of a company listed on the Stock Exchange. Mr. Fan is an independent non-executive director of Raymond Industrial Limited (Stock Code: 229) listed on the Main Board of the Stock Exchange and Roly International Holdings Limited listed on the Singapore Exchange Securities Trading Limited.

Mr. Ngai Man, aged 60, was appointed as an Independent Non-executive Director of the Company in March 2006. He is also a member of the audit committee, nomination committee and remuneration committee of the Company. He has been a senior adviser to the Chairmen of Charoen Pokphand Group and Chia Tai Group since 1988. He is also a director of Longtime Company Limited and Orient Telecom & Technology Holdings Limited. Mr. Ngai has over 33 years' experience in various industries in south east Asia including telecommunications, trading, hotels and leisure, petrochemicals, real estate and agriculture. In 1995, he was recognized as an "honourary citizen" by the Shenzhen Municipal Government.

Mr. Tsang Link Carl, Brian, aged 42, joined in 2000 as an Independent Non-executive Director of the Company. He is also a member of the audit committee, nomination committee and remuneration committee of the Company. He is a practising solicitor in Hong Kong and is a partner of the Hong Kong law firm of Iu, Lai & Li. He holds a LLB Degree from the King's College, London. He is also admitted to practise law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. Mr. Tsang is a non-executive director of Pacific Century Premium Developments Limited (Stock Code: 432) listed on the Main Board of the Stock Exchange and EVI Education Asia Limited (GEM Stock Code: 8090) listed on the GEM Board of the Stock Exchange. In 2005, he was appointed as an adjudicator of the Registration of Persons Tribunal and a member of the Disciplinary Panel of HKICPA.

SENIOR MANAGEMENT - BIOGRAPHIES

Mr. Cha Johnathan Jen Wah, aged 41, joined in 2005 as General Counsel of the Company. He is a solicitor admitted in Hong Kong and in England and Wales. Prior to joining the Company, he was with an international law firm and with the Stock Exchange. Mr. Cha has over 15 years' experience in mergers and acquisitions, corporate finance, regulatory and general commercial work.

Mr. Chen Liang, aged 36, joined in 2005 as a Vice President of the Company. He is responsible for the oil and gas project evaluation and investments of the Group. He holds a Doctoral Degree in Coal, Oil and Gas Geology and Exploration from Petroleum University of China. He was a senior geologist at Teknica Petroleum Services Limited, Calgary, Canada from 2002 to 2005. Prior to that, he worked for various oil companies and research institutes in China, France, United Kingdom and Canada. Mr. Chen has over 10 years' experience in petroleum exploration and development.

Mr. Chung Ka Fai, Alan, aged 39, joined in 1996 as a Chief Accountant of the Company. He is an associate member of the Australian Society of Certified Practising Accountants. Prior to joining the Company, he worked for various multinational companies. Mr. Chung has over 15 years' experience in the accounting field.

Mr. Luk Kar Yan, aged 38, joined in 2005 as a Vice President of the Company. He is responsible for the financial management of the Group. He holds a Bachelor of Social Sciences Degree from the University of Hong Kong and a Master's Degree in Business Administration from the Hong Kong University of Science and Technology. He is an associate member of HKICPA. Mr. Luk has over 16 years' experience in the banking and finance industry.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board and the management of the Company are committed to maintaining a good and sensible framework of corporate governance and to complying with applicable statutory and regulatory requirements with a view to assuring the conduct of management of the Company as well as protecting the interests of all shareholders.

Compliance with the CG Code

Throughout the year, the Company has adopted the Code on Corporate Governance Practices (the "CG Code") and the Rules on the Corporate Governance Report (the "CG Rules") as set out respectively in Appendix 14 and 23 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

At the annual general meeting of the Company held on 28 June 2005, to be consistent with paragraph A.4.2 of the CG Code, Bye-law 87(1) of the Company's Bye-laws was amended to reflect the requirement for the retirement of all directors by rotation at least once every three years at the Company's annual general meeting.

The following outlines how the Company has adopted and complied with the CG Code and the CG Rules to achieve good corporate governance.

A. DIRECTORS

A.1 The Board

Principle of Good Governance: The Board should assume responsibility for leadership and control of the Company and be collectively responsible for promoting the success of the Company. The directors should take decisions objectively in the interests of the Company.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.1.1		
Board meetings should be held at least four times a year.	√	A total of six board meetings were held in 2005 with individual attendance of each director as follows: Executive directors: Mr. Kwok Peter Viem 5/6 Mr. Ma Ting Hung 5/6 Mr. Shou Xuancheng (Note 1) 1/2 Mr. Sun Xinguo 5/6

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.1.1		
		Ms. Li So Mui 5/6 Mr. Mi Zengxin 4/6 Mr. Qiu Yiyong 5/6 Mr. Zeng Chen 6/6 Mr. Zhang Jijing 4/6 Independent non-executive directors: Mr. Chan Mo Po, Paul (Note 2) 3/3 Mr. Fan Ren Da, Anthony 4/4 Mr. Ngai Man (Note 3) N/A Mr. Tsang Link Carl, Brian 4/4 Notes: 1 Appointed on 1 September 2005 2 Resigned on 1 October 2005 3 Appointed on 1 March 2006
A.1.2		
All directors should be given an opportunity to include matters in the agenda for regular board meetings.	√	All directors are invited to include matters in the agenda for regular board meetings.
A.1.3		
Notice of at least 14 days should be given of a regular board meeting.	√	The Company generally gives 14 days prior written notice of a regular board meeting and reasonable prior notice for all other board meetings.
A.1.4		
All directors should have access to the advice and services of the Company Secretary.	√	All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable rules and regulations are complied with.
A.1.5		
Minutes of board meetings and meetings of board committees should be kept by the Company Secretary and such minutes should be open for inspection.	√	The minutes are kept by the Company Secretary and they are open for inspection by the directors and the members of the board committees.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.1.6		
Minutes should record in sufficient detail the matters considered by the Board and decisions reached. Draft and final versions of minutes should be sent to all directors for their comment and records within a reasonable time after the meeting.	√	The Company Secretary is responsible for taking the minutes. The drafts are sent to the directors for comment within a reasonable time after each meeting.
A.1.7		
There should be an agreed procedure to enable the directors to seek independent professional advice, at the Company's expense, to assist them to discharge their duties.	√	The Company provides an agreed procedure enabling the directors to seek independent professional advice at the Company's expense.
A.1.8		
If a substantial shareholder or a director has a conflict of interest in a material matter, a board meeting should be held. Independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting.	√	The voting and quorum requirements specified in the Company's bye-laws conform with the Code's requirements.

A.2 Chairman and Chief Executive Officer

Principle of Good Governance: There should be a clear division of responsibilities at the board level - the management of the Board and the day-to-day management of the business - to ensure a balance of power and authority.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.2.1		
The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between them should be clearly established and set out in writing.	√	Mr. Kwok Peter Viem is the Chairman and Mr. Sun Xinguo serves as the Chief Executive Officer. The Chairman focuses on the Group's strategic planning while the Chief Executive Officer has overall executive responsibility for the Group's development and management.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.2.2		
The Chairman should ensure all directors are properly briefed on issues arising at board meetings.	√	The Chairman has a clear responsibility to provide the whole Board with all the information that is required for the discharge of the Board's responsibilities.
A.2.3		
The Chairman should ensure that the directors receive adequate information, which must be complete and reliable, in a timely manner.	√	The Chairman has been continually improving the quality and timeliness of the information distributed to the directors.

A.3 Board Composition

Principle of Good Governance: The Board should have a balance of skills and experience appropriate for the requirements of the business of the Company. The Board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that it can effectively exercise independent judgement.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.3.1		
The independent non-executive directors should be expressly identified as such in all corporate communications.	√	The composition of the Board, by category of the directors, including names of Chairman, executive directors and independent non-executive directors, is disclosed in all corporate communications.

A.4 Appointments, Re-election and Removal

Principle of Good Governance: There should be a formal, considered and transparent procedure for the appointment of new directors. There should be plans in place for orderly succession for appointments to the Board. All directors should be subject to re-election at regular intervals.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.4.1		
Non-executive directors should be appointed for a specific term, subject to re-election.	√	Non-executive directors are not appointed for a specific term. However, under the Company's bye-laws, one-third of all directors (whether executive or non-executive) are subject to retirement by rotation and re-election at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.
A.4.2		
All directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	√	The Company's bye-laws provides that any director so appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting and shall be eligible for re-election at that meeting. In order to bring the Company's bye-laws in line with the CG Code, the directors propose to put forth to shareholders for consideration at the forthcoming annual general meeting a special resolution to amend the Company's bye-laws to require any director appointed to fill a casual vacancy to hold office until the next general meeting of the Company. Mr. Shou Xuancheng was appointed as a director on 1 September 2005, the Company has not held any general meeting since his appointment. Mr. Shou will retire and be eligible for re-election as director at the forthcoming annual general meeting.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.4.2		
		In accordance with the existing provision of the Company's bye-laws, every director is subject to retirement by rotation at least once every three years.

A.5 Responsibilities of Directors

Principle of Good Governance: Every director is required to keep abreast of his responsibilities as a director and of the conduct, business activities and development of the Company. The non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.5.1		
Every newly appointed director should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.	√	On appointment, the new director is briefed by senior executives on the Group's corporate goals and objectives, activities and business, strategic plans and financial situations. He is also provided with a package of orientation materials in respect of duties and responsibilities of directors under the Listing Rules, the Company's bye-laws, corporate governance and financial reporting standards. The Company Secretary is responsible for keeping all directors updated on the Listing Rules and other regulatory and reporting requirements.
A.5.2		
The functions of non-executive directors should at least include: (a) to bring an independent judgement at board meetings; (b) to take the lead where potential conflicts of interests arise; (c) to serve on board committees, if invited; and (d) to scrutinise the Company's performance in achieving agreed corporate goals and objectives, and monitoring the reporting of performance.	√	All non-executive directors serve on the audit, nomination and remuneration committees. They are invited to participate in board meetings so that they are able to provide at such meetings their experience and judgement on matters discussed in the meetings.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.5.3		
Every director should ensure that he can give sufficient time and attention to the affairs of the Company.	√	There was satisfactory attendance for board meetings and the board committees meetings, which evidence prompt attention of the directors to the affairs of the Company.
A.5.4		
All directors must comply with their obligations under the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.	√	All directors complied with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers.

A.6 Supply of and Access to Information

Principle of Good Governance: The directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
A.6.1		
An agenda and accompanying board papers should be sent to all directors at least 3 days before the intended date of a meeting.	√	An agenda and the presentation material are usually sent to the directors 3 days before the meeting.
A.6.2		
Each director should have separate and independent access to the senior management of the Company to make further enquiries or to obtain more information in order to fulfil his duties properly.	√	The directors have access to the senior management of the Company whenever they feel necessary.
A.6.3		
All directors are entitled to have access to board papers and related materials. Where queries are raised by the directors, steps must be taken to respond as promptly and fully as possible.	√	Board minutes and related materials are available for inspection by the directors whenever requested. All efforts are made to ensure that queries of the directors are responded to promptly.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The Level and Make-up of Remuneration and Disclosure

Principle of Good Governance: There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
B.1.1		
The Company should establish a remuneration committee with specific written terms of reference. A majority of the members should be independent non-executive directors.	√	In June 2005, the Company established a remuneration committee with specific written terms of reference which deal clearly with its authority and responsibilities. The majority of the members are independent non-executive directors.
B.1.2		
The committee should consult the Chairman and/or the Chief Executive Officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	√	The committee consults with the Chairman and/or the Chief Executive Officer about their proposals relating to the remuneration of other executive directors. The committee is authorised to obtain such legal, remuneration or other professional advice as it shall deem appropriate.
B.1.3		
The terms of reference of the committee should include the minimum prescribed duties.	√	The terms of reference of the committee include the minimum prescribed responsibilities.
B.1.4		
The committee should make available its terms of reference, explaining its role and authority delegated to it by the Board.	√	The terms of reference of the committee are made available.
B.1.5		
The committee should be provided with sufficient resources to discharge its duties.	√	The committee can seek independent professional advice to complement its own resources to discharge its duties.

C. ACCOUNTABILITY AND AUDIT

C.1 Financial Reporting

Principle of Good Governance: The Board should present a balanced, clear and comprehensible assessment of the Company's performance, position and prospects.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.1.1		
Management should provide such explanation and information to enable the Board to make an informed assessment of the matters put before the Board for approval.	√	The directors are regularly provided with updates on the Company's businesses, potential investments, financial objectives, plans and actions.
C.1.2		
The directors should acknowledge in the Corporate Governance Report their responsibilities for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	√	A statement of directors' responsibilities for preparing the financial statements is set out in this Corporate Governance Report. The report of the auditors states the auditors' reporting responsibilities.
C.1.3		
The Board's responsibility to present a balanced, clear and understandable assessment extends to annual and interim reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	√	The Board aims at presenting a balanced, clear and understandable assessment of the Group's performance, position and prospects in all shareholder communications.

C.2 Internal Controls

Principle of Good Governance: The Board should ensure that the Company maintains sound and effective internal controls to safeguard shareholders' investment and the Company's assets.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.2.1		
The directors should at least annually conduct a review of the effectiveness of the system of internal control of the Company and its subsidiaries.	√	The Board has overall responsibility for the system of internal control and for reviewing its effectiveness, particularly in respect of the controls on financial, operational, compliance and risk management. The Chief Financial Officer reports to the audit committee twice a year on key findings regarding internal controls. The audit committee, in turn, communicates any material issues to the Board.

C.3 Audit Committee

Principle of Good Governance: The Board should establish formal and transparent arrangements for considering how it applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The audit committee should have clear terms of reference.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.3.1		
Minutes of audit committee meetings should be kept by the Company Secretary. Draft and final versions of minutes should be sent to all committee members for their comment and records within a reasonable time after the meeting.	√	The minutes are kept by the Company Secretary. The drafts prepared by the Company Secretary are sent to the committee members for comment within a reasonable time after each meeting.
C.3.2		
A former partner of the existing auditing firm should not be a member of the committee for a period of one year commencing on the date of his ceasing to be a partner of the firm.	√	None of the committee members is or was a partner of the existing audit firm.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
C.3.3		
The terms of reference of the committee should include the minimum prescribed duties.	√	The terms of reference of the committee include the minimum prescribed responsibilities.
C.3.4		
The committee should make available its terms of reference, explaining its role and authority delegated to it by the Board.	√	The terms of reference of the committee are made available.
C.3.5		
Where the Board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the Company should include in the Corporate Governance Report a statement from the audit committee explaining its recommendation and also the reason(s) why the Board has taken a different view.	√	The committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for 2006.
C.3.6		
The committee should be provided with sufficient resources to discharge its duties.	√	The committee can seek independent professional advice to complement its own resources to discharge its duties.

D. DELEGATION BY THE BOARD

D.1 Management Functions

Principle of Good Governance: The Company should have a formal schedule of matters specifically reserved to the Board for its decision. The Board should give clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
D.1.1 and D.1.2		
The Board should give clear directions as to the powers of management, in particular, with respect to the circumstances where management should obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company. The Company should formalise the functions reserved to the Board and those delegated to management.	√	Important matters are reserved for the Board's decision, including: • long-term objectives and strategies • extension of the Group's activities into new business areas • appointments to the Board and the board committees • annual internal controls assessment • annual budgets • material acquisitions and disposals • material connected transactions • material banking facilities • announcements of interim and final results • payment of dividends

D.2 Board Committees

Principle of Good Governance: Board committees should be formed with specific written terms of reference that deal clearly with the committees' authority and duties.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
D.2.1		
The Board should prescribe sufficiently clear terms of reference to enable such committees to discharge their functions properly.	√	There are three board committees: audit, nomination and remuneration. They were each established with specific written terms of reference.
D.2.2		
The committees should be required to report back to the Board on their decisions or recommendations.	√	The minutes of the meetings are circulated to all members of the Board unless a conflict of interest arises. The committees are required to report back to the Board on key findings during the year.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective Communication

Principle of Good Governance: The Board should endeavour to maintain an on-going dialogue with shareholders and, in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
E.1.1		
In respect of each substantially separate issue at a general meeting, a separate resolution should be proposed by the chairman of that meeting.	√	A separate resolution is proposed for each substantially separate issue, including the election of a director.
E.1.2		
The Chairman of the Board should attend the annual general meeting and arrange for the chairmen of the audit, nomination and remuneration committees (as appropriate) to be available to answer questions at the annual general meeting.	√	The Chairman of the Board attended the annual general meeting of 2005. The Company will arrange for the chairman of each of the committees to attend the annual general meeting to answer questions at the annual general meeting.

E.2 Voting by Poll

Principle of Good Governance: The Company should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the Company's Bye-laws.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
E.2.1		
The circulars to shareholders should disclose the procedures for and the rights of shareholders to demand a poll.	√	Each circular to shareholders containing notice convening a general meeting of the Company contains the procedures for demanding a poll.

Code Provisions	Satisfied ?	Compliance by the Company in 2005
E.2.2		
The Company should ensure that votes cast are properly counted and recorded.	√	The representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast. In relation to votes taken by way of a poll, results are published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.
E.2.3		
The chairman of a meeting should at the commencement of the meeting adequately explain the poll procedures.	√	The chairman of the meeting explains the poll procedures at the commencement of the meeting.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

BOARD OF DIRECTORS

The Board consists of a Chairman, two Vice Chairmen, a President and Chief Executive Officer, five executive directors and three independent non-executive directors:

Executive directors:

Mr. Kwok Peter Viem	(Chairman)	
Mr. Ma Ting Hung	(Vice Chairman)	
Mr. Shou Xuancheng	(Vice Chairman)	(appointed on 1 September 2005)
Mr. Sun Xinguo	(President and Chief Executive Officer)	
Ms. Li So Mui		
Mr. Mi Zengxin		
Mr. Qiu Yiyong		
Mr. Zeng Chen		
Mr. Zhang Jijing		

Independent non-executive directors:

Mr. Chan Mo Po, Paul	(resigned on 1 October 2005)
Mr. Fan Ren Da, Anthony	
Mr. Ngai Man	(appointed on 1 March 2006)
Mr. Tsang Link Carl, Brian	

The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. The Group has management expertise in the industries of energy resources and commodities, including oil, aluminium and coal. The Board has the required knowledge, experience and capabilities to operate and develop the Group's businesses and implement the Company's business strategies. The biographical details and experience of the directors and senior management are set out on pages 13 to 16.

Each director has a duty to act in good faith in the best interests of the Company. The directors, individually and collectively, are aware of their responsibilities and accountability to shareholders and for the manner in which the affairs of the Company are managed and operated.

Meetings of the Board are held regularly and at least four times a year at approximately quarterly intervals to approve, inter alia, the financial results of the Company. Regular board meetings are scheduled in advance to give the directors an opportunity to attend. Directors can attend board meetings either in person or by electronic means of communication. A total of six board meetings were held in 2005 and there was satisfactory attendance.

Directors have timely access to relevant information prior to each board meeting to enable them to make an informed decision and to discharge their duties and responsibilities.

Rule 3.10(1) of the Listing Rules requires that every board of directors of a listed issuer must include at least three independent non-executive directors. During the period between 1 October 2005 and 28 February 2006 inclusive, the Company had only two independent non-executive directors due to the resignation of Mr. Chan Mo Po, Paul.

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

To the best knowledge of the Company, there is no financial, business, family or other material or relevant relationship among members of the Board or between the Chairman and the Chief Executive Officer.

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Kwok Peter Viem is the Chairman and Mr. Sun Xinguo serves as the Chief Executive Officer. The role of the Chairman is separate from that of the Chief Executive Officer so as to delineate their respective areas of responsibility. They receive significant support from the directors and the senior management team.

The Board, led by the Chairman, sets the overall direction, strategy and policies of the Company. Under the leadership of the Chief Executive Officer, management is responsible for executing the Board's strategy and implementing its policies through the day-to-day management and operations of the Company.

The Board delegates appropriate aspects of its management and administration functions to management. It also gives clear directions as to the powers of management, in particular, with respect to the matters that management must report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Board determines which functions are reserved to the Board and which are delegated to management. These arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs of the Company.

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

NON-EXECUTIVE DIRECTORS

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

They are also key members of the audit, nomination and remuneration committees.

The independent non-executive directors are not appointed for specific terms. However, under the Company's bye-laws, one-third of all directors (whether executive or non-executive) are subject to retirement by rotation and re-election at each annual general meeting.

REMUNERATION OF DIRECTORS

The Board established the remuneration committee in June 2005 with specific written terms of reference which deal clearly with its authority and responsibilities. The purpose of the committee is to make recommendations to the Board on the remuneration policy and structure for executive directors and senior management of the Group and the remuneration of all directors of each member of the Group.

The committee is responsible for establishing a formal and transparent procedure for developing policy on remuneration, and for determining specific remuneration packages for all executive directors and senior management, including benefits in kind, pension rights and compensation payments.

The Group's remuneration policy seeks to provide a fair market remuneration in a form and value to attract, retain and motivate high quality staff. Remuneration packages are set at levels to ensure comparability and competitiveness with other companies in the industry and market competing for a similar talent pool. The emoluments are also based on individual director's time commitment, responsibilities and performance. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman	:	Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
Member	:	Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)
		Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	
		Mr. Ma Ting Hung	(Executive Director)	(appointed on 1 March 2006)
		Mr. Sun Xinguo	(Executive Director)	

Following the establishment of the committee in June 2005, two meetings were held in the year to discuss remuneration related matters. All members attended the meetings.

During the year, the committee discussed the terms of reference of the committee, the frequency of and procedures for meeting and the terms of employment of a new executive director under a service contract. The committee also reviewed and approved the performance-based remuneration of each individual executive director by reference to corporate goals and objectives. No director was involved in deciding his/her own remuneration.

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

Details of the emoluments and options of each director, on a named basis, are set out in note 7 and 32 respectively to the financial statements.

NOMINATION OF DIRECTORS

The Board established the nomination committee in June 2005 with specific written terms of reference which deal clearly with its authority and responsibilities. The committee is responsible to the Board for leading the process for Board appointments and for identifying and nominating for the approval of the Board candidates for appointment to the Board.

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

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

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman	:	Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)
Member	:	Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
		Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	(Note)
		Mr. Kwok Peter Viem	(Executive Director)	(appointed on 1 March 2006)
		Mr. Zhang Jijing	(Executive Director)	

(Note) Mr. Tsang was the Chairman of the committee from the establishment of the committee to 28 February 2006 inclusive.

Following the establishment of the committee in June 2005, no formal meeting was considered necessary during the remainder of the year.

During the year, the committee discussed the terms of reference of the committee, the frequency and procedures of meeting. The appointment of Mr. Shou Xuancheng as a Vice Chairman and an executive director of the Company was approved by the Board on 28 June 2005 at which all the members of the committee were present.

AUDIT COMMITTEE

The Board established the audit committee in 1999 with specific written terms of reference which deal clearly with its authority and responsibilities. The terms of reference were amended in June 2005 to comply with updated regulatory requirements. The purpose of the committee is to establish formal and transparent arrangements for considering how the Board applies the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors.

The committee is responsible for making recommendations to the Board on the appointment, re-appointment and removal of the external auditors, approving the remuneration and terms of engagement of the external auditors and considering any questions of resignation or dismissal of such auditors. The committee can seek independent professional advice to complement its own resources to discharge its duties.

The majority of the members of the committee are independent non-executive directors and its composition is as follows:

Chairman	:	Mr. Tsang Link Carl, Brian	(Independent Non-executive Director)	
Member	:	Mr. Chan Mo Po, Paul	(Independent Non-executive Director)	(resigned on 1 October 2005)
		Mr. Fan Ren Da, Anthony	(Independent Non-executive Director)	
		Mr. Ngai Man	(Independent Non-executive Director)	(appointed on 1 March 2006)

During the year, two meetings were held. All members attended the meetings. The committee reviewed, together with the senior management and the external auditors, the financial statements for the year ended 31 December 2004 and for the six months ended 30 June 2005, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control system.

FINANCIAL REPORTING

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

The directors acknowledge their responsibilities for preparing the financial statements for the Company and its subsidiaries.

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the report of the auditors on page 47.

INTERNAL CONTROLS

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

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

AUDITORS' REMUNERATION

Ernst & Young were re-appointed by shareholders at the 2005 annual general meeting held on 28 June 2005 as the Company's external auditors until the next annual general meeting. They are primarily responsible for providing audit services in connection with annual financial statements of the Group for the year ended 31 December 2005.

For the year ended 31 December 2005, the total remuneration in respect of statutory audit services provided by Ernst & Young for the Group amounted to HK$1,580,000 and in respect of non-audit services provided by Ernst & Young amounted to HK$20,000.

The audit committee recommended to the Board (which endorsed the view) that, subject to shareholders' approval at the forthcoming annual general meeting, Ernst & Young be re-appointed as the external auditors for the Company for 2006.

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activity of its principal subsidiaries are set out in notes 1 and 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's revenue and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2005 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 48 to 141.

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

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 142. The summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year, together with the reasons therefor, are set out in notes 31 and 32 to the financial statements, respectively.

PRE-EMPTIVE RIGHTS

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

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 33(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2005, the Company had no reserves available for distribution. In accordance with the Companies Act 1981 of Bermuda (as amended), the contributed surplus of the Company is available for distribution or the payment of dividends to shareholders provided that the Company is able to pay off its debts as and when they fall due. The Company's share premium account, with a balance of HK$2,561,962,000 as at 31 December 2005, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$123,000 (2004: HK$672,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 40.0% of the total sales for the year and sales to the largest customer included therein amounted to 17.7%. Purchases from the Group's five largest suppliers accounted for 34.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to 15.7%.

The Group's largest customer for the year ended 31 December 2005 was CITIC Metal Company Limited, a company incorporated in the People's Republic of China (the "PRC") and wholly owned by CITIC Group, the ultimate holding company of the Company.

MAJOR CUSTOMERS AND MAJOR SUPPLIERS (cont'd)

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

DIRECTORS

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

Executive directors:

Mr. Kwok Peter Viem	
Mr. Ma Ting Hung	
Mr. Shou Xuancheng	(appointed on 1 September 2005)
Mr. Sun Xinguo	
Ms. Li So Mui	
Mr. Mi Zengxin	
Mr. Qiu Yiyong	
Mr. Zeng Chen	
Mr. Zhang Jijing	

Independent non-executive directors:

Mr. Chan Mo Po, Paul	(resigned on 1 October 2005)
Mr. Fan Ren Da, Anthony	
Mr. Ngai Man	(appointed on 1 March 2006)
Mr. Tsang Link Carl, Brian	

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

In accordance with bye-law 86(2) of the Company's bye-laws, Mr. Shou Xuancheng and Mr. Ngai Man will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

In accordance with bye-laws 87(1) and 87(2) of the Company's bye-laws, Mr. Ma Ting Hung; Mr. Sun Xinguo; Ms. Li So Mui and Mr. Fan Ren Da, Anthony will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

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

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2005, the interests of the directors and chief executive of the Company in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") and which have been notified to the Company and the Stock Exchange were as follows:

Interests in the shares and underlying shares of the Company

Name of director	Nature of interest	Number of ordinary shares of HK$0.05 each held	Interests in underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
Mr. Kwok Peter Viem	Corporate	572,966,000 (Note)	–	13.27
Mr. Kwok Peter Viem	Directly beneficially owned	–	50,000,000	1.16
Mr. Ma Ting Hung	Corporate	572,966,000 (Note)	–	13.27
Mr. Ma Ting Hung	Directly beneficially owned	–	50,000,000	1.16
Mr. Shou Xuancheng	Directly beneficially owned	–	10,000,000	0.23
Mr. Sun Xinguo	Directly beneficially owned	–	10,000,000	0.23
Ms. Li So Mui	Directly beneficially owned	–	5,000,000	0.12
Mr. Mi Zengxin	Directly beneficially owned	–	10,000,000	0.23
Mr. Qiu Yiyong	Directly beneficially owned	–	10,000,000	0.23
Mr. Zeng Chen	Directly beneficially owned	–	10,000,000	0.23
Mr. Zhang Jijing	Family	28,000	–	–
Mr. Zhang Jijing	Directly beneficially owned	–	10,000,000	0.23

Note: The shares disclosed above are held by United Star International Inc., a company incorporated in the British Virgin Islands, which is beneficially owned as to 50% by Mr. Kwok Peter Viem and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in the 572,966,000 shares.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

Interests in ordinary shares and underlying shares of associated corporations of the Company

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Number of shares/equity derivatives held	Nature of interest	Exercise period of share option	Exercise price per share A$	Percentage of the total issued share capital of the associated corporation
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	333,332	Family	N/A	N/A	0.40
			Share options	166,668	Directly beneficially owned	19 June 2005 to 18 June 2007	0.35	N/A
Mr. Zhang Jijing	CITIC Australia Trading Limited	Subsidiary	Share options	200,000	Directly beneficially owned	19 June 2005 to 18 June 2007	0.35	N/A

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

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

(i) as at 31 December 2005, none of the directors or chief executive of the Company had an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;

(ii) as at 31 December 2005, none of the directors was a director or employee of a company which has an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;

(iii) as at 31 December 2005, none of the directors or their associates was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole; and

(iv) as at 31 December 2005, none of the directors or their associates had any interests in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests in shares and underlying shares" above and in the share option scheme disclosures in note 32 to the financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

As at 31 December 2005, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the directors, the persons or entities who had an interest in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

The Company

Name of shareholder	Nature of interest	Number of ordinary shares of HK$0.05 each held	Interests in underlying shares pursuant to share options	Percentage of the total issued share capital of the Company
CITIC Group	Corporate	2,610,594,381 (1)	–	60.47
CITIC Projects Management (HK) Limited	Corporate	1,860,180,588 (2)	–	43.09
Keentech Group Limited	Corporate	1,860,180,588 (3)	–	43.09
CITIC Australia Pty Limited	Corporate	750,413,793 (4)	–	17.38
United Star International Inc.	Corporate	572,966,000 (5)	–	13.27
Mr. Kwok Peter Viem	Corporate	572,966,000 (5)	50,000,000 (6)	14.43
Mr. Ma Ting Hung	Corporate	572,966,000 (5)	50,000,000 (6)	14.43

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (cont'd)

The Company (cont'd)

Notes:

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

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

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

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

(5) The figure represents an attributable interest of each of Mr. Kwok Peter Viem and Mr. Ma Ting Hung respectively as the beneficial owner of 50% each of United Star International Inc. These interests are also included as corporate interests of Mr. Kwok Peter Viem and Mr. Ma Ting Hung, as disclosed under the heading "Directors' and chief executive's interests in shares and underlying shares" above.

(6) The share options granted to Mr. Kwok Peter Viem and Mr. Ma Ting Hung are personal interests of them respectively.

Other members of the Group

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

Note:

(1) CITIC United Asia Investments Limited is an indirect wholly-owned subsidiary of CITIC Group.

Save as disclosed herein and so far as is known to the directors, as at 31 December 2005, no person had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

PURCHASE, SALE AND REDEMPTION OF SHARES

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

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of related party transactions and connected transactions of the Company and of the Group are set out in note 38 to the financial statements.

In the opinion of the independent non-executive directors of the Company, the Group's rental arrangements with 99 King Street Property Management Pty Limited have been entered into:

(i) in the ordinary and usual course of its business;

(ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(iii) in accordance with the relevant agreements governing such ongoing connected transactions, on terms that are fair and reasonable and in the interests of shareholders of the Company as a whole.

The auditors of the Company have reviewed such transactions and confirmed in writing to the board of directors of the Company stating that such connected transactions:

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

(ii) have been entered into in accordance with the relevant agreements governing the transactions; and

(iii) have not exceeded the amounts set out in the description of the ongoing connected transactions set out in note 38 to the financial statements.

POST BALANCE SHEET EVENTS

Details of significant post balance sheet events of the Group are set out in note 40 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDIT COMMITTEE

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

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

AUDITORS

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

On Behalf of the Board
Kwok Peter Viem
Chairman

Hong Kong, 21 April 2006

Report of the Auditors

ERNST & YOUNG
安永會計師事務所

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

We have audited the financial statements on pages 48 to 141 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong, 21 April 2006

HK$'000

Consolidated Income Statement

	Notes	2005	2004 Restated
REVENUE	5	**5,786,386**	3,610,791
Cost of sales		**(5,331,164)**	(3,360,106)
Gross profit		**455,222**	250,685
Other income and gains	5	**150,380**	49,689
Selling and distribution costs		**(33,805)**	(12,047)
Administrative expenses		**(132,526)**	(135,771)
Other operating expenses, net		**(3,384)**	(40,269)
Finance costs	9	**(93,730)**	(52,562)
PROFIT BEFORE TAX	6	**342,157**	59,725
Tax	10	**(110,642)**	(52,322)
PROFIT FOR THE YEAR		**231,515**	7,403
ATTRIBUTABLE TO:			
Shareholders of the Company	11	**221,703**	4,772
Minority interests		**9,812**	2,631
		231,515	7,403
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12		
Basic		**HK 5.14 cents**	HK 0.12 cent
Diluted		**N/A**	N/A

HK$'000

Consolidated Balance Sheet

	Notes	2005	2004 Restated
NON-CURRENT ASSETS			
Property, plant and equipment	13	**1,170,614**	1,473,784
Other assets	14	**573,878**	671,676
Goodwill	15	**341,512**	341,512
Available-for-sale equity investments/ long term investments	18	**657,035**	189,748
Deferred tax assets	30	**11,188**	14,984
Prepayments, deposits and other receivables	19	**326,486**	7,542
Total non-current assets		**3,080,713**	2,699,246
CURRENT ASSETS			
Inventories	20	**656,138**	724,500
Accounts receivable	21	**395,749**	337,530
Prepayments, deposits and other receivables	19	**29,185**	265,349
Equity investments at fair value through profit or loss/ short term investments	22	**1,830**	2,821
Derivative financial instruments	27	**12,356**	–
Other assets	14	**58,365**	61,971
Cash and bank balances	23	**1,519,595**	1,606,833
		2,673,218	2,999,004
Assets of a disposal group classified as held for sale	24	**266,096**	–
Total current assets		**2,939,314**	2,999,004
CURRENT LIABILITIES			
Accounts payable	25	**186,288**	223,563
Tax payable		**71,709**	52,905
Accrued liabilities and other payables	26	**51,153**	76,710
Derivative financial instruments	27	**203,541**	–
Bank and other loans	28	**858,393**	987,539
Provisions	29	**33,229**	28,668
		1,404,313	1,369,385
Liabilities of a disposal group classified as held for sale	24	**33,072**	–
Total current liabilities		**1,437,385**	1,369,385
NET CURRENT ASSETS		**1,501,929**	1,629,619
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,582,642**	4,328,865

HK$'000

Consolidated Balance Sheet

	Notes	2005	2004 Restated
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,582,642**	4,328,865
NON-CURRENT LIABILITIES			
Bank and other loans	28	**1,047,223**	1,086,785
Deferred tax liabilities	30	**470,985**	449,170
Derivative financial instruments	27	**11,016**	–
Deferred income and other payables		**–**	50,317
Provisions	29	**86,011**	86,060
Total non-current liabilities		**1,615,235**	1,672,332
Net assets		**2,967,407**	2,656,533
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	31	**215,844**	215,844
Reserves	33(a)	**2,725,929**	2,420,996
		2,941,773	2,636,840
Minority interests		**25,634**	19,693
Total equity		**2,967,407**	2,656,533

Kwok Peter Viem
Director

Ma Ting Hung
Director

HK$'000

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company								
	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Sub-total	Minority interests	Total equity
At 1 January 2004	164,824	1,200,879	65,527	860	4,104	(265,704)	1,170,490	–	1,170,490
Translation differences arising on consolidation (as restated)	–	–	–	49,475	–	–	49,475	–	49,475
New issue of shares	51,020	1,383,554	–	–	–	–	1,434,574	–	1,434,574
Share issue expenses	–	(22,471)	–	–	–	–	(22,471)	–	(22,471)
Acquisition of subsidiaries	–	–	–	–	–	–	–	17,062	17,062
Net profit for the year (as restated)	–	–	–	–	–	4,772	4,772	2,631	7,403
At 31 December 2004	215,844	2,561,962	65,527	50,335	4,104	(260,932)	2,636,840	19,693	2,656,533

HK$'000

Consolidated Statement of Changes in Equity

	Attributable to shareholders of the Company											
	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Available-for-sale revaluation reserve	Hedging reserve	Capital reserve	Share option reserve	Accumulated losses	Sub-total	Minority interests	Total equity
At 31 December 2004												
As previously reported	215,844	2,561,962	65,527	51,330	–	–	4,104	–	(215,842)	2,682,925	19,693	2,702,618
Prior year adjustment (note 2.4)	–	–	–	(995)	–	–	–	–	(45,090)	(46,085)	–	(46,085)
At 31 December 2004 (Restated)	215,844	2,561,962	65,527	50,335	–	–	4,104	–	(260,932)	2,636,840	19,693	2,656,533
Opening adjustments (note 2.4)	–	–	–	–	203,741	(30,205)	(4,104)	–	(6,626)	162,806	–	162,806
At 1 January 2005 (Restated)	215,844	2,561,962	65,527	50,335	203,741	(30,205)	–	–	(267,558)	2,799,646	19,693	2,819,339
Acquisition of interests in subsidiaries by minority shareholders	–	–	–	–	–	–	–	–	–	–	2,801	2,801
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	–	(5,528)	(5,528)
Translation differences arising on consolidation	–	–	–	(57,175)	–	–	–	–	–	(57,175)	(1,144)	(58,319)
Net losses on cash flow hedges	–	–	–	–	–	(122,126)	–	–	–	(122,126)	–	(122,126)
Change in fair value of available-for-sale investment	–	–	–	–	87,045	–	–	–	–	87,045	–	87,045
Equity-settled share option arrangements	–	–	–	–	–	–	–	12,680	–	12,680	–	12,680
Net profit for the year	–	–	–	–	–	–	–	–	221,703	221,703	9,812	231,515
At 31 December 2005	215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	–	12,680	(45,855)	2,941,773	25,634	2,967,407

HK$'000

Consolidated Cash Flow Statement

	Notes	2005	2004 Restated
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**342,157**	59,725
Adjustments for:			
Finance costs	9	**93,730**	52,562
Interest income	5	**(75,002)**	(25,743)
Dividend income from listed investments	5	**(19,768)**	(4,405)
Equity-settled share option expenses	6	**12,680**	–
Depreciation	6	**114,330**	56,734
Amortisation	6	**58,348**	105,785
Gain on sales of coal exploration interests	5	**(78,463)**	–
Loss on disposal/write-off of items of property, plant and equipment	6	**6,563**	5,166
Provisions for long service and leave payments	6	**12,779**	1,853
Provision for rehabilitation cost	6	**1,292**	–
Impairment of items of property, plant and equipment	6	**12,733**	–
Provision for doubtful debts	6	**1,725**	–
Provision against inventories	6	**5,151**	425
Operating profit before working capital changes		**488,255**	252,102
Decrease/(increase) in inventories		**21,180**	(472,722)
Decrease/(increase) in prepayments, deposits and other receivables		**223,100**	(211,292)
(Increase)/decrease in accounts receivable		**(95,046)**	145,561
Increase in accounts payable		**8,689**	10,078
Decrease in accrued liabilities and other payables		**(8,713)**	(28,976)
Increase in deferred income and other payables		**–**	50,317
Increase in derivative financial liabilities		**13,235**	–
Cash generated from/(used in) operations		**650,700**	(254,932)
Hong Kong profits tax paid		**–**	–
Australian income tax paid		**(80,491)**	(10,958)
Net cash inflow/(outflow) from operating activities		**570,209**	(265,890)

HK$'000

Consolidated Cash Flow Statement

	Notes	2005	2004 Restated
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**75,002**	25,882
Dividends received from listed investments		**19,768**	4,405
Purchases of items of property, plant and equipment	13	**(149,124)**	(70,953)
Proceeds from disposal of items of property, plant and equipment		**–**	1,196
Purchases of long term investments		**–**	(8,510)
Proceeds from disposal of short term investments		**827**	–
Purchases of short term investments		**–**	(89)
Acquisition of subsidiaries	34(a)	**–**	120,492
Decrease in pledged bank deposits		**–**	20,399
Deposits paid for potential investment projects		**(288,500)**	–
Payments of legal and professional fees incurred in relation to potential investment projects		**(22,929)**	(2,474)
Net cash inflow/(outflow) from investing activities		**(364,956)**	90,348
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	31	**–**	391,682
Acquisitions of interests in subsidiaries by minority shareholders		**2,801**	–
Shares issuance expenses	33	**–**	(22,471)
Dividends paid to minority shareholders		**(5,528)**	(3,202)
New bank and other loans		**63,606**	531,921
Repayment of bank and other loans		**(222,518)**	(180,272)
Interest paid		**(91,726)**	(46,461)
Finance charges paid		**(11,523)**	–
Net cash inflow/(outflow) from financing activities		**(264,888)**	671,197
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(59,635)**	495,655
Cash and cash equivalents at beginning of year		**1,606,833**	1,100,153
Effect of foreign exchange rate changes, net		**(27,603)**	11,025
CASH AND CASH EQUIVALENTS AT END OF YEAR		**1,519,595**	1,606,833
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**166,033**	212,958
Non-pledged time deposits with original maturity of less than three months when acquired	23	**1,353,562**	1,393,875
		1,519,595	1,606,833

HK$'000

Balance Sheet

	Notes	2005	2004
NON-CURRENT ASSETS			
Interests in subsidiaries	16	**1,721,501**	1,381,247
Prepayments, deposits and other receivables		**7,518**	–
Total non-current assets		**1,729,019**	1,381,247
CURRENT ASSETS			
Prepayments, deposits and other receivables		**3,280**	1,604
Bank balances	23	**887,680**	1,208,071
Total current assets		**890,960**	1,209,675
CURRENT LIABILITIES			
Accrued liabilities and other payables		**82**	766
NET CURRENT ASSETS		**890,878**	1,208,909
Net assets		**2,619,897**	2,590,156
EQUITY			
Issued capital	31	**215,844**	215,844
Reserves	33(b)	**2,404,053**	2,374,312
Total equity		**2,619,897**	2,590,156

Kwok Peter Viem
Director

Ma Ting Hung
Director

Notes to Financial Statements

1. CORPORATE INFORMATION

On 1 February 2005, the head office and principal place of business of the Company was moved from Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong to Suites 3001-3006, 30th Floor, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

During the year, the Group is principally engaged in the following businesses:

- the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;
- the operation of coal mining and the sale of coal in Australia;
- the export of various commodity products such as alumina, aluminium ingots and iron ore and import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia; and
- the sale of crude oil and petroleum drilled from the Dagang Oilfield in the People's Republic of China (the "PRC").

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

Proposed acquisition of CSCIL

On 8 January 2005, the Group entered into a conditional agreement with Caltex (Asia) Limited, Star Concept Holdings Limited and Caltex South China Investments Limited ("CSCIL") pursuant to which the Company conditionally agreed to subscribe 5,050,000 new ordinary shares of HK$1 each in the share capital of CSCIL (representing 50.5% of the enlarged issued share capital of CSCIL) for a cash consideration of US$45,000,000 (HK$351,000,000), subject to certain adjustments. CSCIL will become a subsidiary of the Group upon completion of the transaction which was scheduled within six months from the date of the agreement.

The principal activities of the subsidiaries of CSCIL are the operating of petrol stations (with integrated convenience stores), retailing of petrol, diesel, lubricants and liquefied petroleum gas and the selling of fuel oil, diesel and liquefied petroleum gas directly to commercial and industrial customers, in Macau and Fujian province, the PRC (via its subsidiaries) and in the Guangdong province in the PRC (via 12 jointly-controlled entities).

The transaction constituted a very substantial acquisition under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and was approved by shareholders of the Company in the special general meeting on 21 March 2005. Further details of the transaction are set out in the circular of the Company dated 4 March 2005.

Notes to Financial Statements

1. CORPORATE INFORMATION (cont'd)

Proposed acquisition of CSCIL (cont'd)

Up to the date of approval of these financial statements, the transaction has not yet been completed. Goodwill arising from the acquisition has not been estimated as the financial information of CSCIL ultimately used for the calculation of goodwill was not readily determinable.

Proposed formation of the Manganese Company

On 2 August 2005, the Group (via its 80% owned subsidiary) entered into a contract (the "Contract") with Guangxi Dameng Manganese Industrial Co., Ltd. ("Guangxi Dameng", a state-owned enterprise in the PRC) to jointly establish a sino-foreign equity joint venture in Chongzuo City, Guangxi Zhuang Autonomous Region ("Guangxi"), the PRC, namely, CITIC Dameng Mining Industries Limited (中信大錳礦業有限責任公司) (the "Manganese Company") to undertake the business of manganese mining and processing. Pursuant to the Contract, the Manganese Company shall be owned as to 40% by Guangxi Dameng and as to 60% by the Group. The Manganese Company will become a subsidiary of the Group upon completion of the transaction.

Before the end of 2005, the Group has paid its capital contribution to the Manganese Company in cash of RMB300 million (HK$288.5 million) and Guangxi Dameng has paid its capital contribution to the Manganese Company in form of the Contributed Assets (as defined below) as approved by the relevant authorities of the PRC including the State-owned Assets Supervision and Administration Commission of the People's Government of Guangxi in the amount of RMB200 million (HK$192.3 million).

The Contributed Assets include the land use rights and mining rights in respect of two manganese mines in Guangxi and the related operational assets and liabilities.

The transaction constituted a discloseable transaction under the Listing Rules. The transaction was completed in March 2006. Further details of the transaction are set out in the circular of the Company dated 24 August 2005.

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

Notes to Financial Statements

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Notes to Financial Statements

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets

The adoption of HKASs 2, 7, 8, 10, 12, 14, 17, 18, 19, 23, 27, 31, 33, 37 and 38 and HK(SIC)-Int 21 has had no material impact on the accounting policies of the Company and the Group and the methods of computation in the Company 's and the Group 's financial statements.

HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures.

Notes to Financial Statements

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

HKAS 21 has no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 January 2005 and fair value adjustments arising on that acquisition are deemed to be in the reporting currency of the Company. In respect of acquisitions subsequent to 1 January 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 16 – Property, Plant and Equipment

In prior years, the estimated cost of dismantling and removing the asset and restoring the site, to the extent that it is recognised as a provision under SSAP 28 "Provisions, contingent liabilities and contingent assets", was recognised as cost of an item of property, plant and equipment.

Upon the adoption of HKAS 16, the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period, is recognised as cost of an item of property, plant and equipment.

The adoption of HKAS 16 has resulted in a prior year adjustment, further details of which are included in notes 2.4, 13 and 15 to the financial statements.

(b) HKAS 32 and HKAS 39 – Financial Instruments

(i) Equity securities

In prior years, the Group classified its investments in equity securities as long term investments, which were held for non-trading purposes and were stated at cost less any impairment losses, on an individual basis with gains and losses recognised as movements in the investment revaluation reserve. Upon the adoption of HKAS 39, these securities held by the Group as at 1 January 2005 in the amount of HK$189,748,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment. In accordance with the transitional provisions of HKAS 39, an adjustment of the previous carrying amount is made against the balance of available-for-sale revaluation reserve as at 1 January 2005.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(b) *HKAS 32 and HKAS 39 – Financial Instruments (cont'd)*

(i) *Equity securities (cont'd)*

In prior years, the Group classified its investments in equity securities for trading purposes as short term investments, and were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group as at 1 January 2005 in the amount of HK$2,821,000 are designated as financial assets at fair value through profit or loss under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised in the income statement.

(ii) *Derivative financial instruments – Forward currency, commodity and interest rate contracts*

Forward currency, commodity and interest rate contracts held to hedge firm future commitments are designated as cash flow hedges from 1 January 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. Previously, forward currency, commodity and interest rate contracts held to hedge firm future commitments were deferred on the balance sheet until the item being hedged was itself recognised. The ineffective portion of the hedge (if any) is recognised immediately in the income statement.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

(c) *HKFRS 2 – Share-based Payment*

In prior years, no recognition and measurement of share-based payment transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments (the "equity-settled transactions"), the cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(c) *HKFRS 2 – Share-based Payment (cont'd)*

The Group has adopted the transitional provisions of HKFRS 2 under which the new measurement policies have not been applied to (i) options granted to employees on or before 7 November 2002; and (ii) options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

As the Group did not have any employee share options which were granted during the period from 7 November 2002 to 31 December 2004 but had not yet vested as at 1 January 2005, the adoption of HKFRS 2 has had no impact on the accumulated losses as at 31 December 2003 and 31 December 2004, respectively. The Group has recognised the cost of options which were granted during the year in the current year's income statement in accordance with the revised accounting policy.

The effects of adopting HKFRS 2 are summarised in note 2.4 to the financial statements.

(d) *HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets*

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 January 2001 were eliminated against the consolidated accumulated losses and credited to the consolidated capital reserve, respectively, in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

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

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 January 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against accumulated losses. Goodwill previously eliminated against the accumulated losses remains eliminated against the accumulated losses and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

Notes to Financial Statements

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (cont'd)

(d) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets (cont'd)

In accordance with HKFRS 3, if the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because the fair values of the related assets and liabilities can be determined only provisionally, the acquirer shall account for the combination using those provisional values and recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date. Accordingly, (i) the adjustment to be made as a result of completing the initial accounting shall be calculated as if the fair value of the acquired assets and liabilities at the acquisition date had been recognised from that date; (ii) goodwill recognised shall be adjusted from the acquisition date by an equal amount; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting had been completed from the acquisition date.

In prior years, such adjustments identified after the end of the first annual accounting period commencing after acquisition would have been recognised as income or expense rather than an adjustment to goodwill.

The effects of the above changes are summarised in note 2.4 to the financial statements.

(e) HKFRS 5 – Non-current Assets Held for Sale and Discontinued Operations

HKFRS 5 introduces the concept of a disposal group, being the group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Upon the adoption of HKFRS 5, a disposal group classified as held for sale is carried at the lower of carrying amount and fair value less costs to sell, and an asset included in the disposal is not depreciated. In addition, the assets and liabilities included within the disposal group are presented separately on the face of the balance sheet.

The effects of the above changes are summarised in note 2.4 to the financial statements. The adoption of HKFRS 5 has no material impact to the Group's consolidated financial statements for the year ended 31 December 2004.

Notes to Financial Statements

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

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Apply the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

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

HKFRS 7 incorporates the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on the results of operations and financial position.

HK$'000

Notes to Financial Statements

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting						
At 1 January 2005	HKAS 16	HKASs 32 and 39#	HKAS 39#	HKAS 39#	HKFRS 3#	HKFRS 3	
Effect of new policies Increase/(decrease)	Dismantling cost of property, plant and equipment	Change in classification of available-for-sale investments	Derivative financial instruments	Available-for-sale investments	Derecognition of negative goodwill	Adjustments to fair value of assets and liabilities of subsidiaries acquired in prior year	Total
Assets							
Property, plant and equipment	6,212	–	–	–	–	–	6,212
Goodwill	16,640	–	–	–	–	300,190	316,830
Available-for-sale investments	–	480,816	–	–	–	–	480,816
Long term investments	–	(480,816)	–	291,068	–	–	(189,748)
Available-for-sale investments at fair value through profit or loss	–	2,821	–	–	–	–	2,821
Short term investments	–	(2,821)	–	–	–	–	(2,821)
Derivative financial instruments	–	–	23,618	–	–	–	23,618
							637,728
Liabilities/equity							
Accrued liabilities and other payables	–	–	(14,504)	–	–	–	(14,504)
Deferred income and other payables	–	–	(50,317)	–	–	–	(50,317)
Provision	36,739	–	–	–	–	–	36,739
Derivative financial instruments	–	–	153,746	–	–	–	153,746
Deferred tax liabilities	(9,692)	–	(24,372)	87,327	–	342,080	395,343
							521,007
Capital reserve	–	–	–	–	(4,104)	–	(4,104)
Hedging reserve	–	–	(30,205)	–	–	–	(30,205)
Available-for-sale investment revaluation reserve	–	–	–	203,741	–	–	203,741
Retained profits/(accumulated losses)	(4,105)	–	(10,730)	–	4,104	(40,985)	(51,716)
Exchange fluctuation reserve	(90)	–	–	–	–	(905)	(995)
							116,721
							637,728

\# Adjustments taken effect from 1 January 2005

HK$'000

Notes to Financial Statements

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(a) Effect on the consolidated balance sheet (cont'd)

	Effect of adopting								
At 31 December 2005	HKAS 16	HKASs 32 and 39#	HKAS 39#	HKAS 39#	HKFRS 2#	HKFRS 3#	HKFRS 3	HKFRS 5#	
Effect of new policies Increase/(decrease)	Dismantling cost of property, plant and equipment	Change in classification of available-for-sale investments	Derivative financial instruments	Available-for-sale investments	Equity-settled share option arrangements	Derecognition of negative goodwill	Adjustments to fair value of assets and liabilities of subsidiaries acquired in prior year	Disposal group held for sale	Total
Assets									
Property, plant and equipment	5,757	–	–	–	–	–	–	(249,814)	(244,057)
Goodwill	16,640	–	–	–	–	–	300,190	–	316,830
Available-for-sale investments	–	657,035	–	–	–	–	–	–	657,035
Long term investments	–	(657,035)	–	398,497	–	–	–	–	(258,538)
Accounts receivable	–	–	–	–	–	–	–	(16,283)	(16,283)
Available-for-sale investments at fair value through profit or loss	–	1,830	–	–	–	–	–	–	1,830
Short term investments	–	(1,830)	–	–	–	–	–	–	(1,830)
Derivative financial instruments	–	–	12,356	–	–	–	–	–	12,356
Assets of a disposal group classified as held for sale	–	–	–	–	–	–	–	266,097	266,097
									733,440
Liabilities/equity									
Provision	36,907	–	–	–	–	–	–	–	36,907
Accounts payable	–	–	–	–	–	–	–	(33,072)	(33,072)
Derivative financial instruments	–	–	214,557	–	–	–	–	–	214,557
Liabilities of a disposal group classified as held for sale	–	–	–	–	–	–	–	33,072	33,072
Deferred tax liabilities	(10,339)	–	(79,268)	119,557	–	–	342,080	–	372,030
									623,494
Share option reserve	–	–	–	–	12,680	–	–	–	12,680
Capital reserve	–	–	–	–	–	(4,104)	–	–	(4,104)
Hedging reserve	–	–	(152,331)	–	–	–	–	–	(152,331)
Available-for-sale investment revaluation reserve	–	–	–	290,786	–	–	–	–	290,786
Retained profits/accumulated losses	(5,290)	–	23,249	–	(12,680)	4,104	(40,985)	–	(31,602)
Exchange fluctuation reserve	1,119	–	6,149	(11,846)	–	–	(905)	–	(5,483)
									109,946
									733,440

\# Adjustments taken effect from 1 January 2005

HK$'000

Notes to Financial Statements

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (cont'd)

(b) Effect on the consolidated income statement for the years ended 31 December 2005 and 2004

	Effect of adopting				
	HKAS 16	HKAS 39	HKFRS 2	HKFRS 3	
Effect of new policies	**Dismantling cost of property, plant and equipment**	**Derivative financial instruments**	**Equity-settled share option arrangements**	**Adjustments to fair value of assets and liabilities of subsidiaries acquired in prior year**	**Total**
Year ended 31 December 2005					
Increase in other income	**–**	**(33,213)**	**–**	**–**	**(33,213)**
Increase in administrative expenses	**94**	**–**	**12,680**	**–**	**12,774**
Increase in finance costs	**2,303**	**–**	**–**	**–**	**2,303**
Decrease/(increase) in tax	**(1,212)**	**9,964**	**–**	**–**	**8,752**
Net decrease/(increase) in profit	**1,185**	**(23,249)**	**12,680**	**–**	**(9,384)**
Decrease/(increase) in basic earnings per share	**HK 0.03 cent**	**HK (0.54) cent**	**HK 0.29 cent**	**–**	**HK (0.22) cent**
Decrease in diluted earnings per share	**N/A**	**N/A**	**N/A**	**N/A**	**N/A**
Year ended 31 December 2004					
Increase in administrative expenses	2,971	–	–	51,831	54,802
Increase in finance costs	2,393	–	–	–	2,393
Decrease in tax	(1,259)	–	–	(10,846)	(12,105)
Net decrease in profit	4,105	–	–	40,985	45,090
Decrease in basic earnings per share	HK 0.10 cent	–	–	HK 1.00 cent	HK 1.10 cents
Decrease in diluted earnings per share	N/A	N/A	N/A	N/A	N/A

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an available-for-sale investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled assets

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Jointly-controlled assets (cont'd)

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

Goodwill

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

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Goodwill (cont'd)

Goodwill on acquisitions for which the agreement date is on or after 1 January 2005 (cont'd)

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

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

Negative goodwill

At 31 December 2004, negative goodwill arising from acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, remained in the consolidated reserves. Upon the adoption of HKFRS 3 on 1 January 2005, such negative goodwill was derecognised with a corresponding adjustment to the opening balance of accumulated losses.

Impairment of assets

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

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

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Related parties

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

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property, plant and equipment and depreciation (cont'd)

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

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

Freehold land is not depreciated.

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

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

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

Oil and gas properties

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

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Oil and gas properties (cont'd)

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

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

Capital works

Capital works represent exploration and development expenditure in relation to current areas of interest, which includes costs of coal mining tenements, are carried forward to the extent that:

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

(ii) exploration activities in the area that have not reached a stage which permits a reasonable assessment of the existence of economically recoverable reserves.

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

Other assets

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

Non-current assets and disposal groups held for sale

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

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets

Applicable to the year ended 31 December 2004:

The Group classified its equity investments, other than subsidiaries, as long term investments and short term investments.

Long term investments
Long term investments are investments in listed equity securities intended to be held for a continuing strategic or a long term basis, which are stated at cost less any impairment losses, on an individual basis.

When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of impairment is charged to the income statement for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the income statement to the extent of the amount previously charged.

Short term investments
Short term investments are investments in equity securities held for trading purposes and are stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Applicable to the year ended 31 December 2005:

Financial assets in the scope of HKAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investments and other financial assets (cont'd)

Short term investments (cont'd)

Applicable to the year ended 31 December 2005: (cont'd)

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

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

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

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

Fair value

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of financial assets (applicable to the year ended 31 December 2005)

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

Assets carried at amortised cost

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial assets (applicable to the year ended 31 December 2005)

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

- the rights to receive cash flows from the asset have expired;

- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or

- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

Bank and other loans

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derecognition of financial liabilities (applicable to the year ended 31 December 2005)

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

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

Derivative financial instruments and hedging (applicable to the year ended 31 December 2004)

Financial instruments protect the Group from fluctuations in exchange rates, interest rates and commodity prices by establishing the rate at which the corresponding asset or liability will be settled. Any increase or decrease in the amount required to settle the asset or liability is offset by a corresponding movement in the value of the financial instruments. The fee incurred in establishing each agreement is amortised over the contract period.

Financial instruments not held for hedging purposes are marked to market at the balance sheet date and any unrealised gains or losses on re-translation are recognised in the income statement for the period.

Gains or costs arising upon entry into a hedging transaction intended to hedge the purchase or sale of goods or services, together with subsequent exchange gains or losses resulting from those transactions are deferred up to the date of the purchase or sale and included in the measurement of the purchase or sale. In the case of hedges of monetary items, exchange gains or losses are brought to account in the financial period in which the exchange rates change. Gains or costs arising at the time of entering into such hedging transactions are brought to account in the consolidated balance sheet over the lives of the hedges.

If the hedging transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previously deferred gains and losses are recognised as revenue or expense immediately. If the hedging transaction is terminated prior to its maturity date and the hedge transaction is still expected to occur as designated, deferral of any gains and losses which arose prior to termination continues and those gains and losses are included in the measurement of the hedging transaction.

In circumstances where hedging transaction is terminated prior to maturity because the hedging transaction is no longer expected to occur as designated, any previously deferred gains and losses are recognised in the consolidated balance sheet on the date of termination.

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments and hedging (applicable to the year ended 31 December 2004) (cont'd)

If a hedging transaction relating to a commitment for the purchase or sale of goods or services is designated as hedge of another specific commitment and the original transaction is still expected to occur as designated, the gains and losses that arise on the hedge prior to its redesignation are deferred and included in the measurement of the original purchase or sale when it takes place. If the hedge transaction is redesignated as a hedge of another commitment because the original purchase or sale transaction is no longer expected to occur as designated, the gains and losses that arise on the hedge prior to its redesignation are recognised in the consolidated balance sheet at the date of the redesignation.

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005)

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

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to net profit or loss for the year.

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction.

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) (cont'd)

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

Fair value hedges

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

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

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

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

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Derivative financial instruments and hedging (applicable to the year ended 31 December 2005) (cont'd)

Cash flow hedges (cont'd)

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

Provision has been made in the consolidated balance sheet for the potential cost of disposing of smelter spent potlinings.

Provisions for dismantling and rehabilitation costs are made based on the present values of the future costs expected to be incurred.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax

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

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

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

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

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income tax (cont'd)

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

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

Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(c) handling service fee, when the services were rendered; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Operating leases

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binominal model, further details of which are given in note 32 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Share-based payment transactions (cont'd)

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

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

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

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

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

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

Long service payments

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

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Employee benefits (cont'd)

Retirement benefits scheme

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

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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

Paid leave carried forward

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

Notes to Financial Statements

2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Foreign currencies

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

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

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

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Tax

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

Employee benefits – share-based payment transactions

The valuation of the fair value of the share options granted requires judgement in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the option and the number of share options that are expected to become exercisable, details of which are set in note 32 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable option, such difference will impact the income statement in the subsequent remaining vesting period of the relevant share options.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2005 was HK$341,512,000 (2004: HK$341,512,000 (as restated)). More details are given in note 15 to the financial statements.

Notes to Financial Statements

4. SEGMENT INFORMATION

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

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

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

(b) the coal segment comprises the operation of coal mining and the sale of coal;

(c) the import and export of commodities segment represents the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products;

(d) the crude oil segment comprises the operation of the Dagang Oilfield and the sale of crude oil; and

(e) the others segment comprises the supply of plywood mainly for use in the manufacture of furniture and fixtures and for refurbishment and other operating activities of the Group.

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

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

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Notes to Financial Statements

4. SEGMENT INFORMATION (cont'd)

(a) Business segments

The following tables present revenue, profit/(loss) and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2005 and 2004.

Group Year ended 31 December 2005	Aluminium smelting	Coal	Import and export of commodities	Crude oil	Others	Consolidated
Segment revenue:						
Sales to external customers	1,148,078	259,705	4,300,699	77,429	475	5,786,386
Other income/(expenses)	(48,051)	98,231	21,602	–	10	71,792
	1,100,027	357,936	4,322,301	77,429	485	5,858,178
Segment results	173,383	197,560	82,631	(6,620)	(15,507)	431,447
Interest income and unallocated gains						78,588
Unallocated expenses						(74,148)
Profit from operating activities						435,887
Finance costs	(32,978)	(1,384)	(38,032)	–	–	(72,394)
Unallocated finance costs						(21,336)
Profit before tax						342,157
Tax						(110,642)
Profit for the year						231,515
Segment assets	2,528,864	877,153	973,951	266,096	67,119	4,713,183
Unallocated assets						1,306,844
Total assets						6,020,027
Segment liabilities	1,171,701	89,550	868,032	33,072	25,308	2,187,663
Unallocated liabilities						864,957
Total liabilities						3,052,620
Other segment information:						
Depreciation and amortisation	98,553	9,135	1,278	50,043	11,511	170,520
Unallocated amounts						2,158
						172,678
Other non-cash expenses	34,937	2,482	219	–	431	38,069
Unallocated amounts						14,854
						52,923
Capital expenditure	15,646	11,499	2,051	114,093	4	143,293
Unallocated amounts						5,831
						149,124

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Notes to Financial Statements

4. SEGMENT INFORMATION (cont'd)

(a) Business segments (cont'd)

Group Year ended 31 December 2004	Aluminium smelting (Restated)	Coal (Restated)	Import and export of commodities	Crude oil	Others	Consolidated (Restated)
Segment revenue:						
Sales to external customers	857,072	127,552	2,590,321	24,448	11,398	3,610,791
Other income	10,262	4,406	8,646	–	85	23,399
	867,334	131,958	2,598,967	24,448	11,483	3,634,190
Segment results	93,852	22,367	29,786	7,706	(31,291)	122,420
Interest income and unallocated gains						26,290
Unallocated expenses						(36,423)
Profit from operating activities						112,287
Finance costs	(23,145)	(2,087)	(15,519)	–	(310)	(41,061)
Unallocated finance costs						(11,501)
Profit before tax						59,725
Tax						(52,322)
Profit for the year						7,403
Segment assets	2,609,437	325,010	1,153,275	191,989	82,455	4,362,166
Unallocated assets						1,336,084
Total assets						5,698,250
Segment liabilities	1,434,886	97,815	1,056,621	1,039	26,193	2,616,554
Unallocated liabilities						425,163
Total liabilities						3,041,717
Other segment information:						
Depreciation and amortisation	133,299	7,275	5,328	3,848	11,353	161,103
Unallocated amounts						1,416
						162,519
Other non-cash expenses	5,032	2,184	1,552	–	1,815	10,583
Unallocated amounts						1,308
						11,891
Capital expenditure	1,118,562	75,254	3,955	189,612	–	1,387,383
Unallocated amounts						4,578
						1,391,961

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Notes to Financial Statements

4. SEGMENT INFORMATION (cont'd)

(b) *Geographical segments*

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 December 2005 and 2004.

Group

	Hong Kong	Mainland China	Australia	Europe	North America	Other Asian countries	Others	Consolidated
Year ended 31 December 2005								
Segment revenue:								
Sales to external customers	**–**	**3,052,563**	**1,373,495**	**866,188**	**309,394**	**105,215**	**79,531**	**5,786,386**
Other segment information:								
Segment assets	**1,225,585**	**333,414**	**4,461,028**	**–**	**–**	**–**	**–**	**6,020,027**
Capital expenditure	**5,245**	**114,097**	**29,782**	**–**	**–**	**–**	**–**	**149,124**
Year ended 31 December 2004			**(Restated)**					**(Restated)**
Segment revenue:								
Sales to external customers	–	1,822,097	847,253	677,217	109,226	154,998	–	3,610,791
Other segment information:								
Segment assets	1,242,304	461,499	3,861,353	91,860	7,359	33,875	–	5,698,250
Capital expenditure	1,856	189,612	1,200,493	–	–	–	–	1,391,961

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Notes to Financial Statements

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2005	2004
Revenue		
Sale of goods		
Aluminium smelter	**1,148,078**	857,072
Coal	**259,705**	127,552
Import and export of commodities	**4,300,699**	2,590,321
Crude oil	**77,429**	24,448
Others	**475**	11,398
	5,786,386	3,610,791
Other income and gains		
Interest income	**75,002**	25,743
Handling service fee	**13,326**	8,653
Dividend income from listed investments	**19,768**	4,405
Gain on sales of coal exploration interests (note 17)	**78,463**	–
Fair value loss on derivative instruments, net	**(44,913)**	–
Gain/(loss) on trading of forward contracts, net:		
Realised	**–**	(6,168)
Unrealised	**–**	14,565
Sale of scraps	**5,148**	1,944
Others	**3,586**	547
	150,380	49,689
Total income and gains	**5,936,766**	3,660,480

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Notes to Financial Statements

6. PROFIT BEFORE TAX

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

	2005	2004 Restated
Cost of inventories sold *	**5,331,164**	3,360,106
Depreciation	**114,330**	56,734
Amortisation of the ESA	**58,348**	46,720
Amortisation of goodwill	**–**	59,065
Minimum lease payments under operating leases on land and buildings	**7,215**	5,060
Auditors' remuneration	**4,374**	2,728
Employee benefits expenses (including directors' remuneration – note 7):		
Wages and salaries	**52,381**	30,512
Equity-settled share option expenses	**12,680**	–
Pension scheme contributions	**186**	114
Provision for long service and leave payments	**12,779**	1,853
	78,026	32,479
Loss on disposal/write-off of items of property, plant and equipment **	**6,563**	5,166
Provision for impairment of items of property, plant and equipment **	**12,733**	–
Provision for rehabilitation cost	**1,292**	–
Exchange (gains)/losses, net **	**(30,754)**	26,825
Provision against inventories	**5,151**	425
Provision for doubtful debts **	**1,725**	–

* Cost of inventories sold for the year ended 31 December 2005 included an amount of HK$153,450,000 (2004: HK$98,931,000), which comprised direct staff costs, operating lease rentals, depreciation and amortisation of the ESA. Such amount has also been included in the respective expense items disclosed above.

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

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Notes to Financial Statements

7. DIRECTORS' REMUNERATION

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

	2005	2004
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**330**	250
	330	250
Other emoluments of executive directors:		
Salaries, housing allowances, other allowances and benefits in kind	**6,685**	4,946
Bonuses	**2,643**	1,980
Share option benefits	**11,564**	–
Pension scheme contributions	**274**	36
	21,166	6,962
	21,496	7,212

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been charged to the income statement, was determined as at the date of the grant and was included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

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

	2005	2004
Chan Mo Po, Paul	**90**	10
Fan Ren Da, Anthony	**120**	120
Tsang Link Carl, Brian	**120**	120
	330	250

There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

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Notes to Financial Statements

7. DIRECTORS' REMUNERATION (cont'd)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share option benefits	Pension scheme contributions	Total remuneration
2005						
Kwok Peter Viem	**–**	**1,388**	**225**	**3,260**	**12**	**4,885**
Ma Ting Hung	**–**	**1,388**	**225**	**3,260**	**12**	**4,885**
Shou Xuancheng	**–**	**597**	**113**	**917**	**3**	**1,630**
Sun Xinguo	**–**	**597**	**450**	**459**	**3**	**1,509**
Li So Mui	**–**	**1,548**	**225**	**458**	**12**	**2,243**
Mi Zengxin	**–**	**–**	**–**	**917**	**–**	**917**
Qiu Yiyong	**–**	**–**	**–**	**917**	**–**	**917**
Zeng Chen	**–**	**1,167**	**1,405**	**459**	**232**	**3,263**
Zhang Jijing	**–**	**–**	**–**	**917**	**–**	**917**
	–	**6,685**	**2,643**	**11,564**	**274**	**21,166**
2004						
Kwok Peter Viem	–	1,188	100	–	12	1,300
Ma Ting Hung	–	1,188	100	–	12	1,300
Sun Xinguo	–	–	100	–	–	100
Li So Mui	–	1,668	100	–	12	1,780
Mi Zengxin	–	–	100	–	–	100
Qiu Yiyong	–	–	100	–	–	100
Zeng Chen	–	902	1,280	–	–	2,182
Zhang Jijing	–	–	100	–	–	100
	–	4,946	1,980	–	36	6,962

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

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Notes to Financial Statements

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included four (2004: two) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one (2004: three) non-director, highest paid employee for the year are as follows:

	2005	2004
Salaries, housing allowance, other allowances and benefits in kind	**481**	2,014
Bonuses	**1,465**	3,207
Pension scheme contributions	**578**	96
	2,524	5,317

The number of non-directors, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2005	2004
Nil – HK$1,000,000	**–**	–
HK$1,500,001 – HK$2,000,000	**–**	3
HK$2,500,001 – HK$3,000,000	**1**	–
	1	3

9. FINANCE COSTS

	2005	2004 Restated
Interest expense on bank and other loans repayable:		
Within one year	**43,264**	19,363
In the second to fifth years, inclusive	**10,219**	626
Beyond five years	**34,054**	29,822
	87,537	49,811
Other finance charges:		
Increase in discounted amounts of provision arising from the passage of time	**2,445**	2,393
Others	**3,748**	358
	93,730	52,562

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Notes to Financial Statements

10. TAX

Group

	2005	2004 Restated
Current:		
Hong Kong	**–**	–
Elsewhere	**102,371**	49,032
	102,371	49,032
Deferred – note 30	**8,271**	3,290
Total tax charge for the year	**110,642**	52,322

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2004: Nil). The statutory tax rate of Hong Kong profits tax is 17.5% (2004: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

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

Provision for Australian income tax has been made at the statutory rate of 30% (2004: 30%) on the estimated assessable profits arising in Australia during the year.

For the year ended 31 December 2005, the tax rate applicable to subsidiaries established and operating in the PRC is 33% (2004: 33%). However, no provision for tax has been made for the year as the subsidiaries did not generate any assessable profits arising in the PRC during the year.

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Notes to Financial Statements

10. TAX (cont'd)

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

Group – 2005	**Australia**	**Mainland China**	**Hong Kong**	**Consolidated**
Profit/(loss) before tax	**380,231**	**(23,136)**	**(14,938)**	**342,157**
Tax charge/(credit) at the statutory rates	**114,069**	**(7,635)**	**(2,614)**	**103,820**
Income not subject to tax	**(23,727)**	**–**	**(6,388)**	**(30,115)**
Expenses not deductible for tax	**19,413**	**–**	**9,002**	**28,415**
Increase in unutilised tax losses carryforward	**–**	**8,522**	**–**	**8,522**
Tax charge at the Group's effective rate	**109,755**	**887**	**–**	**110,642**

Group – 2004	**Australia (Restated)**	**Mainland China**	**Hong Kong**	**Consolidated (Restated)**
Profit/(loss) before tax	79,162	(17,235)	(2,202)	59,725
Tax charge/(credit) at the statutory rates	23,749	(5,688)	(385)	17,676
Income not subject to tax	(1,471)	(2,557)	(3,332)	(7,360)
Expenses not deductible for tax	30,044	–	1,098	31,142
Increase in unutilised tax losses carryforward	–	8,245	2,619	10,864
Tax charge at the Group's effective rate	52,322	–	–	52,322

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong and the PRC of HK$57,183,000 (2004: HK$48,661,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

Notes to Financial Statements

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The net profit from ordinary activities attributable to shareholders of the Company for the year ended 31 December 2005 dealt with in the financial statements of the Company, was HK$17,079,000 (2004: HK$13,399,000) (note 33(b)).

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

The calculation of the basic earnings per share is based on the consolidated net profit attributable to shareholders of the Company for the year of HK$221,703,000 (2004: HK$4,772,000 (as restated)) and the weighted average of 4,316,884,381 (2004: 4,098,421,973) ordinary shares in issue during the year.

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

A diluted earnings per share amount for the year ended 31 December 2004 had not been presented because no dilutive events existed during that year.

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Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

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

HK$'000

Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Group

31 December 2004	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Furniture and fixtures	Buildings and structures	Capital works	Total
Cost:								
At beginning of year	–	–	3,367	115,682	900	–	–	119,949
Acquisition of subsidiaries (Restated)	128,955	4,751	–	859,512	–	271,477	56,313	1,321,008
Additions	60,657	–	17	4,956	170	4,472	681	70,953
Disposals/write-off	–	–	(1,079)	(4,496)	(1,067)	(1,227)	(699)	(8,568)
Exchange realignment (Restated)	–	213	–	39,610	–	12,160	1,404	53,387
At 31 December 2004 (Restated)	189,612	4,964	2,305	1,015,264	3	286,882	57,699	1,556,729
Accumulated depreciation and impairment:								
At beginning of year	–	–	786	26,880	751	–	–	28,417
Provided during the year (Restated)	3,848	–	498	39,660	138	9,278	3,312	56,734
Disposals/write-off	–	–	(911)	(406)	(889)	–	–	(2,206)
At 31 December 2004 (Restated)	3,848	–	373	66,134	–	9,278	3,312	82,945
Net book value:								
At 31 December 2004 (Restated)	185,764	4,964	1,932	949,130	3	277,604	54,387	1,473,784

During the year ended 31 December 2005, the directors of the Company considered that certain machinery, tools and equipment were impaired following the sudden failure of electricity supply that occurred in late 2005. Based on the estimated recoverable amount set out in an insurance compensation plan covering the said machinery, tools and equipment, an impairment provision of HK$12,733,000 (2004: Nil) was made during the year.

HK$'000

14. OTHER ASSETS

Group

	2005	2004
Cost:		
At beginning of the year	**780,367**	–
Acquisition of subsidiaries (note 34(a))	**–**	746,504
Exchange realignment	**(43,056)**	33,863
At 31 December	**737,311**	780,367
Accumulated amortisation:		
At beginning of the year	**46,720**	–
Provided during the year	**58,348**	46,720
At 31 December	**105,068**	46,720
Net book value:		
At 31 December	**632,243**	733,647
Non-current portion	**573,878**	671,676
Current portion	**58,365**	61,971
	632,243	733,647

HK$'000

Notes to Financial Statements

15. GOODWILL AND NEGATIVE GOODWILL

Goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries during the year, is as follows:

Group

	2005	2004 Restated
Cost:		
At beginning of the year	**401,779**	–
Effect of adopting HKFRS 3 (note 2.2(d))	**(60,267)**	–
As restated	**341,512**	–
Acquisition of subsidiaries (note 34(a))		
As previously reported	**–**	25,863
Adjustments to fair value of assets and liabilities of subsidiaries acquired in prior year (Note)	**–**	356,761
As restated	**341,512**	382,624
Exchange realignment	**–**	19,155
At 31 December	**341,512**	401,779
Accumulated amortisation:		
At beginning of the year	**60,267**	–
Effect of adopting HKFRS 3 (note 2.2(d))	**(60,267)**	–
As restated	**–**	–
Provided during the year:		
As previously reported	**–**	4,356
Adjustments to fair value of assets and liabilities of subsidiaries acquired in prior year (Note)	**–**	54,709
As restated	**–**	59,065
Exchange realignment	**–**	1,202
At 31 December	**–**	60,267
Net book value:		
At 31 December	**341,512**	341,512

Note:

The adjustments to fair value assets and liabilities of subsidiaries acquired in the prior year mainly include the following:

(a) During the year, the Group has finalised its assessment of the tax position of the subsidiaries acquired in the prior year. In accordance with HKFRSs, the resulting increase in deferred tax liabilities by HK$338,023,000 and the corresponding increase in goodwill were adjusted as of the acquisition date.

(b) In relation to the adoption of new HKFRSs, dismantling costs and rehabilitation provision have to be restated by HK$18,738,000. Goodwill was adjusted by the same amount.

HK$'000

15. GOODWILL AND NEGATIVE GOODWILL (cont'd)

In 2004, goodwill not previously eliminated against the consolidated reserves was amortised on the straight-line basis over its estimate useful life of five years.

The amounts of negative goodwill remaining in the consolidated reserves, arising from the acquisition of subsidiaries prior to the adoption of the old SSAP 30 in 2001, was HK$4,104,000 as at 31 December 2004. Upon the adoption of new HKFRS 3 on 1 January 2005, such negative goodwill was derecognised with a corresponding adjustment to the opening balance of accumulated losses.

Impairment testing of goodwill

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

- aluminium smelter segment of HK$316,830,000 (2004: HK$316,830,000 (as restated)); and
- import and export of commodities segment of HK$24,682,000 (2004: HK$24,682,000).

Aluminium smelter segment

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

Import and export of commodities segment

The recoverable amount of the import and export of commodities cash-generating units is determined based on fair value less cost to sell. The fair value is calculated by reference to the market share price of the listed vehicle of the import and export of commodities segment (CITIC Australia Trading Limited) as at 31 December 2005.

16. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
Unlisted shares, at cost	**173,134**	173,133
Due from subsidiaries	**2,004,583**	1,664,329
Due to subsidiaries	**(1,716)**	(1,715)
	2,176,001	1,835,747
Provision for impairment	**(454,500)**	(454,500)
	1,721,501	1,381,247

Notes to Financial Statements

16. INTERESTS IN SUBSIDIARIES (cont'd)

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Investment holding
Starbest Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Oil and Gas Holdings Limited *	British Virgin Islands/ Hong Kong	US$100	100	Investment holding
Indirectly held				
Nusoil Manufacturing Limited	British Virgin Islands/ PRC	US$100	100	Investment holding
Wing Lam (International) Timber Limited	Hong Kong	HK$60,000,000	100	Investment holding
Dongguan Xinlian Wood Products Company Limited (note (a))	PRC	HK$60,000,000	100	Manufacture and sale of plywood
Global Enterprises (HK) Limited	Hong Kong	HK$2	100	Provision of management services
Maxpower Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Toplight Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Richfirst Holdings Limited (note (b))	British Virgin Islands/ PRC	US$100	100	Investment holding

Notes to Financial Statements

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (cont'd)				
Cogent Assets Limited	British Virgin Islands/ Hong Kong	US$2	100	Investment holding
Group Smart Resources Limited *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Highkeen Resources Limited *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Dameng Holdings Limited *	Bermuda/ Hong Kong	HK$100,000	80	Investment holding
CITIC Dameng Investments Limited *	British Virgin Islands/ Hong Kong	US$1	80	Investment holding
CITIC Dameng Trading Limited *	Hong Kong	HK$10,000	80	Trading
CITIC Petrochemical Holdings Limited *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Petrochemical Investments Limited *	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Resources Australia Pty Limited #	State of Victoria, Australia	A$193,805,449	100	Investment holding
CITIC Portland Holdings Pty Limited #	State of Victoria, Australia	A$1	100	Investment holding
CITIC Australia (Portland) Pty Limited #	State of Victoria, Australia	A$45,675,117	100	Investment holding

Notes to Financial Statements

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (cont'd)				
CITIC Portland Surety Pty Limited #	State of Victoria, Australia	A$1	100	Investment holding
CITIC (Portland) Nominees I Pty Limited (note (c)) #	State of Victoria, Australia	A$2	100	Investment holding
CITIC (Portland) Nominees II Pty Limited (note (c)) #	State of Victoria, Australia	A$2	100	Investment holding
CITIC Australia Trading Limited (note (d)) #	State of Victoria, Australia	A$6,863,442	78.08	Investment holding
CATL Sub-Holding Pty Limited #	State of Victoria, Australia	A$2	78.08	Investment holding
CITIC Australia Commodity Trading Pty Limited #	State of Victoria, Australia	A$500,002	78.08	Import and export of commodities and manufactured goods
CITIC Tyres & Wheels Pty Limited #	Northern Territory, Australia	A$100	78.08	Import of tyres and alloy wheels
CITIC Australia Coal Pty Limited #	State of Victoria, Australia	A$6,589,637	100	Investment holding
CITIC Australia Coal Exploration Pty Limited #	State of Victoria, Australia	A$2,845,375	100	Exploration, development and mining of coal
CITIC Australia Coppabella Pty Limited #	State of Victoria, Australia	A$5,000,002	100	Investment holding

Notes to Financial Statements

16. INTERESTS IN SUBSIDIARIES (cont'd)

Name	Place of incorporation/ registration and operations	Nominal value of issued shares/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (cont'd)				
CITIC Australia Moorvale Pty Limited #	State of Victoria, Australia	A$2	100	Investment holding
CITIC Olive Downs Pty Limited *#	State of Victoria, Australia	A$99,958	100	Investment holding
CITIC West Walker Pty Limited *#	State of Victoria, Australia	A$91,812	100	Investment holding
CITIC West Rolleston Pty Limited *#	State of Victoria, Australia	A$196,390	100	Investment holding
CITIC West/North Borton Pty Limited *#	State of Victoria, Australia	A$34,238	100	Investment holding
CITIC Capricorn Pty Limited *#	State of Victoria, Australia	A$9,549	100	Investment holding
CITIC Bowen Basin Pty Limited *#	State of Victoria, Australia	A$9,549	100	Investment holding

* Acquired or established during the year

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

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

Notes:

(a) Dongguan Xinlian Wood Products Company Limited ("Dongguan Xinlian") is a wholly-foreign owned enterprise established by Wing Lam (International) Timber Limited ("Wing Lam") in the PRC for a period of 12 years commencing from the date of issuance of its business licence of 3 January 1997.

(b) Richfirst Holdings Limited ("Richfirst") holds a 40% interest in the contractor's rights and obligations (the "Participating Interest") in a 30-year petroleum development and production sharing contract (the "Petroleum Contract") which was entered into between Pan-China Resources Ltd. ("Pan-China") and China National Petroleum Corporation in 1997 (as amended) for the development and production of petroleum in the Kongnan Block within the Dagang Oilfield in the PRC.

Notes to Financial Statements

16. INTERESTS IN SUBSIDIARIES (cont'd)

Notes: (cont'd)

(b) (cont'd)

Pursuant to a farmout agreement dated 18 January 2004 (as amended) between Richfirst, Pan-China, Sunwing Energy Ltd. ("Sunwing") and Ivanhoe Energy Inc. ("Ivanhoe"), Richfirst has an option to convert the Participating Interest into shares of Sunwing (at any time prior to the first anniversary of completion of the initial public offering of Sunwing) or shares of Ivanhoe (at any time within 18 months following completion of Richfirst's acquisition of the Participating Interest). If Richfirst elects such conversion, the Participating Interest will be automatically re-assigned to Pan-China.

Subsequent to the balance sheet date, Richfirst exercised the option to convert the Participating Interest into Ivanhoe Shares and the Ivanhoe Loan (as defined in note 40 to the financial statements). Further details of the conversion are included in note 40 to the financial statements.

(c) These two companies jointly own CITIC Nominees Pty Limited Partnership, which owns the interests in the Portland Aluminium Smelter joint venture.

(d) The shares of CITIC Australia Trading Limited ("CATL") are listed on the Australian Stock Exchange (the "ASX").

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

Notes to Financial Statements

16. INTERESTS IN SUBSIDIARIES (cont'd)

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

Participants	At 1 January 2005	Grant/(exercised) during the period	Lapsed during the period	At 31 December 2005	Exercise period of share options	Exercise price per share A$
	Number of share options					
Directors of the Company:						
Mr. Zeng Chen	166,666	(166,666)	–	**–**	19 June 2004 to 18 June 2007	0.30
	166,668	–	–	**166,668**	19 June 2005 to 18 June 2007	0.35
	333,334	(166,666)	–	**166,668**		
Mr. Zhang Jijing	200,000	(200,000)	–	**–**	19 June 2004 to 18 June 2007	0.30
	200,000	–	–	**200,000**	19 June 2005 to 18 June 2007	0.35
	400,000	(200,000)	–	**200,000**		
Directors of CATL:	499,999	(499,999)	–	**–**	19 June 2004 to 18 June 2007	0.30
	600,002	(133,334)	(100,000)	**366,668**	19 June 2005 to 18 June 2007	0.35
	1,100,001	(633,333)	(100,000)	**366,668**		
Other employees:	350,665	(133,999)	–	**216,666**	19 June 2003 to 18 June 2007	0.20
	599,998	(199,999)	–	**399,999**	19 June 2004 to 18 June 2007	0.25
	600,004	(200,002)	–	**400,002**	19 June 2004 to 18 June 2007	0.30
	140,000	(140,000)	–	**–**	19 June 2004 to 18 June 2007	0.30
	140,000	–	–	**140,000**	19 June 2005 to 18 June 2007	0.35
	1,830,667	(674,000)	–	**1,156,667**		
	3,664,002	(1,673,999)	(100,000)	**1,890,003**		

Notes to Financial Statements

17. INTERESTS IN JOINTLY-CONTROLLED ASSETS

At 31 December 2005, the Group had joint venture operations of which the Group holds interests as follows:

(a) 22.5% participating interest in the Portland Aluminium Smelter joint venture, the principal activity of which is aluminium smelting;

(b) 16% participating interest in the spent potlining project joint venture at Portland, the principal activity of which is the processing of spent potlining;

(c) 7% participating interest in the Coppabella and Moorvale coal mines joint venture, the principal activity of which is the mining and sale of coal;

(d) 10% participating interest in the Olive Downs joint venture, the principal activity of which is the exploration of coal; (Note)

(e) 10% participating interest in the Moorvale West joint venture, the principal activity of which is the exploration of coal; (Note)

(f) 10% participating interest in the West/North Burton joint venture, the principal activity of which is the exploration of coal; (Note)

(g) 10% participating interest in the West Rolleston joint venture, the principal activity of which is the exploration of coal; (Note)

(h) 15% participating interest in the West Walkers joint venture, the principal activity of which is the exploration of coal; (Note)

(i) 15% participating interest in the Capricorn joint venture, the principal activity of which is the exploration of coal; (Note)

(j) 15% participating interest in the Bowen Basin Coal joint venture, the principal activity of which is the exploration of coal; (Note)

(k) 50% participating interest in the CB Exploration joint venture, the principal activity of which is the exploration of coal; and

(l) 40% participating interest in the contractor's rights and obligations in a 30-year petroleum development and production sharing contract for the development and production of petroleum in the Kongnan Block within the Dagang Oilfield in the PRC.

HK$'000

17. INTERESTS IN JOINTLY-CONTROLLED ASSETS (cont'd)

Note: On 15 December 2005, the Group disposed of part of its 25% participating interest in the Bowen Basin Coal Exploration joint venture (the "Bowen Basin JV"), the principal activity of which is the exploration of coal, to Macarthur Exploration Pty Ltd., a wholly-owned subsidiary of Macarthur Coal Limited ("Macarthur", an Australian company listed on the ASX in which the Group holds an approximately 11% equity interest at that date and 31 December 2005), in return for ordinary shares of Macarthur. The consideration was made with reference to a valuation of the underlying assets of the Bowen Basin JV performed by a firm of independent valuers. A net gain arising from this transaction was HK$78,463,000 (note 5). On the same date, the Group's remaining participating interest in the Bowen Basin JV was restructured into seven separate jointly-controlled assets (as defined in (d) to (j) above).

The jointly controlled assets as detailed in (c) to (k) have different reporting dates to the Group, being 30 June compared to 31 December. The jointly controlled assets as detailed in (a) to (k) are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. The financial statements of these jointly controlled assets up to 31 December 2005 have been used for the purpose of preparation of the consolidated financial statements of the Group.

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

	2005	2004 Restated
Non-current assets	**2,070,585**	2,269,170
Current assets	**114,681**	128,572
Current liabilities	**(99,115)**	(98,714)
Non-current liabilities	**(397,667)**	(407,194)
Share of assets employed in the Portland Aluminium Smelter joint venture	**1,688,484**	1,891,834

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

	2005	2004 Restated
Non-current assets	**61,166**	255,237
Current assets	**58,356**	40,303
Current liabilities	**(31,768)**	(37,302)
Non-current liabilities	**(10,564)**	(11,935)
Share of assets employed in the other joint ventures	**77,190**	246,303

HK$'000

Notes to Financial Statements

18. AVAILABLE-FOR-SALE EQUITY INVESTMENTS/LONG TERM INVESTMENTS

	Group 2005	2004 Restated
Non-current listed equity investments, at fair value:		
Australia	**657,035**	480,835
Non-current listed equity investments, at cost:		
Australia	**258,552**	189,748

During the year, the change in fair value of the Group's available-for-sale equity investments before deferred tax recognised directly in equity amounted to HK$124,350,000.

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets on 1 January 2005.

The fair values of listed equity investments are based on quoted market prices.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The non-current balance includes an amount of HK$22,929,000 (2004: HK$2,474,000), being the prepayments of professional fees incurred for financial and legal advice in connection with the Group's potential investment projects. These amounts were intended to be capitalised to the cost of the potential investments. An amount of RMB300,000,000 (HK$288,500,000) was paid as deposits to the potential investment project in the Manganese Company (as defined in note 1), further details of which are set out in note 1 to the financial statements.

An amount of HK$301,000 (2004: HK$1,489,000) included in the current portion represents amounts due from fellow subsidiaries of the Group. The balance due is unsecured, interest-free and has no fixed terms of repayment.

Last year's current balance also included an amount of HK$234,000,000, being the advance payments for purchase of aluminium ingots. The Group entered into an advance purchase agreement with an aluminium smelter (one of its alumina suppliers with long business relationship) with respect to the purchase of over 20,000 tonnes of aluminium ingot, for delivery commencing in March 2005. As security, the Group held bank guarantees of an equivalent amount in United States dollars issued by the Bank of China. The majority of this balance was funded by a special purpose banking facility of US$25,000,000 (HK$195,000,000). Due to increasing prices of alumina and electricity and power shortage in the PRC, the smelter failed to deliver ingots as agreed and the Group recovered the full amount during the year.

HK$'000

Notes to Financial Statements

20. INVENTORIES

	Group 2005	2004
Raw materials	**67,468**	74,801
Work in progress	**37,830**	38,976
Finished goods	**550,840**	610,723
	656,138	724,500

The inventories carried at net realisable value included in the above balance amounted to HK$75,485,000 (2004: HK$40,898,000) as at the balance sheet date.

21. ACCOUNTS RECEIVABLE

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

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

	Group 2005	2004
Within one month	**313,181**	200,629
One to two months	**76,950**	130,951
Two to three months	**4,630**	5,019
Over three months	**988**	931
	395,749	337,530

The accounts receivable included in a disposal group (note 24) of HK$16,282,000 were aged within two months as at 31 December 2005.

Included in the Group's total accounts receivable is an amount due from the Group's fellow subsidiary of HK$18,313,000 (2004: Nil), which is repayable on similar credit terms to these offered to other customers of the Company.

HK$'000

22. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS/SHORT TERM INVESTMENTS

	Group	
	2005	2004
Current unlisted equity investments, at market value:		
Australia	**1,830**	2,821

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

23. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	2005	2004	**2005**	2004
Cash and bank balances	**166,033**	212,958	**48**	4,772
Time deposits *	**1,353,562**	1,393,875	**887,632**	1,203,299
	1,519,595	1,606,833	**887,680**	1,208,071

* Amounts of HK$522,332,000 (2004: HK$721,805,000) and HK$520,618,000 (2004: HK$721,805,000) of the time deposits of the Group and of the Company respectively as at 31 December 2005 were placed with CITIC Ka Wah Bank Limited.

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

HK$'000

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

Pursuant to a resolution of the board of directors of the Company passed on 15 November 2005, the Company announced the board's decision to exercise its option to convert the Participating Interest into Ivanhoe Shares and Ivanhoe Loan (as defined in note 40). The Group decided to cease its holding of the Participant Interest because the Group was of the view that the conversion is in the interests of the Group as it will provide the Group with exposure to all of Ivanhoe's oil and energy interests rather than just the Dagang Oilfield project. Further details of the conversion are included in note 40 to the financial statements. As at 31 December 2005, the assets and liabilities related to the Participating Interest was classified as a disposal group held for sale.

The results of the Participating Interests for the year are presented below:

	2005	2004
Revenue	**77,429**	24,448
Expenses	**(84,049)**	(16,742)
Profit/(loss) before tax	**(6,620)**	7,706
Tax	**(887)**	–
Net profit/(loss) for the year	**(7,507)**	7,706

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

	2005	2004
Assets		
Property, plant and equipment, net	**249,814**	–
Accounts receivables	**16,282**	–
Assets classified as held for sale	**266,096**	–
Liabilities		
Accounts payable	**33,072**	–

HK$'000

Notes to Financial Statements

25. ACCOUNTS PAYABLE

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

	Group 2005	Group 2004
Within one month	**170,572**	147,972
One to two months	**14,762**	45,190
Two to three months	**172**	14,489
Over three months	**782**	15,912
	186,288	223,563

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

The accounts payable included in a disposal group (note 24) of HK$33,072,000 was aged within three months as at 31 December 2005.

26. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in the total balance was an amount of HK$6,644,000 (2004: HK$4,352,000) due to the CITIC Group, the ultimate holding company of the Company, which represents interest expense payable on loans totalling US$46,000,000 that had been advanced by CITIC Group (note 28).

27. DERIVATIVE FINANCIAL INSTRUMENTS

Group	**2005 Assets**	**2005 Liabilities**
Forward currency contracts and currency options	**1,974**	**4,630**
Forward commodity contracts	**–**	**141,721**
Interest rate swaps and options	**10,382**	**–**
Derivative financial instruments	**–**	**68,206**
	12,356	**214,557**
Portion classified as non-current:		
Derivative financial instruments	**–**	**(11,016)**
Current portion	**12,356**	**203,541**

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

Notes to Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

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

Accounting policies in relation to derivative financial instruments are set out in note 2.5 to the financial statements.

Forward currency contracts and currency options – cash flow hedges

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

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

The contracts are timed to mature when major shipments are scheduled to arrive and cover anticipated purchases and sales in the ensuing financial year. Forward currency contracts described above are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy in note 2.5 to the financial statements.

Notes to Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Forward currency contracts and currency options – cash flow hedges (cont'd)

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

	2005 Weighted average exchange rate	2005 Contractual amount HK$'000	2004 Weighted average exchange rate	2004 Contractual amount HK$'000
Forward contracts:				
(i) Sell A$/Buy US$				
Less than 3 months	**0.7426**	**168,917**	0.7431	155,873
In 1 to 2 years, inclusive	**–**	**–**	0.7351	20,914
Buy A$/Sell US$				
Less than 3 months	**0.7403**	**78,484**	0.6565	63,472
In 3 to 12 months, inclusive	**0.7435**	**163,983**	0.6879	82,132
In 1 to 2 years, inclusive	**0.7435**	**18,222**	0.6800	3,038
Currency options:				
(i) Put US$ option sell				
Less than 3 months	**0.7565**	**12,482**	0.7129	9,187
In 3 to 12 months, inclusive	**0.7704**	**3,531**	0.7234	46,647
In 1 to 2 years, inclusive	**–**	**–**	0.7704	7,492
(ii) Call A$ option buy				
Less than 3 months	**0.7565**	**12,482**	0.7310	17,937
In 3 to 12 months, inclusive	**0.7704**	**3,531**	0.7330	72,896
In 1 to 2 years, inclusive	**–**	**–**	0.7704	7,492
(iii) Put A$ option buy				
Less than 3 months	**–**	**–**	0.7500	8,750
In 3 to 12 months, inclusive	**–**	**–**	0.7500	26,249

Amounts disclosed above represents currency sold measured at the contracted rate.

Notes to Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Forward commodity contracts – cash flow hedges (cont'd)

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

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

Aluminium forward contracts are entered into for the purpose of hedging future production, the contracts are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy in note 2.5 to the financial statements.

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

	2005			2004		
	Quantity hedged (MT)	**Average price per tonne HK$**	**Contractual amount HK$'000**	Quantity hedged (MT)	Average price per tonne HK$	Contractual amount HK$'000
Aluminium forward (sold):						
Less than 3 months	**7,800**	**13,697**	**106,835**	9,950	12,987	129,241
In 3 to 12 months, inclusive	**19,350**	**13,681**	**264,776**	17,200	12,722	218,810
In 1 to 2 years, inclusive	**2,150**	**13,681**	**29,421**	10,600	12,043	127,649
In 2 to 5 years, inclusive	**12,000**	**12,769**	**153,213**	6,800	11,443	77,818
Aluminium options – put option sold:						
Less than 3 months	**–**	**–**	**–**	3,000	10,608	31,821
In 3 to 12 months, inclusive	**–**	**–**	**–**	9,000	10,608	95,469

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

Interest rate swaps contracts and options – cash flow hedges

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

Notes to Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Interest rate swaps contracts and options – cash flow hedges (cont'd)

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

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

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

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

(i) US$ interest rate swaps

	2005		2004	
	Weighted average rate	**Notional amount**	Weighted average rate	Notional amount
	%	**HK$'000**	%	HK$'000
Within 1 year	**3.58**	**23,400**	3.58	23,400
In the fifth year	**3.58**	**319,800**	3.57	346,476

(ii) US$ interest rate collar options

	2005			2004		
	Rate		**Contractual**	Rate		Contractual
	Floor	**Cap**	**amount**	Floor	Cap	amount
	%	**%**	**HK$'000**	%	%	HK$'000
Less than 3 months	–	–	–	1.96	3.20	6,825
In 3 to 12 months, inclusive	–	–	–	1.96	3.20	6,146
In 1 to 2 years, inclusive	–	–	–	1.96	3.20	9,282
In 2 to 5 years, inclusive	–	–	–	1.96	3.20	2,184

HK$'000

Notes to Financial Statements

27. DERIVATIVE FINANCIAL INSTRUMENTS (cont'd)

Interest rate swaps contracts and options – cash flow hedges (cont'd)

The terms of the forward contracts and options have been negotiated to match the terms of the commitments. The cash flow hedges of the expected future sale and the expected future purchases were assessed to be highly effective and a net loss, before deferred tax, of HK$174,468,000 was included in the hedging reserve as follows:

	2005
Total fair value losses included in the hedging reserve	**174,468**
Total fair value losses included in profit or loss	**13,235**
Deferred tax on fair value losses	**(56,313)**
Net losses on cash flow hedges	**131,390**

28. BANK AND OTHER LOANS

	Notes	Group 2005	Group 2004
Bank loans-unsecured #	(a)	**772,594**	907,505
Bank loans-secured # (Note)	(a)	**686,405**	748,235
Unsecured loans from Transport Infrastructure Corridor *	(b)	**7,850**	9,230
Unsecured loans from Exploration Permit for coal *	(c)	**6,775**	7,492
Unsecured loans from former minority shareholders *	(d)	**11,862**	11,862
Unsecured loans from minority shareholders *	(e)	**61,330**	–
Unsecured loans from CITIC Group #	(f)	**358,800**	390,000
		1,905,616	2,074,324

* Fixed rate
\# Floating rate

Note: Includes the effects of a related interest rate swap as further detailed in note 27 to the financial statements.

HK$'000

Notes to Financial Statements

28. BANK AND OTHER LOANS (cont'd)

	Group 2005	2004
Bank loans repayable:		
Within one year or on demand	**817,476**	954,304
In the second year	**48,719**	46,800
In the third to fifth years, inclusive	**140,400**	155,436
Beyond five years	**452,404**	499,200
	1,458,999	1,655,740
Other loans repayable:		
Within one year	**1,917**	2,035
In the second year	**1,917**	2,035
In the third to fifth years, inclusive	**5,751**	6,106
Beyond five years	**5,040**	6,546
	14,625	16,722
Loans from former minority shareholders, beyond one year	**11,862**	11,862
Loans from minority shareholders, beyond one year	**61,330**	–
Loans from CITIC Group:		
Within one year	**39,000**	31,200
In the second year	**39,000**	–
In the third and fifth years, inclusive	**117,000**	358,800
Beyond five years	**163,800**	–
	358,800	390,000
Total bank and other loans	**1,905,616**	2,074,324
Portion classified as current liabilities	**(858,393)**	(987,539)
Non-current portion	**1,047,223**	1,086,785

Notes:

(a) The secured bank loans of US$88,000,000 (HK$686,400,000) due by 31 December 2008 (extendable in accordance with the terms of the Portland Aluminium Smelter joint venture) were interest bearing at LIBOR and secured by a 22.5% participating interest in Portland Aluminium Smelter joint venture.

The unsecured bank loans, which represent trade finance facilities, were interest bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited ("CRA").

(b) The loans were obtained from the State Government of Queensland, Australia. The loans are unsecured, interest bearing at 6.69% per annum and repayable in equal quarterly instalments by 30 September 2012.

HK$'000

28. BANK AND OTHER LOANS (cont'd)

Notes: (cont'd)

(c) The loans were obtained from the manager of Coppabella and Moorvale coal mines joint venture. The loans are unsecured, interest bearing at 6% per annum and repayable in equal annual instalments by 11 December 2013.

(d) The loans were from the Ex-shareholders (details of which are set out in note 35(a)). The loans are unsecured, interest-free and not repayable within one year.

(e) The loans were from a minority shareholder of CITIC Dameng Investments Limited, namely, CITIC United Asia Investments Limited (which is an indirect wholly-owned subsidiary of CITIC Group). The loans are unsecured, interest-free and not repayable within one year.

(f) The loan of US$46,000,000 (HK$358,800,000) was granted from CITIC Group, the ultimate holding company of the Group. The loan is unsecured, interst-bearing at LIBOR +1.5% per annum and repayable in equal annual instalments by September 2015 (2004: repayable in whole by September 2007).

Last year's balance also included a loan of US$4,000,000 (HK$31,200,000) granted from CITIC Group. The loan was increased, interest bearing at LIBOR +1.5% per annum and was repaid in August 2005.

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

	Effective Interest Rate p.a. (%)	Carrying amounts 2005	Carrying amounts 2004	Fair values 2005	Fair values 2004
Unsecured loans from Transport Infrastructure Corridor	5.73	**7,850**	9,230	**7.955**	9,622
Unsecured loans from Exploration Permit for coal	5.77	**6,775**	7,492	**6,826**	7,654
Unsecured loans from former minority shareholders	5.77	**11,862**	11,862	**11,615**	11,677
Unsecured loans from minority shareholders	5.77	**61,330**	–	**60,051**	–
Unsecured loans from CITIC Group	Weighted average of LIBOR + 1.5	**358,800**	390,000	**354,383**	388,863

29. PROVISIONS

Group

	Long service and leave payments	Provision for rehabilitation (Restated)	Total (Restated)
At beginning of the year (Restated)	**38,208**	**76,520**	**114,728**
Additions	**12,779**	**1,292**	**14,071**
Exchange realignment	**(5,110)**	**(4,449)**	**(9,559)**
At 31 December 2005	**45,877**	**73,363**	**119,240**
Portion classified as current liabilities	**(32,340)**	**(889)**	**(33,229)**
Non-current portion	**13,537**	**72,474**	**86,011**

HK$'000

Notes to Financial Statements

29. PROVISIONS (cont'd)

The Group provides for the probable long service leave and holiday pay expected to be made to employees under the superannuation legislation of the Australian government, as further explained under the heading "Employee benefits" in note 2.5 to the financial statements. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

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

30. DEFERRED TAX

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

Deferred tax liabilities – 2005	**Accelerated tax depreciation**	**Fair Value adjustments**	**Total**
At 31 December 2004 as restated before opening balance adjustment	**449,170**	**–**	**449,170**
Opening balance adjustment (note 2.4)	**–**	**62,955**	**62,955**
At 1 January 2005 as restated	**449,170**	**62,955**	**512,125**
Deferred tax charged to the income statement during the year (note 10)	**9,317**	**(3,971)**	**5,346**
Deferred tax debited to equity during the year	**–**	**(15,046)**	**(15,046)**
Exchange differences	**(27,800)**	**(3,640)**	**(31,440)**
Gross deferred tax liabilities at 31 December 2005	**430,687**	**40,298**	**470,985**

HK$'000

30. DEFERRED TAX (cont'd)

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

Deferred tax liabilities – 2004	**Accelerated tax depreciation (Restated)**
At 1 January 2004	–
Acquisition of subsidiaries:	
As previously reported	92,485
Adjustment to fair value of assets and liabilities of subsidiaries acquired in prior year	329,979
As restated (note 34(a))	422,464
Deferred tax charged to the income statement during the year (note 10)	8,051
Exchange realignment	18,655
Gross deferred tax liabilities at 31 December 2004	449,170

Deferred tax assets – 2004	**Losses available for offset against future taxable profit**
At 1 January 2004	–
Acquisition of subsidiaries (note 34(a))	9,784
Deferred tax credited to the income statement during the year (note 10)	4,761
Exchange realignment	439
Gross deferred tax assets at 31 December 2004	14,984
Net deferred tax liabilities at 31 December 2004	434,186

HK$'000

31. SHARE CAPITAL

Shares

	Number of ordinary shares	
Authorised:		
Ordinary shares of HK$0.05 each	6,000,000,000	300,000
Issued and fully paid:		
Ordinary shares of HK$0.05 each as at 1 January 2004	3,296,470,588	164,824
Issue of shares	1,020,413,793	51,020
Ordinary shares of HK$0.05 each as at 31 December 2004 and 2005	4,316,884,381	215,844

On 2 February 2004, the Company entered into a placing agreement with United Star International Inc. ("USI"), a substantial shareholder of the Company, and a placing agent, under which a placement of 270,000,000 of the Company's then existing ordinary shares with par value of HK$0.05 each held by USI was made to not less than six independent investors procured by the placing agent at a price of HK$1.45 per share. In addition, 270,000,000 new ordinary shares of HK$0.05 each in the Company were subscribed by USI at HK$1.45 per share for a total cash consideration, before expenses, of HK$391,500,000. The Company applied such net proceeds to finance future investments and asset acquisitions with a particular focus on businesses involving natural resources. Details of the placing and the subscription are set out in the announcement of the Company dated 2 February 2004.

On 31 March 2004, the Company allotted and issued 750,413,793 new ordinary shares of HK$0.05 each to satisfy the consideration for the acquisition of the entire issued share capitals of CRA and CITIC Portland Surety Pty Limited from CITIC Australia Pty Limited ("CA").

Share options

Details of the Company's share option scheme and the share option issued under the scheme are included in note 32 to the financial statements.

Notes to Financial Statements

32. SHARE OPTION SCHEME

On 30 June 2004, a new share option scheme (the "Scheme") was adopted by the Company to replace the share option scheme which was adopted by the Company on 21 August 1997 (the "Old Scheme"). The Old Scheme was terminated on 30 June 2005. During the year, no share option was granted, exercised, lapsed or cancelled under the Old Scheme. No share option was outstanding under the Old Scheme as at the balance sheet date.

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

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

32. SHARE OPTION SCHEME (cont'd)

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

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

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

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

HK$'000

32. SHARE OPTION SCHEME (cont'd)

The following share options were outstanding under the Scheme as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2005	Number of share options: Granted during the year	Number of share options: At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options HK$	Price of Company's shares**: At grant date of options HK$	Price of Company's shares**: Immediately before the exercise date HK$	Price of Company's shares**: At exercise date of options HK$
Directors									
Kwok Peter Viem	–	50,000,000	**50,000,000**	02-06-2005	02-06-2007 to 01-06-2010	1.08	1.07	N/A	N/A
Ma Ting Hung	–	50,000,000	**50,000,000**	02-06-2005	02-06-2007 to 01-06-2010	1.08	1.07	N/A	N/A
Sun Xinguo	–	5,000,000	**5,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	–	5,000,000	**5,000,000**	28-12-2005	28-12-2006 to 27-12-2010	1.06	1.05	N/A	N/A
	–	10,000,000	**10,000,000**						
Zeng Chen	–	5,000,000	**5,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	–	5,000,000	**5,000,000**	28-12-2005	28-12-2006 to 27-12-2010	1.06	1.05	N/A	N/A
	–	10,000,000	**10,000,000**						
Li So Mui	–	5,000,000	**5,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Mi Zengxin	–	10,000,000	**10,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Qiu Yiyong	–	10,000,000	**10,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Shou Xuancheng	–	10,000,000	**10,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Zhang Jijing	–	10,000,000	**10,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	–	165,000,000	**165,000,000**						
Other employees									
In aggregate	–	12,000,000	**12,000,000**	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	–	177,000,000	**177,000,000**						

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

** The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the options.

Notes to Financial Statements

32. SHARE OPTION SCHEME (cont'd)

The fair value of the share options granted during the year was HK$47,950,000.

The fair value was estimated as at the date of grant using binomial formula, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the formula used for the year ended 31 December 2005:

	Share option Exercise period start from		
	2 June 2006	**2 June 2007**	**28 Dec 2006**
Dividend yield (%)	0	0	0
Volatility (%)	47.87	47.87	42.42
Risk-free interest rate (%)	3.30	3.30	3.30
Expected life of option (year)	1	2	1

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

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

At the balance sheet date, the Company had 177,000,000 share options outstanding under the Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 177,000,000 additional ordinary shares of the Company, additional share capital of HK$8,850,000 and share premium of HK$182,110,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 177,000,000 share options outstanding under the Scheme, which represented approximately 4.1% of the Company's shares in issue as at that date.

33. RESERVES

(a) Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on pages 51 and 52 of the financial statements.

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

HK$'000

33. RESERVES (cont'd)

(b) Company

	Share premium account	Contributed surplus	Share option reserve	Accumulated losses	Total
At 1 January 2004	1,200,879	172,934	–	(373,983)	999,830
New issue of shares	1,383,554	–	–	–	1,383,554
Share issuance expenses	(22,471)	–	–	–	(22,471)
Net profit for the year	–	–	–	13,399	13,399
At 31 December 2004 and 1 January 2005	**2,561,962**	**172,934**	**–**	**(360,584)**	**2,374,312**
Equity-settled share options arrangement (note 32)	**–**	**–**	**12,662**	**–**	**12,662**
Net profit for the year	**–**	**–**	**–**	**17,079**	**17,079**
At 31 December 2005	**2,561,962**	**172,934**	**12,662**	**(343,505)**	**2,404,053**

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

HK$'000

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisitions of subsidiaries

	Notes	2005	2004 Restated
Net assets acquired:			
Fixed assets	13	–	1,321,008
Other assets	14	–	746,504
Investments in securities		–	175,814
Deferred tax assets	30	–	9,784
Cash and bank balances		–	285,852
Inventories		–	232,518
Accounts receivable		–	457,998
Prepayments, deposits and other receivables		–	48,972
Accounts payable		–	(200,764)
Accrued liabilities and other payables		–	(75,177)
Tax payable		–	(14,173)
Provisions		–	(105,693)
Deferred tax liabilities	30	–	(422,464)
Bank and other loans		–	(1,615,148)
Minority interests		–	(19,221)
		–	825,810
Goodwill arising on acquisitions	15	–	382,624
		–	1,208,434
Satisfied by:			
Cash		–	165,360
Shares issued		–	1,043,074
		–	1,208,434

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

	2005	2004
Cash consideration paid	–	(165,360)
Cash and bank balances acquired	–	285,852
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	–	120,492

Notes to Financial Statements

34. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (cont'd)

(a) Acquisitions of subsidiaries (cont'd)

The acquired subsidiaries contributed HK$3,599,392,000 to the Group's revenue and HK$79,678,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2004.

(b) Major non-cash transaction

(i) As further detailed in note 17 to the financial statements, on 15 December 2005, the Group disposed of part of its participating interest in the Bowen Basin JV for consideration of certain ordinary shares of Macarthur. On the same date, the Group also restructured the remaining participating interest in the Bowen Basin JV into seven separate jointly-controlled assets.

(ii) The purchase consideration for the acquisition of the CRA group during the year ended 31 December 2004 was satisfied by the allotment and issue of 750,413,793 new ordinary shares of HK$0.05 each in the Company's share capital.

35. LITIGATION

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

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

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

35. LITIGATION (cont'd)

(a) (cont'd)

As advised by the Group's legal advisers, there were a number of conflicts and discrepancies with regard to the Second Judgement and the Third Judgement. The judgements were not supported by valid evidence and although the People's High Court of Guangdong Province acknowledged the criminal liabilities of certain members of the Plaintiff's management team (including forging the contracts connected to the Claim), the People's High Court of Guangdong Province did not, as contrary to normal legal procedures, take these factors into account when it gave the Third Judgement. In February 2006, Dongguan Xinlian commenced an appeal process against the Third Judgement. It is not expected that the appeal hearing will be concluded within the next 12 months. In the meantime, the Shenzhen Intermediate People's Court has frozen the assets and machinery of Dongguan Xinlian and the Group has also taken steps to apply for a suspension of the auction of the assets and machinery of Dongguan Xinlian.

The ex-shareholders of Wing Lam (the "Ex-shareholders") have given an undertaking to indemnify the Group against all monetary losses that may arise from the Claim up to HK$11,862,000, being the outstanding other loans from the Ex-shareholders as at 31 December 2005.

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

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

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

(i) Related to the 2004 financial year

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

In February 2005, the arbitrator determined that 7 of the 9 points of claim could proceed to arbitration. The Manager received the detailed points of claim from the Contractor in March 2005 and detailed further particulars in September 2005. The Manager lodged its defence to the points of claim in early April 2006. It is not expected that arbitration will begin before the fourth quarter of 2006.

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Notes to Financial Statements

35. LITIGATION (cont'd)

(b) (cont'd)

(ii) Related to the 2005 financial year

In July 2005, the Contractor lodged a further notice of dispute in relation to alleged additional costs resulting from approval of the 2005 financial year mine plan. The claims were rejected by the superintendent and the subsequent dispute was referred to arbitration in August 2005. Preliminary hearings were held in November 2005 where the arbitrator directed that the Contractor lodge its points of claim by the end of January 2006. It is expected that the Contractor will lodge its points of claim during April 2006.

(iii) Related to the 2006 financial year

In January 2006, the Contractor lodged a notice of claim in relation to alleged additional costs resulting from approval of the 2006 financial year mine plan. The claim is subject to contractual review by the superintendent.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A$99 million (HK$567 million), out of which the Group's share amounted to A$7 million (HK$40 million). Areas of duplication have been identified across these three claims and the Contractor is yet to provide particulars regarding basis and quantum of the second and third claim.

The Manager disputes the above claims and has stated that it will vigorously defend its position in arbitration.

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

36. OPERATING LEASE ARRANGEMENTS

At 31 December 2005, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2005	2004
Within one year	**9,348**	8,021
In the second to fifth years, inclusive	**14,827**	13,969
Beyond five years	**2,423**	–
	26,598	21,990

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Notes to Financial Statements

37. COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital expenditure commitments:

	Group	
	2005	2004
Contracted, but not provided for:		
Infrastructure, plant and equipment, share of the jointly-controlled entities	**8,911**	12,371
Office decoration	**–**	810
	8,911	13,181

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2004: Nil).

38. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

(a) During the year ended 31 December 2005, the Group made sales in the aggregate amount of HK$1,025,037,000 (2004: HK$163,651,000) to a fellow subsidiary, CITIC Metal Company Limited. The sales were made on normal commercial terms and conditions offered to the major customers of the Group.

As at 31 December 2005, the Group had an outstanding accounts receivable balance due from the fellow subsidiary of HK$18,313,000 (2004: Nil).

(b) The Group considers the directors of the Company to be the key management personnel, whose compensations have been disclosed in note 7.

During the year ended 31 December 2004, the Group also had the following transactions with its related parties:

(a) On 19 January 2004, the Group entered into conditional sale and purchase agreements (as amended by a supplemental agreement dated 30 January 2004) with CA, the CITIC Group and CITIC Portland Holdings Pty Limited, pursuant to which the Company purchased the entire equity interests in CRA and CITIC Portland Surety Pty Limited ("CPS") from CA for a consideration of issue of 750,413,793 new ordinary shares of the Company. The consideration was determined on an arm's length basis between the Company and CA with reference to the financial performance and the value of the major assets of the CRA group.

38. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (cont'd)

(a) (cont'd)

The major assets of CRA and CPS were as follows:

– a 22.5% participating interest in Portland Aluminium Smelter joint venture, which is an unincorporated co-operative joint venture that owns and operates the Portland Aluminium Smelter in the State of Victoria, Australia;

– a 79.69% participating interest in CATL, a company incorporated in the State of Victoria, Australia and listed on the ASX, which is engaged in import and export of commodities;

– a 7% participating interest in the Coppabella and Moorvale coal mines joint venture, which is a unified unincorporated co-operative joint venture that owns and operates the Coppabella and Moorvale coal mines in the State of Queensland, Australia;

– a 13.33% participating interest in Macarthur, a company listed on the ASX and which is engaged in coal mining business; and

– a 5.01% participating interest in Aztec Resources Limited, a company listed on the ASX and which is engaged in minerals exploration.

CA is an Australian company wholly-owned by the CITIC Group, and an associate of Keentech, a substantial shareholder of the Company.

The transaction constituted a related party transaction and a major and connected transaction of the Group under the Listing Rules. The transaction was approved by independent shareholders of the Company on 22 March 2004 and was completed on 31 March 2004 by the issue of 750,413,793 new shares of the Company as settlement. Further details of the transactions are set out in the circular of the Company dated 6 March 2004.

(b) On 31 March 2004, CRA entered into two lease agreements with 99 King Street Property Management Pty Limited ("KSPM", a wholly-owned subsidiary of CA) with respect to certain office and car parking lease arrangements. Pursuant to these agreements, CRA took possession of leased office premises and car parking spaces (the "Leased Premises") and assumed the obligations stipulated in the related tenancy agreements (the "Leases") entered by CA. Subject to renewal, the Leases will expire on 30 September 2006. The related operating lease commitment has been included in note 37.

Notes to Financial Statements

38. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (cont'd)

(c) On 12 October 2004, Starbest Venture Limited, a wholly-owned subsidiary of the Company, completed the acquisition of the entire issued share capital of Richfirst, the wholly-owned subsidiary of CITIC Group, and assumed the benefit of a shareholder's loan of US$20,000,000 (HK$156,000,000) advanced by CITIC Group to Richfirst for an aggregate consideration of US$21,200,000 (HK$165,360,000). The aggregate purchase price was determined on an arm's length basis between the Group and CITIC Group with reference to the investment cost of CITIC Group and the value of the shareholder's loan. Richfirst holds the Participating Interest in the Petroleum Contract.

Pursuant to the farmout agreement dated 18 January 2004 (as amended), Richfirst has an option to convert the Participating Interest into shares of Sunwing (at any time prior to the first anniversary of completion of the initial public offering of Sunwing) or shares of Ivanhoe (at any time within 18 months following completion of Richfirst's acquisition of the Participating Interest). If Richfirst elects such conversion, the Participating Interest will be automatically re-assigned to Pan-China.

The acquisition constituted a related party transaction and a very substantial acquisition and connected transaction pursuant to the Listing Rules. Further details of the Participating Interest and the circular of the Company dated 11 August 2004.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.5 to the financial statements.

Notes to Financial Statements

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

Interest rate risk

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

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge the underlying debt obligations. At 31 December 2005, after taking into account the effect of the interest rate swaps, approximately 41% (2004: 37%) of the Group's interest-bearing borrowings bore interest at fixed rates.

Foreign currency risk

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

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

Credit risk

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

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

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

Liquidity risk

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

40. POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group had the following transactions:

On 18 February 2006, Richfirst entered into a conversion agreement (the "Conversion Agreement") with Pan-China, Sunwing and Ivanhoe, pursuant to which Richfirst exercised the option to convert the Participating Interest, with a carrying value of US$27,386,135 (HK$213,612,000) as at the date of the Conversion Agreement (being the net cash outflows employed in the Participating Interest), into 8,591,434 common shares in the share capital of Ivanhoe (the "Ivanhoe Shares") and a loan of US$7,386,135 (HK$57,612,000) repayable by Ivanhoe to Richfirst (the "Ivanhoe Loan").

The 8,591,434 Ivanhoe Shares represent about 3.7% of all Ivanhoe Shares issued and outstanding following completion of the conversion. Each Ivanhoe Share has issued to Richfirst at an issue price of US$2.3279 (HK$18.1576). This issue price was determined in accordance with the terms of the Farmout Agreement and represented the volume weighted average trading price per Ivanhoe Share for the 30 trading days on the Toronto Stock Exchange leading up to and including 16 February 2006, less an 8% discount.

There are limits on the sales of the Ivanhoe Shares during the period of 12 months following the date of the Conversion Agreement. Furthermore, Ivanhoe has the right, during the three-year loan repayment period, to require Richfirst to convert the remaining balance of the loan into common shares in the share capital of Sunwing, a wholly-owned subsidiary of Ivanhoe, or a company owning all of the outstanding shares of Sunwing (the "Sunwing Holding Company"), subject to Sunwing or the Sunwing Holding Company having obtained a listing of its common shares on the New York Stock Exchange or NASDAQ or such other exchange as shall be approved by Richfirst.

The Ivanhoe Loan is interest free and is payable by Ivanhoe by 35 monthly instalments of US$205,000 (HK$1,599,000) each and a final instalment of US$211,135 (HK$1,646,853). The terms of the Ivanhoe Loan were negotiated between Ivanhoe and Richfirst on an arm's length basis.

The transaction, which was completed on 20 February 2006, constituted a discloseable transaction under the Listing Rules. Further details of the transaction are set out in the circular of the Company dated 13 March 2006.

41. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatments and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year and opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatments.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2006.

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Summary of Financial Information

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

RESULTS

	Year ended 31 December				
	2005	2004 Restated	2003	2002	2001
Revenue	**5,786,386**	3,610,791	24,535	24,003	52,753
Profit/(loss) before tax	**342,157**	59,725	(52,005)	(15,217)	(10,244)
Tax	**(110,642)**	(52,322)	–	–	–
Profit/(loss) for the year	**231,515**	7,403	(52,005)	(15,217)	(10,244)
Attributable to:					
Shareholders of the Company	**221,703**	4,772	(52,005)	(15,217)	(10,244)
Minority interests	**9,812**	2,631	–	–	–
	231,515	7,403	(52,005)	(15,217)	(10,244)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December				
	2005	2004 Restated	2003	2002	2001
Non-current assets	**3,080,713**	2,699,246	94,770	120,541	114,703
Current assets	**2,939,314**	2,999,004	1,135,268	1,131,845	1,166,501
Total assets	**6,020,027**	5,698,250	1,230,038	1,252,386	1,281,204
Current liabilities	**1,437,385**	1,369,385	47,686	18,029	1,029,894
Non-current liabilities	**1,615,235**	1,672,332	11,862	11,862	11,699
Total liabilities	**3,052,620**	3,041,717	59,548	29,891	1,041,593
Minority interests	**25,634**	19,693	–	–	–
	2,941,773	2,636,840	1,170,490	1,222,495	239,611