CITIC Resources Holdings Limited

(incorporated in Bermuda with limited liability)

Annual Report 2006

Stock Code: 1205

Contents

Corporate Information

HONOURARY CHAIRMAN
Mr. Kong Dan

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

REGISTERED OFFICE
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Hamilton HM 11, Bermuda

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SHARE REGISTRAR AND TRANSFER OFFICE
Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East, 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

The board of directors (the "Board") of CITIC Resources Holdings Limited (the "Company") is pleased to deliver a satisfactory 2006 annual results of the Company and its subsidiaries (collectively the "Group").

	2006 HK$ million	2005 Restated HK$ million	Change
Revenue	**7,503.4**	5,786.4	+ 29.7%
Gross profit	**528.8**	410.3	+ 28.9%
Profit attributable to shareholders	**200.8**	221.7	– 9.4%
Total assets	**9,328.4**	6,020.0	+ 55.0%
Net assets	**3,505.1**	2,967.4	+ 18.1%
Earnings per share attributable to ordinary shareholders			
Basic	**HK 4.65 cents**	HK 5.14 cents	– 9.5%
Diluted	**HK 4.61 cents**	N/A	N/A

Chairman's Statement

I am pleased to report to you, on behalf of your Board, our results for the year ended 31 December 2006. The Group has achieved a satisfactory financial performance for 2006.

FINANCIAL RESULTS

In 2006, the Group revenue increased by 29.7% to HK$7,503.4 million. Profit attributable to shareholders was HK$200.8 million, representing a 9.4% decrease from the HK$221.7 million of 2005. Earnings per share were HK 4.65 cents, compared with HK 5.14 cents in 2005.

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

BUSINESS REVIEW AND OUTLOOK

Strong demand and price volatility for natural resources, especially aluminium, coal, iron ore, manganese and oil, which are important to and impact the Group's performance, continued during 2006. Against this background, our delivery of the Group's business strategy as an integrated provider of key natural resources continued and there were a number of encouraging initiatives and developments during the year.

Our businesses and interests in Australia, including aluminium smelting, coal, import and export of commodities, continue to be the principal contributors and formed the basis for the satisfactory results of the Group in 2006. Our Australian listed subsidiary, CITIC Australia Trading Limited, recorded a modest increase in net profit. Alumina exports performed well as did iron ore trading. A positive development has been the commencement in 2006 of a new trading line exporting Chinese steel to Europe and the Middle East.

Since completing the acquisition of our manganese investment in February 2006, we have been integrating this into the Group. I am pleased to report that the manganese business has made a welcome contribution to the profits of the Group for 2006 and we will be endeavouring to obtain greater efficiency and productivity in the future.

Investment in oil has been identified as a particular focus for the Group and we have been benefiting from our key industry appointments of 2006.

In November 2006, CITIC Seram Energy Limited, a wholly-owned subsidiary of the Group, concluded the acquisition of a 51% majority interest in the Seram Island Non-Bula Block production sharing contract. One notable aspect of this acquisition is that CITIC Seram Energy Limited also became the operator responsible for managing and operating exploration and development at the Seram Island Non-Bula Block which marks a change in the Group's strategy for oil investments from passive holdings to an involvement. In 2006, the average production of oil from the Seram Island Non-Bula Block was above 4,700 barrels per day.

Chairman's Statement

We plan to increase our oil production capacity through development of existing interests and through acquisitions. We are currently assessing a possible investment in the Karazhanbas oilfield located in Kazakhstan which has proven reserves of about 340 million barrels of oil as of 31 December 2005. The Company has been granted a right by our ultimate controlling shareholder, CITIC Group, to acquire about a 50% interest in this oilfield. If an investment in the Karazhanbas oilfield can be successfully concluded, the Group would become one of the largest PRC controlled listed oil producers.

We continue to be financially sound and with the support of our shareholders, remain well placed to continue efforts to build our business and enhance shareholder value.

APPOINTMENT OF MR. KONG DAN AS HONORARY CHAIRMAN

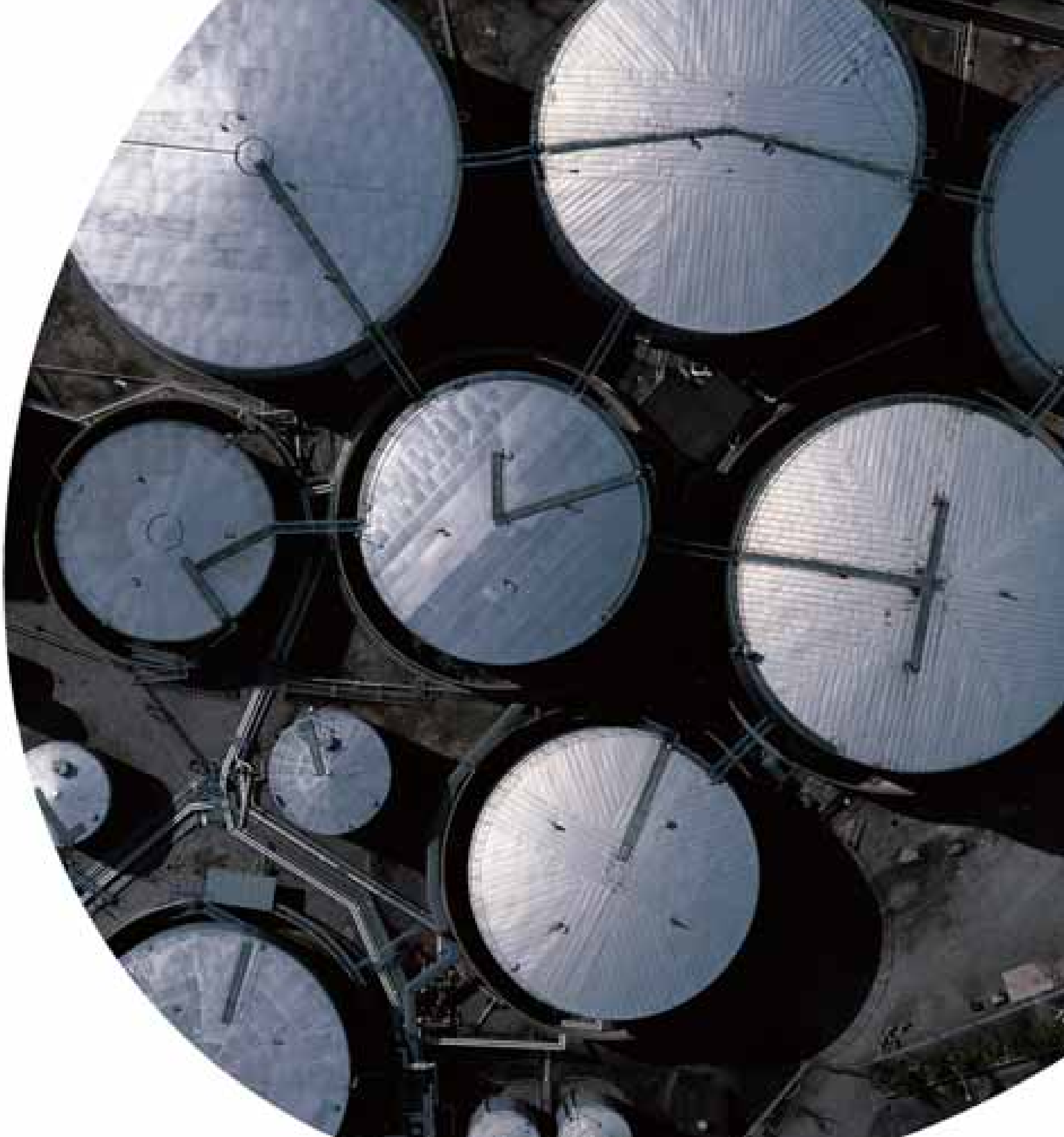
I would like to express a very warm welcome to Mr. Kong Dan who has graciously accepted our invitation to become our Honorary Chairman (non Board member). Mr. Kong is the Chairman of CITIC Group. I believe that Mr Kong's appointment will benefit the Group enormously and will allow us to draw on his considerable knowledge, experience and counsel to help us further develop our strategy and business and enhance returns to our shareholders.

APPRECIATION

I would like to express my deep thanks to my fellow directors for their valuable contribution and my gratitude to all of our employees for their dedicated efforts and unstinting dedication 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 support.

Kwok Peter Viem
Chairman

Hong Kong, 20 April 2007



HK$'000

Management's Discussion and Analysis

FINANCIAL REVIEW

Group's financial results:

Operating results and ratios			
	Year ended 31 December		
	2006	2005 Restated	Increase/ (decrease)
Revenue	**7,503,428**	5,786,386	29.7%
Gross profit	**528,830**	410,309	28.9%
Profit attributable to shareholders (Note)	**200,815**	221,703	(9.4%)
Earnings per share	**HK 4.65 cents**	HK 5.14 cents	(9.5%)
Gross profit margin [1]	**7.0 %**	7.1%	
Inventory turnover [2]	**7.9 times**	7.7 times	
Financial position and ratios			
	31 December		Increase/
	2006	2005	(decrease)
Cash and bank balances	**850,744**	1,519,595	(44.0%)
Total assets	**9,328,361**	6,020,027	55.0%
Bank and other loans	**3,802,562**	1,905,616	99.5%
Equity attributable to shareholders	**3,225,343**	2,941,773	9.6%
Current ratio [3]	**1.7 times**	2.0 times	
Gearing ratio [4]	**54.1%**	39.3%	

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%

(Note) There was a gain on sales of coal exploration interests of HK$78.5 million (after tax: HK$55.0 million) in 2005. If only the profits arising from the ordinary activities are compared, there was an increase of 20.5% in 2006.

Management's Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

The Group has achieved a satisfactory financial performance for 2006. The delivery of its business strategy as an integrated provider of key natural resources continued and there were a number of encouraging initiatives and developments during the year.

The businesses and interests in Australia, including aluminium smelting, coal, import and export of commodities, continue to be the principal contributors and formed the basis for the satisfactory results of the Group in 2006. The manganese business has made a welcome contribution to the profits of the Group since the 2Q of 2006 when the Group completed the acquisition of such business.

Investment in oil has been identified as a particular focus for the Group. In November 2006, the Group has concluded the acquisition of a 51% participating interest in the production sharing contract relating to an oilfield in the Seram Island Non-Bula Block, Indonesia (the "Seram Oilfield"). One notable aspect of this acquisition is that the Group also became the operator responsible for managing and operating exploration and development at the Seram Oilfield which marks a change in the Group's strategy for oil investments from passive holdings to an involvement.

The Group plans to increase its oil production capacity through development of existing interests and through acquisitions.

The following is a comparison of the results of each segment between 2005 and 2006.

Aluminium smelting

- Revenue ▲ 40%
  Net profit after tax (from ordinary activities) ▼ 20%

- Revenue was driven by higher selling prices, though it was partly offset by a drop in sales volume. The production in 2006 was slightly affected by the problem of the rectifier experienced in November 2005 which caused damages to some pots. The production was fully recovered in the 4Q of 2006. Insurance claim of HK$26.0 million was received.

- The decrease in net profit was mainly caused by the loss arising from the revaluation of the embedded derivatives. As a consequence of the adoption of Hong Kong Financial Reporting Standards, a component of the Electricity Supply Agreement (the "ESA") which is linked to the market price of aluminium is considered as a financial instrument embedded in the ESA. Such embedded derivatives need to be marked to market at the balance sheet date based on the future aluminium prices. As the future aluminium price has increased, the revaluation of the embedded derivatives resulted in unrealised losses of HK$111.7 million (2005: HK$13.2 million) and they were included in "Cost of sales" in the consolidated income statement.

  Another key reason for the drop in the net profit was the hedge loss of HK$162,522,000 (2005: HK$31,678,000). Such was also included in "Cost of sales" in the consolidated income statement.

  The underlying operation performed better than 2005 though there were increases in production costs, particularly for alumina and electricity which are linked to the market price of aluminium.

Management's Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Coal

- Revenue ▲ 6%
  Net profit after tax (from ordinary activities) ▲ 31%

- The sale volume was slightly lower in 2006 compared to 2005 while the average selling price was similar between two years. Much of the increase in revenue was due to the appreciation of the Australian dollars.

- Despite the significant cost pressures across the mining industry, increase in mining costs was contained to around 6%. The Group received higher dividend payments from Macarthur Coal Limited. In 2006, the dividend income was HK$55.1 million (2005: HK$19.8 million)

Import and export of commodities

- Revenue ▲ 18%
  Net profit after tax (from ordinary activities) ▲ 10%

  The following table shows a breakdown of revenue and net profit before tax for 2006 and a comparison with 2005:

			Exports					
		Total	**Alumina**	**Iron ore**	**Steel**	**Others**	**Imports**	**Others**
Revenue	HK$ million	**5,074.1**	1,070.8	1,471.9	922.4	57.0	883.7	668.3
	Compare to 2005	**▲ 18%**	▼ 36%	▼ 9%	new line	▼ 66%	▲ 24%	▲ 412%
Net profit before tax	HK$ million	**79.6**	43.3	7.6	2.6	0.6	25.2	0.3
	Compare to 2005	**▲ 10%**	▲ 37%	▲ 21%	new line	▼ 87%	▲ 16%	▼ 96%

- The increase in revenue and net profit was partly due to the appreciation of the Australian dollars.

- Exported products include alumina and iron ore sourced from Australia and other countries exported to the People's Republic of China (the "PRC"). Alumina exports remained the largest contributor to the net profit though revenue largely decreased due to tight supply in early 2006. Significant profits were achieved on some cargoes in the early 2006, before the spot alumina prices dropped sharply from the 2Q of 2006.

  Iron ore exports decreased in terms of volume. Despite such, the profit margins improved, reflecting firmer iron ore prices and continued demand from the steel mills in the PRC. Iron ore was sourced from various origins including Australia, India, South Africa and Brazil.

  A positive development has been the commencement in the 1H of 2006 of a new trading line exporting Chinese steel to Europe and the Middle East, which largely offset the lower alumina and iron ore sales.

  CITIC Australia Trading Limited ("CATL") has been proactively working on sourcing products to support its export business and now have in place long term off-take contracts for alumina and iron ore. It is positive about its long term prospects of increasing iron ore sales particularly into the PRC market to become a major trading line alongside its alumina exports. CATL is encouraged by the commencement of exports of Chinese steel during 2006 and hopes to develop this into a regular and profitable trading line.

Management's Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

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 continues its strategy of diversification by developing multiple trading lines to reduce its relative reliance upon earnings from alumina. Alumina spot prices were extremely volatile during the year, but have experienced a strong recovery since the beginning of 2007. The iron ore market has been steady. The steel market has seen some moderate strengthening. CATL is monitoring developments in each of its trading lines and stays cautious.

- While trading is volatile in its nature, CATL's experienced trading team consistently and continuously strives to identify and capture profitable trading opportunities that balance minimum risk and maximum returns for its shareholders.

Manganese

- In February 2006, the formation of a sino-foreign equity joint venture to undertake the business of manganese mining and processing was completed. The newly established joint venture company, namely, CITIC Dameng Mining Industries Limited (the "Manganese Company"), became a non-wholly-owned subsidiary of the Group from then. As the Company has controlling interest in the Manganese Company, the financial results of the Manganese Company were consolidated into the accounts of the Group as from the 2Q of 2006. Since then, it has made a welcome contribution to the profits of the Group.

- The Manganese Company will be endeavouring to obtain greater efficiency and productivity in the future.

Crude Oil

- Oilfield in the PRC
  In February 2006, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC into common shares in the share capital of Ivanhoe Energy Inc. ("Ivanhoe") and a loan repayable by Ivanhoe. There were some gains in the disposal of the Ivanhoe shares.

- Oilfield in Indonesia
  In November 2006, CITIC Seram Energy Limited ("CITIC Seram"), an indirect wholly-owned subsidiary of the Group, concluded the acquisition of a 51% participating interest in the production sharing contract relating to the Seram Oilfield. In 2006, the average production of oil from the Seram Oilfield was above 4,700 barrels per day. From the completion date of the acquisition to the end of the year, no sales were recorded. Similar to other jointly-controlled assets of the Group, the Group's share of the revenue, expenses, assets and liabilities in the Seram Oilfield are taken into the accounts of the Group as from December 2006.

Management's Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

Cash

As at 31 December 2006, the Group had a cash balance of HK$850.7 million.

In February and April 2007, the Company has allotted and issued totaling 700,000,000 new shares at a price of HK$2.46 per new share. The net proceeds of the subscription amounted to HK$1,683.0 million.

Borrowings

As at 31 December 2006, the Group had outstanding borrowings of HK$3,802.6 million, which comprised secured bank loans of HK$878.7 million, unsecured bank loans of HK$2,465.0 million and unsecured other loans of HK$458.9 million. The secured bank loans were secured by the Group's 22.5% participating interest in the Portland Aluminium Smelter joint venture, the fixed assets, prepaid land lease premiums, letter of credit and mining right of the manganese coal mines, and guarantees mostly provided by Guangxi Dameng Manganese Industry Co., Ltd. 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 loans, CATL's borrowings are transaction 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.

As at 31 December 2006, there was an increase in the Group's total outstanding borrowings caused by the growth of the business, the gearing ratio of the Group was 54.1%. Of the total outstanding borrowings, HK$1,588.0 million was repayable within one year. There was no adverse change to the financial position of the Group.

Share Capital

In a special general meeting of the Company held on 20 March 2007, an ordinary resolution was passed that the authorized share capital of the Company of HK$300 million divided into 6,000,000,000 ordinary shares of HK$0.05 each be and is hereby increased to HK$500 million divided into 10,000,000,000 ordinary shares of HK$0.05 each.

Financial risk management

The Group's diversified business is exposed to a variety of financial risks, such as market risks (including foreign exchange risk, commodity price risk and interest rate risk), credit risk and liquidity risk. The management of such risks is dictated by a set of internal policies and procedures designed to minimize potential adverse effects to the Group. The policies and procedures have proven to be effective. Further details are set out in note 44 to the financial statements.

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

Management's Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (CONTINUED)

New investments

- In February 2006, the formation of the Manganese Company as a sino-foreign equity joint venture to undertake the business of manganese mining and processing was completed. The Manganese Company became a non-wholly-owned subsidiary of the Group from then. The joint venture enables the Group to manage and operate the largest manganese mine in the PRC and one of the largest manufacturers and suppliers of manganese products in the world.

  The Manganese Company was established in August 2005 and is owned as to 40% by Guangxi Dameng Manganese Industry Co., Ltd. ("Guangxi Dameng", a state-owned enterprise in the PRC) and as to 60% by CITIC Dameng Investments Limited ("CITIC Dameng"). CITIC Dameng is ultimately owned as to 80% by the Group and as to 20% by CITIC United Asia Investments Limited, an indirect wholly-owned subsidiary of CITIC Group. Before the end of 2005, CITIC Dameng has paid its capital contribution in cash of RMB300 million (HK$288.5 million) and Guangxi Dameng has paid its capital contribution in form of the contributed assets as approved by the relevant authorities of the PRC 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. Further details of the transaction are set out in the circular of the Company dated 24 August 2005.

- In November 2006, the Group completed the acquisition of a 51% participating interest in the production sharing contract relating to the Seram Oilfield for a purchase price of HK$875.0 million, subject to adjustment.

  The agreement was signed in July 2006 with KUFPEC (Indonesia) Limited ("KUFPEC"). Further details of the transaction are set out in the circular of the Company dated 28 September 2006.

- In October 2006, the Company had entered into a memorandum of understanding with CITIC Group pursuant to which CITIC Group had granted to the Group the right to purchase the Kazakhstan oil assets (the "Purchase Right").

  The Company may elect to exercise the Purchase Right by giving notice in writing to CITIC Group during the period of one year commencing from 29 December 2006. To ensure that the Company could act expeditiously in relation to its review and assessment of an investment in the Kazakhstan oil assets, the Company has placed as earnest money an amount equal to US$200 million with CITIC Group in October 2006. Further details of the transaction are set out in the announcement of the Company dated 1 November 2006.

Management's Discussion and Analysis

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE (CONTINUED)

Changes to investments

- In February 2006, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC, with a then 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 3-year non-interest bearing, unsecured loan of US$7,386,135 (HK$57,612,000) repayable by Ivanhoe. The loan is repayable by 36 monthly instalments and the first instalment was due and received in March 2006.

  The 8,591,434 common shares represent about 3.7% of the total issued and outstanding share capital of Ivanhoe following completion of the conversion. There are limits on the sales of the shares during the period of 12 months following the date of conversion. During 2006, some of the shares were sold and as at 31 December 2006, the Company still held 7,160,271 shares, being about 2.9% of the total issued and outstanding share capital of Ivanhoe. Further details of the transaction are set out in the circular of the Company dated 13 March 2006.

- With effect from 7 June 2006, the agreement signed between the Group and a Chevron Corporation subsidiary in January 2005 to form a joint venture to develop a regional network of Caltex branded service stations in Southern China and to explore development possibilities in the Yangtze river delta lapsed. The required PRC approval was not obtained.

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.

Management's Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had around 3,100 full time employees, including management and administrative staff. Most of the employees are employed in the PRC and Australia while the others are employed in Indonesia and 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. Rent-free quarters are provided to the Group's PRC employees.

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 employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. 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 Group's PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension 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 58, 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 31 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 43, 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 19 years' experience in the banking and finance industry.

Board of Directors and Senior Management

Mr. Shou Xuancheng, aged 57, is a Vice Chairman of the Company. He has been an Executive Director of the Company since 2005. He is also a director of several 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 Karazhanbasmunai JSC ("KBM"). Mr. Shou has over 36 years' experience in the oil and gas industry.

Mr. Sun Xinguo, aged 56, 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 31 years' experience in project investment, marketing and operation, import and export, securities investment and corporate finance.

Ms. Li So Mui, aged 52, 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 29 years' experience in the accounting and banking field.

Mr. Mi Zengxin, aged 56, 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"), CITIC Resources Australia Pty Limited ("CRA"), Asia Satellite Telecommunications Holdings Limited (Stock Code: 1135) listed on the Main Board of the Stock Exchange and KBM, 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 23 years' experience in multi-national business, corporate management and various industries.

Mr. Qiu Yiyong, aged 50, 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, a director of CITIC Group, Keentech and DVN (Holdings) Limited (Stock Code: 500) listed on the Main Board of the Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group. Prior to joining CITIC Group, he was a director of two companies listed on the Stock Exchange. Mr. Qiu has over 25 years' experience in investment management.

Board of Directors and Senior Management

Mr. Zeng Chen, aged 43, 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 18 years' experience in business operations and development, asset restructuring and the aluminium and coal industry.

Mr. Zhang Jijing, aged 51, 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, Keentech and KBM, and a non-executive director of China CITIC Bank Corporation Limited (Stock Code: 998) listed on the Main Board of the Stock Exchange. Mr. Zhang has over 21 years' experience in corporate management, industrial investment, business finance and the aluminium industry.

Mr. Fan Ren Da, Anthony, aged 46, 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 61, 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 34 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 43, 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. In 2006, he was appointed as a member of Disciplinary Panel of HKICPA and a member of the Appeal Panel on Housing.

Board of Directors and Senior Management

SENIOR MANAGEMENT – BIOGRAPHIES

Mr. Cha Johnathan Jen Wah, aged 42, joined in 2005 as General Counsel of the Company. He is a solicitor admitted in Hong Kong and in England and Wales. Mr. Cha has over 16 years' experience in mergers and acquisitions, corporate finance, regulatory and general commercial work.

Mr. Chung Ka Fai, Alan, aged 40, 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 16 years' experience in the accounting field.

Mr. Luk Kar Yan, aged 39, 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 17 years' experience in the banking and finance industry.

Corporate Governance Report

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is of the view that the Company has, for the year ended 31 December 2006, applied the principles and complied with the applicable provisions, and also complied with certain recommended best practices, of the Code on Corporate Governance Practices (the "CG Code") and the Rules on the Corporate Governance Report 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"), except for the deviation to paragraph A.4.1 of the CG Code as set out in the "Independent Non-executive Directors" below.

The Board would like to highlight that at the annual general meeting of the Company held on 26 June 2006, to be consistent with paragraph A.4.2 of the CG Code, bye-law 86(2) of the Company's bye-laws was amended to reflect the requirement for any director appointed to fill a casual vacancy to hold office until the next general meeting of the Company.

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. The Board has a balance of skills and experience appropriate for the requirements of the business of the Company. 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.

Corporate Governance Report

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	*(appointed on 1 March 2006)*
Mr. Tsang Link Carl, Brian	

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. Following the resignation of Mr. Chan Mo Po, Paul as independent non-executive director on 1 October 2005, the Company only had two independent non-executive directors. On 1 March 2006, Mr. Ngai Man was appointed as an independent non-executive director. The Company has three independent non-executive directors from 1 March 2006.

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

The Group has management expertise in the industries of energy resources and commodities, including oil, aluminium, coal and manganese. The Board has the required knowledge, experience and capabilities to operate and develop the Group' businesses and implement the Company's business strategies. The biographical details and experience of the directors and senior management are set out on pages 15 to 18.

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.

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

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

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

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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. The Chairman focuses on the Group's strategic planning while the Chief Executive Officer has overall executive responsibility for the Group's development and management. They receive significant support from the directors and the senior management team.

The Chairman has a clear responsibility to provide the whole Board with all the information that is required for the discharge of the Board's responsibilities. The Chairman has been continually improving the quality and timeliness of the information distributed to the directors. The Board, led by the Chairman, sets the overall direction, strategy and policies of the Company.

The Chairman provides leadership 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.

The Board determines which functions are reserved to the Board and which are delegated to management. 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.

These arrangements are reviewed on a periodic basis to ensure they remain appropriate to the needs 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.

INDEPENDENT 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 and experience, they offer independent judgement and advice on the overall management of the Company. They take the lead where potential conflicts of interests arise. Their responsibilities include maintaining a balance between the interests of minority shareholders and the Company as a whole.

All independent non-executive directors serve on the nomination, remuneration and audit 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.

Corporate Governance Report

Paragraph A.4.1 of the CG Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The 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. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those set out in paragraph A.4.1 of the CG Code.

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

BOARD MEETINGS

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

There was satisfactory attendance for board meetings, which evidence prompt attention of the directors to the affairs of the Company. A total of seven board meetings were held in 2006 with individual attendance of each director as follows:

Executive directors:	Attendance	
Mr. Kwok Peter Viem	7/7	
Mr. Ma Ting Hung	7/7	
Mr. Shou Xuancheng	5/7	
Mr. Sun Xinguo	7/7	
Ms. Li So Mui	7/7	
Mr. Mi Zengxin	6/7	
Mr. Qiu Yiyong	6/7	
Mr. Zeng Chen	6/7	
Mr. Zhang Jijing	5/7	
Independent non-executive directors:	**Attendance**	
Mr. Fan Ren Da, Anthony	7/7	
Mr. Ngai Man	4/5	(appointed on 1 March 2006)
Mr. Tsang Link Carl, Brian	6/7	

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

Corporate Governance Report

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 and payment of dividends. The Board gives clear directions to management as to the matters that must be approved by the Board before decisions are made on behalf of the Company.

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

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

The Company Secretary is responsible for taking the minutes. The drafts are sent to the directors for comment within a reasonable time after each meeting. The minutes are kept by the Company Secretary and they are open for inspection by the directors and the members of the board committees. Board 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 promptly.

All directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures and all applicable rules and regulations are complied with. The directors have access to the senior management of the Company whenever they feel necessary. The Company provides an agreed procedure enabling the directors to seek independent professional advice at the Company's expense.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

BOARD COMMITTEES

There are three board committees: nomination, remuneration and audit. They were each established with specific written terms of reference.

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

Corporate Governance Report

NOMINATION COMMITTEE

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 Board's approval 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 the 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.

One meeting was held in the year and all members attended the meeting. The committee discussed the election and re-election of directors.

REMUNERATION COMMITTEE

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 terms of reference of the committee include the minimum prescribed responsibilities. The committee makes available its terms of reference.

The committee is responsible for ensuring that formal and transparent procedures for developing policy on executive directors' remuneration and for fixing the remuneration packages for all directors and senior management.

The committee consults with the Chairman and/or the Chief Executive Officer about their proposals relating to the remuneration packages of directors and senior management. It makes recommendations to the Board regarding the remuneration of the independent non-executive directors. The committee can seek independent professional advice to complement its own resources to discharge its duties. It is authorised to obtain such legal, remuneration or other professional advice as it shall deem appropriate.

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

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)	

Four meetings were held in the year and all members attended the meetings, except that one meeting was held prior to the appointment of Mr. Ngai and Mr. Ma. The committee reviewed and approved the performance-based remuneration package of each individual executive director. No director was involved in deciding his/her own remuneration.

The Company and one of its subsidiaries, 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 notes 7 and 37 respectively to the financial statements.

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 terms of reference of the committee include the minimum prescribed responsibilities. The committee makes available its terms of reference.

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.

All members of the committee are independent non-executive directors and they possess appropriate professional qualifications and/or experience in financial matters. None of the committee members is or was a partner of the existing audit firm. Its composition is as follows:

Chairman	:	Mr. Tsang Link Carl, Brian	
Member	:	Mr. Fan Ren Da, Anthony	
		Mr. Ngai Man	(appointed on 1 March 2006)

Rule 3.21 of the Listing Rules requires that the audit committee must comprise a minimum of three members. Following the resignation of Mr. Chan Mo Po, Paul on 1 October 2005, the audit committee only had two members. On 1 March 2006, Mr. Ngai Man was appointed as audit committee member. The audit committee has three member from 1 March 2006.

The committee meets as and when required to discharge its responsibilities, and not less than two times a year. Two meetings were held in the year and all members attended the meetings. The committee reviewed, together with the senior management and the external auditors, the financial statements for the year ended 31 December 2005 and the financial statements for the six months ended 30 June 2006, the accounting principles and practices adopted by the Company, statutory compliance, other financial reporting matters and internal control system.

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.

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 2007.

FINANCIAL REPORTING

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

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

The statement of the external auditors of the Company regarding their responsibilities for the financial statements of the Group is set out in the independent auditors' report on pages 39 and 40.

Corporate Governance Report

INTERNAL CONTROLS

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

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

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

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

AUDITORS' REMUNERATION

Ernst & Young were re-appointed by shareholders at the 2005 annual general meeting held on 26 June 2006 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 2006.

For the year ended 31 December 2006, the total remuneration in respect of statutory audit services provided by Ernst & Young for the Group amounted to HK$6,906,000 and in respect of non-audit services provided by Ernst & Young amounted to HK$463,000.

INVESTOR RELATIONS AND SHAREHOLDERS' RIGHTS

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

A separate resolution is proposed for each substantially separate issue, including the election of a director. 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 and answer questions at the annual general meeting.

The Company ensures compliance with the requirements about voting by poll contained in the Listing Rules and the Company's bye-laws. Each circular to shareholders containing notice convening a general meeting of the Company contains the procedures for demanding a poll. The chairman of the meeting explains the poll procedures at the commencement of the meeting. The representative of the share registrar of the Company is normally appointed as scrutineer of the votes cast.

In relation to votes taken by way of a poll, results are published in major Hong Kong newspapers on the business day following the meeting and posted on the websites of the Stock Exchange and the Company.

Corporate Governance Report

The Company is committed to providing clear and reliable information on the performance of the Group to shareholders through the publication and dispatch of interim and annual reports. The Company's website offers an ongoing communication channel between the Company and shareholders. Key information on the Group is provided on the website and is updated from time to time.

Press conferences and briefing meetings with investment analysts are arranged from time to time and particularly when financial results are announced.

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

Report of the Directors

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its principal subsidiaries are set out in notes 1 and 18 to the financial statements.

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 2006 is set out in note 4 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 41 to 125.

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 past five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 126. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group 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 36 and 37 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 38(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 31 December 2006, 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$2,563,587,000 as at 31 December 2006, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK$295,000 (2005: HK$123,000).

MAJOR CUSTOMERS AND MAJOR SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 49.8% of the total sales for the year and sales to the largest customer included therein amounted to 18.4%. Purchases from the Group's five largest suppliers accounted for 29.9% of the total purchases for the year and purchases from the largest supplier included therein amounted to 8.1%.

The Group's largest customer for the year ended 31 December 2006 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.

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.

Report of the Directors

DIRECTORS

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

Executive directors:

Mr. Kwok Peter Viem
Mr. Ma Ting Hung
Mr. Shou Xuancheng
Mr. Sun Xinguo
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 (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-laws 87(1) and (2) of the Company's bye-laws, Mr. Kwok Peter Viem, Mr. Mi Zengxin, Mr. Zeng Chen and Mr. Tsang Link Carl, Brian 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.

Report of the Directors

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 2006, 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 Futures 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. ("USI"), 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.

Report of the Directors

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

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

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Number of shares/equity derivatives held	Nature of interest	Exercise period of share options	Exercise price per share 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

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 2006, 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 2006, 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 2006, none of the directors or their associates was materially interested in any subsisting contract or arrangement which is significant in relation to the businesses of the Group taken as a whole; and

(iv) as at 31 December 2006, none of the directors or their associates had any interest in a business apart from the businesses of the Group which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

Report of the Directors

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 37 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 2006, 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 interests 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)]	–	60.46
CITIC Projects Management (HK) Limited	Corporate	1,860,180,588[(2)]	–	43.08
Keentech Group Limited	Corporate	1,860,180,588[(3)]	–	43.08
CITIC Australia Pty Limited	Corporate	750,413,793[(4)]	–	17.38
USI	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

Report of the Directors

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

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 as the beneficial owner of 50% each of USI. 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 their personal interests.

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 2006, 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.

Report of the Directors

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 the related party transactions and connected transactions of the Company and of the Group are set out in note 43 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 the 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 been approved by 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 43 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events of the Group are set out in note 45 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.

Report of the Directors

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, 20 April 2007

Independent Auditors' Report

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements of CITIC Resources Holdings Limited set out on pages 41 to 125, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

Independent Auditors' Report

AUDITORS' RESPONSIBILITY (CONTINUED)

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

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

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

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

20 April 2007

HK$'000

Consolidated Income Statement

	Notes	2006	2005 Restated
REVENUE	5	**7,503,428**	5,786,386
Cost of sales		**(6,974,598)**	(5,376,077)
Gross profit		**528,830**	410,309
Other income and gains	5	**283,245**	195,293
Selling and distribution costs		**(68,302)**	(33,805)
Administrative expenses		**(214,910)**	(132,526)
Other operating expenses, net		**(62,319)**	(3,384)
Finance costs	9	**(150,355)**	(93,730)
PROFIT BEFORE TAX	6	**316,189**	342,157
Tax	10	**(70,152)**	(110,642)
PROFIT FOR THE YEAR		**246,037**	231,515
ATTRIBUTABLE TO:			
Shareholders of the Company	11	**200,815**	221,703
Minority interests		**45,222**	9,812
		246,037	231,515
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12		
Basic		**HK 4.65 cents**	HK 5.14 cents
Diluted		**HK 4.61 cents**	N/A
DIVIDEND PER SHARE		**Nil**	Nil

HK$'000

Consolidated Balance Sheet

	Notes	2006	2005
NON-CURRENT ASSETS			
Property, plant and equipment	13	**2,391,501**	1,170,614
Prepaid land lease premiums	14	**58,353**	–
Goodwill	17	**341,512**	341,512
Other intangible assets	15	**135,701**	–
Other assets	16	**555,983**	573,878
Available-for-sale equity investments	20	**845,936**	657,035
Prepayments, deposits and other receivables	21	**16,346**	326,486
Loan receivable	24	**21,615**	–
Deferred tax assets	35	**6,754**	11,188
Total non-current assets		**4,373,701**	3,080,713
CURRENT ASSETS			
Inventories	22	**1,112,150**	656,138
Accounts receivable	25	**939,938**	395,749
Prepayments, deposits and other receivables	21	**1,867,396**	29,185
Loan receivable	24	**17,327**	–
Equity investments at fair value through profit or loss	26	**1,974**	1,830
Derivative financial instruments	31	**16,380**	12,356
Due from related companies	23	**51,486**	–
Due from the ultimate holding company	23	**34,320**	–
Other assets	16	**62,945**	58,365
Cash and bank balances	27	**850,744**	1,519,595
		4,954,660	2,673,218
Assets of a disposal group classified as held for sale	28	**–**	266,096
Total current assets		**4,954,660**	2,939,314
CURRENT LIABILITIES			
Accounts payable	29	**533,788**	186,288
Tax payable		**47,108**	71,709
Accrued liabilities and other payables	30	**306,789**	51,153
Derivative financial instruments	31	**286,920**	203,541
Due to a minority shareholder	32	**38,174**	–
Bank and other loans	33	**1,588,022**	858,393
Provisions	34	**53,738**	33,229
		2,854,539	1,404,313
Liabilities of a disposal group classified as held for sale	28	**–**	33,072
Total current liabilities		**2,854,539**	1,437,385
NET CURRENT ASSETS		**2,100,121**	1,501,929
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,473,822**	4,582,642

HK$'000

Consolidated Balance Sheet

	Notes	2006	2005
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,473,822**	4,582,642
NON-CURRENT LIABILITIES			
Bank and other loans	33	**2,214,540**	1,047,223
Deferred tax liabilities	35	**519,933**	470,985
Derivative financial instruments	31	**41,063**	11,016
Provisions	34	**117,549**	86,011
Other payables		**75,648**	–
Total non-current liabilities		**2,968,733**	1,615,235
Net assets		**3,505,089**	2,967,407
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	36	**215,909**	215,844
Reserves	38(a)	**3,009,434**	2,725,929
		3,225,343	2,941,773
Minority interests		**279,746**	25,634
Total equity		**3,505,089**	2,967,407

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	Available-for-sale revaluation reserve	Hedging reserve	Share option reserve	Accumulated losses	Sub-total	Minority interests	Total equity
At 1 January 2005	215,844	2,561,962	65,527	50,335	203,741	(30,205)	–	(267,558)	2,799,646	19,693	2,819,339
Exchange realignment	–	–	–	(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 equity investments#	–	–	–	–	87,045	–	–	–	87,045	–	87,045
Total income and expense for the year recognised directly in equity	–	–	–	(57,175)	87,045	(122,126)	–	–	(92,256)	(1,144)	(93,400)
Profit for the year	–	–	–	–	–	–	–	221,703	221,703	9,812	231,515
Total income and expense for the year	–	–	–	(57,175)	87,045	(122,126)	–	221,703	129,447	8,668	138,115
Acquisition of interests in subsidiaries by minority shareholders	–	–	–	–	–	–	–	–	–	2,801	2,801
Dividends paid to minority shareholders	–	–	–	–	–	–	–	–	–	(5,528)	(5,528)
Equity-settled share option arrangements	–	–	–	–	–	–	12,680	–	12,680	–	12,680
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

Amounts net of deferred tax impact already.

HK$'000

Consolidated Statement of Changes in Equity

	Notes	Attributable to shareholders of the Company										
		Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Available-for-sale revaluation reserve	Hedging reserve	Share option reserve	Retained profits/ (accumulated losses)	Sub-total	Minority interests	Total equity
At 1 January 2006		215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	12,680	(45,855)	2,941,773	25,634	2,967,407
Exchange realignment		-	-	-	5,802	-	-	-	-	5,802	2,016	7,818
Net gains on cash flow hedges#		-	-	-	-	-	72,915	-	-	72,915	-	72,915
Change in fair value of available-for-sale equity investments#		-	-	-	-	(23,507)	-	-	-	(23,507)	-	(23,507)
Total income and expense recognised directly in equity		-	-	-	5,802	(23,507)	72,915	-	-	55,120	2,016	57,226
Profit for the year		-	-	-	-	-	-	-	200,815	200,815	45,222	246,037
Total income and expense for the year		-	-	-	5,802	(23,507)	72,915	-	200,815	256,025	47,238	303,263
Acquisition of interests in subsidiaries by minority shareholders	39(a)	-	-	-	-	-	-	-	-	-	213,432	213,432
Dividends paid to minority shareholders		-	-	-	-	-	-	-	-	-	(6,558)	(6,558)
Issue of new shares upon exercise of share options	38(b)	65	1,625	-	-	-	-	(286)	-	1,404	-	1,404
Equity-settled share option arrangements	38(b)	-	-	-	-	-	-	26,141	-	26,141	-	26,141
At 31 December 2006		215,909	2,563,587*	65,527*	(1,038)*	267,279*	(79,416)*	38,535*	154,960*	3,225,343	279,746	3,505,089

* These reserve amounts comprise the consolidated reserves of HK$3,009,434,000 (2005: HK$2,725,929,000) in the consolidated balance sheet.

\# Amounts net of deferred tax impact already.

HK$'000

Consolidated Cash Flow Statement

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**316,189**	342,157
Adjustments for:			
Interest income	5	**(144,810)**	(75,002)
Dividend income from listed investments	5	**(55,115)**	(19,768)
Gain on sales of coal exploration interests	5	**–**	(78,463)
Gain on disposal of available-for-sale equity investments	5	**(5,235)**	–
Gain on conversion of available-for-sale equity investments	5	**(17,502)**	–
Equity-settled share option expenses	6	**26,158**	12,680
Depreciation	6	**92,560**	114,330
Amortisation	6	**68,113**	58,348
Loss on disposal/write-off of items of property, plant and equipment	6	**4,568**	6,563
Provision/(write-back of provision) for impairment of items of property, plant and equipment	6	**(4,893)**	12,733
Provision for long service and leave payments	6	**6,715**	12,779
Provision for impairment of accounts receivable	6	**1,816**	1,725
Provision against inventories	6	**1,515**	5,151
Provision for rehabilitation cost	6	**8,554**	1,292
Provision for abandonment cost	6	**112**	–
Unrealised losses on embedded derivatives	6	**111,667**	13,235
Unrealised foreign exchange losses		**25,777**	–
Warranty income, net	6	**(14,908)**	–
Finance costs	9	**150,355**	93,730
		571,636	501,490
Decrease/(increase) in inventories		**(302,729)**	21,180
Increase in accounts receivable		**(502,396)**	(95,046)
Decrease/(increase) in prepayments, deposits and other receivables		**(59,723)**	223,100
Increase in due from related companies		**(51,486)**	–
Increase/(decrease) in accounts payable		**313,906**	(24)
Decrease in accrued liabilities and other payables		**(116,872)**	–
Increase in an amount due to a minority shareholder		**38,174**	–
Cash (used in)/generated from operations		**(109,490)**	650,700
Australian income tax paid		**(144,835)**	(80,491)
PRC income tax paid		**(623)**	–
Net cash inflow/(outflow) from operating activities		**(254,948)**	570,209

HK$'000

Consolidated Cash Flow Statement

	Notes	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**142,403**	75,002
Dividends received from listed investments	5	**55,115**	19,768
Purchases of items of property, plant and equipment	13	**(173,368)**	(149,124)
Purchase of other intangible assets	15	**(32)**	–
Proceeds from disposal of items of property, plant and equipment		**21,632**	–
Proceeds from disposal of available-for-sale equity investments		**31,221**	–
Net cash inflow from acquisition of subsidiaries	39(a)	**148,230**	–
Repayment of loan receivable		**15,990**	–
Net cash outflow from acquisition of the participating interest in a joint venture	39(b)	**(757,723)**	–
Proceeds from disposal of short term investments		**–**	827
Deposits paid for potential investment projects	21	**(1,560,000)**	(288,500)
Payments of interest, legal and professional fees and other charges incurred in relation to potential investment projects		**(35,177)**	(22,929)
Net cash outflow from investing activities		**(2,111,709)**	(364,956)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	36	**1,404**	–
Acquisitions of interests in subsidiaries by minority shareholders		**–**	2,801
Dividends paid to minority shareholders		**(6,558)**	(5,528)
New bank and other loans		**6,019,860**	63,606
Repayment of bank and other loans		**(4,183,162)**	(222,518)
Interest paid		**(137,025)**	(91,726)
Finance charges paid		**(3,652)**	(11,523)
Net cash inflow/(outflow) from financing activities		**1,690,867**	(264,888)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(675,790)**	(59,635)
Cash and cash equivalents at beginning of year		**1,519,595**	1,606,833
Effect of foreign exchange rate changes, net		**6,939**	(27,603)
CASH AND CASH EQUIVALENTS AT END OF YEAR		**850,744**	1,519,595
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	**310,258**	166,033
Non-pledged time deposits with original maturity of less than three months when acquired	27	**540,486**	1,353,562
		850,744	1,519,595

HK$'000

Balance Sheet

	Notes	2006	2005
NON-CURRENT ASSETS			
Interests in subsidiaries	18	**2,382,642**	1,721,501
Prepayments, deposits and other receivables		**5,527**	7,518
Total non-current assets		**2,388,169**	1,729,019
CURRENT ASSETS			
Prepayments, deposits and other receivables		**1,674,413**	3,280
Bank balances	27	**22,690**	887,680
Total current assets		**1,697,103**	890,960
CURRENT LIABILITIES			
Accrued liabilities and other payables		**76,706**	82
Bank loans, unsecured	33	**343,200**	–
Total current liabilities		**419,906**	82
NET CURRENT ASSETS		**1,277,197**	890,878
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,665,366**	2,619,897
NON-CURRENT LIABILITIES			
Bank loans, unsecured	33	**1,170,000**	–
Net assets		**2,495,366**	2,619,897
EQUITY			
Issued capital	36	**215,909**	215,844
Reserves	38(b)	**2,279,457**	2,404,053
Total equity		**2,495,366**	2,619,897

Kwok Peter Viem
Director

Ma Ting Hung
Director

Notes to Financial Statements

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding.

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

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

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

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

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

Notes to Financial Statements

1. CORPORATE INFORMATION (CONTINUED)

Proposed acquisition of potential oil assets located in Kazakhstan

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

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

2.1 BASIS OF PREPARATION

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

Basis of consolidation

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

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

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

Notes to Financial Statements

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

The principal changes in accounting policies are as follows:

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

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

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

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

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

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

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

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

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture's financial and operating policies;

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

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

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

Jointly-controlled assets

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

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

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

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

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

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

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

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

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

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

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

Freehold land is not depreciated.

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Oil and gas properties

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

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

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

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

Capital works

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

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

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

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

Other intangible assets

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

Other assets

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Non-current assets and disposal groups held for sale

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

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

Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Available-for-sale financial assets

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

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortised cost

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Assets carried at cost

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

Available-for-sale financial assets

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

Derecognition of financial assets

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

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

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk); or

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging (continued)

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Inventories

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

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

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

Provisions

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

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

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

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

Income tax

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Operating leases

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

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

Employee benefits

Share-based payment transactions

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

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

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

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

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

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

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

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

Share options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the director and employee option plans is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

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

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefits expense recognised during each period takes into account the most recent estimate.

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

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

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Pension schemes

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

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

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

Paid leave carried forward

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

Borrowing costs

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

Foreign currencies

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

Notes to Financial Statements

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

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

Tax

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

Employee benefits – share-based payment transactions

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

Estimation uncertainty

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

Notes to Financial Statements

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

Impairment of goodwill

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

Oil and gas reserve and mining reserves

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

4. SEGMENT INFORMATION

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

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

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

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

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

(d) the manganese segment comprises the operation of manganese mining operated by the Manganese Company (a non-wholly-owned subsidiary of the Company) and the sale of refined manganese products in the PRC;

(e) the crude oil segment comprises the operation of oilfields and the sale of crude oil in the PRC and Indonesia; and

(f) the others segment comprises other operating activities of the Group.

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

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

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Notes to Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments

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

Group

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

HK$'000

Notes to Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

(a) Business segments (continued)

Group

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

HK$'000

Notes to Financial Statements

4. SEGMENT INFORMATION (CONTINUED)

(b) Geographical segments

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

Group

	Hong Kong	Mainland China	Australia	Europe	North America	Other Asian countries	Others	Consolidated
Year ended 31 December 2006								
Segment revenue:								
Sales to external customers	**–**	**3,305,764**	**1,495,282**	**1,850,518**	**315,187**	**494,481**	**42,196**	**7,503,428**
Other segment information:								
Segment assets	**1,860,751**	**1,788,287**	**4,373,161**	**215,243**	**–**	**1,090,919**	**–**	**9,328,361**
Capital expenditure	**280**	**137,027**	**28,118**	**–**	**–**	**7,975**	**–**	**173,400**
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

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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.

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

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

HK$'000

Notes to Financial Statements

6. PROFIT BEFORE TAX

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

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

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

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

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

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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:

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

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

(a) *Independent non-executive directors*

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

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

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

HK$'000

Notes to Financial Statements

7. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share option benefits	Pension scheme contributions	Total remuneration
2006						
Kwok Peter Viem	**–**	**1,873**	**300**	**7,825**	**12**	**10,010**
Ma Ting Hung	**–**	**2,003**	**300**	**7,825**	**12**	**10,140**
Shou Xuancheng	**–**	**2,003**	**450**	**1,283**	**12**	**3,748**
Sun Xinguo	**–**	**2,003**	**450**	**1,597**	**12**	**4,062**
Li So Mui	**–**	**2,003**	**450**	**642**	**12**	**3,107**
Mi Zengxin	**215**	**–**	**–**	**1,283**	**–**	**1,498**
Qiu Yiyong	**215**	**–**	**–**	**1,283**	**–**	**1,498**
Zeng Chen	**215**	**832**	**–**	**1,597**	**–**	**2,644**
Zhang Jijing	**215**	**–**	**–**	**1,283**	**–**	**1,498**
	860	**10,717**	**1,950**	**24,618**	**60**	**38,205**
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

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

HK$'000

Notes to Financial Statements

8. FIVE HIGHEST PAID EMPLOYEES

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

	2006	2005
Salaries, housing allowances, other allowances and benefits in kind	–	481
Bonuses	–	1,465
Pension scheme contributions	–	578
	–	2,524

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

9. FINANCE COSTS

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

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

HK$'000

Notes to Financial Statements

10. TAX

Group

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

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

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

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

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

HK$'000

Notes to Financial Statements

10. TAX (CONTINUED)

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

Group – 2006

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

Group – 2005

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

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

HK$'000

Notes to Financial Statements

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

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

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

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

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

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

	2006	2005
Earnings		
Profit attributable to ordinary shareholders of the Company, used in the basic earnings per share calculation	**200,815**	221,703

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**4,317,072,600**	4,316,884,381
Effect of dilution – weighted average number of ordinary shares:		
Share options	**43,138,686**	–
	4,360,211,286	4,316,884,381

HK$'000

Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT

Group
31 December 2006

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

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

HK$'000

Notes to Financial Statements

13. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group

31 December 2005

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

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

HK$'000

Notes to Financial Statements

14. PREPAID LAND LEASE PREMIUMS

Group

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

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

15. OTHER INTANGIBLE ASSETS

Group

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

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

HK$'000

Notes to Financial Statements

16. OTHER ASSETS

Group

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

Other assets represent the amounts paid for the ESA.

HK$'000

Notes to Financial Statements

17. GOODWILL

Group

	2006	2005
Cost:		
At beginning and end of year	**341,512**	341,512

Impairment testing of goodwill

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

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

Aluminium smelting segment

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

Import and export of commodities segment

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

18. INTERESTS IN SUBSIDIARIES

Company

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

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ 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
Star Elite Venture Limited *	British Virgin Islands/ Hong Kong	US$1	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	Dormant

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

* Acquired or established during the year.
\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
^ Sino-foreign equity joint venture registered under the PRC law.
▲ Limited liability company registered under the PRC law.

Notes to Financial Statements

18. INTERESTS IN SUBSIDIARIES (CONTINUED)

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

Notes:

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

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

(c) The shares of CATL are listed on the Australian Stock Exchange (the "ASX").

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

(d) On 28 February 2006, CITIC Dameng Investments Limited completed the acquisition of the Manganese Company. The Manganese Company in turn holds controlling interests in Guangxi Start Manganese Material Co., Ltd., Guangxi Nanning Kuanguang Industry & Trade Co., Ltd., Tiandeng Dameng Ferroalloy Co., Ltd. and Guangxi Daxin Dabao Ferroalloy Co., Ltd.

(e) CITIC Seram Energy Limited ("CITIC Seram") acquired a 51% participating interest in the 30 year Seram PSC which owns certain oil producing assets in Indonesia for a purchase price of HK$874,952,000 subject to adjustment.

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

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

Notes to Financial Statements

19. INTERESTS IN JOINTLY-CONTROLLED ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

(l) 51% participating interest in the Seram PSC. Details of the acquisition of the participating interest in this oilfield are included in note 39(b) to the financial statements.

HK$'000

Notes to Financial Statements

19. INTERESTS IN JOINTLY-CONTROLLED ASSETS (CONTINUED)

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

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

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

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

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

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

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

HK$'000

Notes to Financial Statements

20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2006	2005
Non-current listed equity investments, at fair value:		
Australia	**770,538**	657,035
Canada	**75,398**	–
	845,936	657,035

	Group	
	2006	2005
The cost of the above investments were:		
Australia	**296,344**	258,522
Canada	**130,013**	–
	426,357	258,522

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Current portion

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

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

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

Non-current portion

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

HK$'000

Notes to Financial Statements

22. INVENTORIES

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

23. DUE FROM RELATED COMPANIES/THE ULTIMATE HOLDING COMPANY

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

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

24. LOAN RECEIVABLE

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

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

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

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

HK$'000

Notes to Financial Statements

25. ACCOUNTS RECEIVABLE

	Group 2006	Group 2005
Notes receivables	**18,522**	–
Trade receivables	**921,416**	395,749
	939,938	395,749

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

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

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

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

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

HK$'000

Notes to Financial Statements

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
Current unlisted equity investments, at fair value:		
Australia	**1,974**	1,830

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

27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

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

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

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

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

HK$'000

Notes to Financial Statements

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

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

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

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

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

	2006	2005
Assets		
Property, plant and equipment, net	**–**	249,814
Accounts receivable	**–**	16,282
Assets classified as held for sale	**–**	266,096
Liabilities		
Accounts payable	**–**	33,072

HK$'000

Notes to Financial Statements

29. ACCOUNTS PAYABLE

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

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

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

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

30. ACCRUED LIABILITIES AND OTHER PAYABLES

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

31. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

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

Notes to Financial Statements

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Forward currency contracts and currency option – cash flow hedges

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

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

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

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

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

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

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

Notes to Financial Statements

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

Forward commodity contracts – cash flow hedges

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

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

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

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

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

Interest rate swap contracts and options – cash flow hedges

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

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

HK$'000

Notes to Financial Statements

31. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

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

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

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

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

US$ interest rate swap:

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

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

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

32. DUE TO A MINORITY SHAREHOLDER

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

HK$'000

Notes to Financial Statements

33. BANK AND OTHER LOANS

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

	Company 2006	Company 2005
Bank loans – unsecured #	**1,513,200**	–

* Fixed rate
\# Floating rate
^ Interest free

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

Notes to Financial Statements

33. BANK AND OTHER LOANS (CONTINUED)

Notes:

(a) The unsecured bank loans of HK$2,465,035,000 include mainly revolving term loans denominated in US dollars that totalled US$230,000,000 (HK$1,419,560,000), which was interest bearing at LIBOR + (0.5% to 0.7%). The unsecured bank loans also include trade finance facilities of A$154,218,268 (HK$951,835,150) which were interest bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited.

(b) The secured bank loans of HK$878,650,000 include mainly:

A US$82,000,000 (HK$639,600,000) loan due by 31 December 2008 (extendable in accordance with the terms of the Portland Aluminium Smelter joint venture), which was interest-bearing at LIBOR and secured by a 22.5% participating interest in Portland Aluminium Smelter joint venture.

A loan of RMB243,846,336 (HK$ 239,050,000) with due dates from 17 January 2007 to 14 September 2010, which was interest-bearing at rates ranging from 6.12% to 7.25% per annum and secured by property, plant and equipment of HK$62,252,000, prepaid land lease premiums of HK$1,300,000, a letter of credit, mining rights of HK$135,701,000 and a guarantee provided by a minority shareholder.

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

(d) The loans were obtained from the manager of the Coppabella and 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.

(e) The loans were from the former minority shareholders (details of which are set out in note 40(a)). The loans are unsecured, interest-free and not repayable within one year.

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

(g) The loan of US$41,000,000 (HK$327,003,000) was granted by CITIC Group, the ultimate holding company of the Group. The loan is unsecured, interest bearing at LIBOR + 1.5% per annum and repayable in equal annual installments by September 2015.

(h) The loans were from 广西金孟锰　有限公司. The loans are unsecured, interest-free and repayable on 1 July 2007.

HK$'000

Notes to Financial Statements

33. BANK AND OTHER LOANS (CONTINUED)

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

	Company 2006	Company 2005
Bank loans repayable:		
Within one year or on demand	**343,200**	–
In the second year	**234,000**	–
In the third to fifth years, inclusive	**936,000**	–
	1,513,200	–
Portion classified as current liabilities	**(343,200)**	–
Non-current portion	**1,170,000**	–

HK$'000

Notes to Financial Statements

33. BANK AND OTHER LOANS (CONTINUED)

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

Group

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

Company

	Effective Interest Rate p.a. (%)	Carrying amounts 2006	Carrying amounts 2005	Fair values 2006	Fair values 2005
Unsecured bank loans	6.034	**1,170,000**	–	**1,176,820**	–

HK$'000

Notes to Financial Statements

34. PROVISIONS

Group

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

35. DEFERRED TAX

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

Deferred tax liabilities – 2006

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

HK$'000

Notes to Financial Statements

35. DEFERRED TAX (CONTINUED)

Deferred tax assets – 2006

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

Deferred tax liabilities – 2005

	Accelerated tax depreciation	Fair value adjustments	Total
At 1 January 2005	449,170	62,955	512,125
Deferred tax charged to the consolidated 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 realignment	(27,800)	(3,640)	(31,440)
Gross deferred tax liabilities at 31 December 2005	430,687	40,298	470,985

HK$'000

Notes to Financial Statements

35. DEFERRED TAX (CONTINUED)

Deferred tax assets – 2005

	Losses available for offset against future taxable profit
At 1 January 2005	14,984
Deferred tax charged to the consolidated 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

36. SHARE CAPITAL

Shares

	2006	2005
Authorised: 6,000,000,000 (2005: 6,000,000,000) ordinary shares of HK$0.05 each	**300,000**	300,000
Issued and fully paid: 4,318,184,381 (2005: 4,316,884,381) ordinary shares of HK$0.05 each	**215,909**	215,844

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

Share options

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

Notes to Financial Statements

37. SHARE OPTION SCHEME

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

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

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

Notes to Financial Statements

37. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

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

Notes to Financial Statements

37. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

Notes to Financial Statements

37. SHARE OPTION SCHEME (CONTINUED)

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

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

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

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

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

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

HK$'000

Notes to Financial Statements

38. RESERVES

(a) Group

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

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

(b) Company

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

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

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

HK$'000

Notes to Financial Statements

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisitions of subsidiaries

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

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

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

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

	2006	2005
Cash consideration paid	–	–
Cash and bank balances acquired	**148,230**	–
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**148,230**	–

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

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

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

HK$'000

Notes to Financial Statements

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

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

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

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

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

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

	2006	2005
Cash consideration paid	**757,723**	–
Cash and bank balances acquired	**–**	–
Net outflow of cash and cash equivalents in respect of the acquisition of participating interest in a joint venture	**757,723**	–

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

Notes to Financial Statements

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

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

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

(d) Major non-cash transactions

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

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

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

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

40. LITIGATION

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

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

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

Notes to Financial Statements

40. LITIGATION (CONTINUED)

(a) (Continued)

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

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

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

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

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

(i) Related to the 2004 financial year

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

Notes to Financial Statements

40. LITIGATION (CONTINUED)

(b) (Continued)

(ii) Related to the 2005 financial year

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

(iii) Related to the 2006 financial year

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

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

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

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

HK$'000

Notes to Financial Statements

41. OPERATING LEASE ARRANGEMENTS

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

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

42. COMMITMENTS

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

	Group	
	2006	2005
Contracted, but not provided for:		
Infrastructure, plant and equipment,		
share of the jointly-controlled entities	**27,445**	8,911

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

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

43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

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

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

Notes to Financial Statements

43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (CONTINUED)

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

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

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

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

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

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

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

Notes to Financial Statements

43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS (CONTINUED)

(e) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding advances payable to its minority shareholder of HK$38,174,000 (2005: nil). Details of the advances are included in note 32 to the financial statements.

(ii) Details of the Group's receivables from its fellow subsidiaries, related companies and ultimate holding company of HK$2,066,000 (2005: HK$301,000), HK$51,486,000 (2005: nil) and HK$34,320,000 (2005: nil) respectively, as at the balance date. Details of the receivables are included in notes 21 and 23 to the financial statements.

(iii) Details of the Group's loans from the Company's former minority sharesholders, a minority shareholder and the ultimate holding company are included in note 33 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Interest rate risk

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

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

Notes to Financial Statements

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

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

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

Credit risk

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

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

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

Liquidity risk

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

45. POST BALANCE SHEET EVENTS

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

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

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

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

Notes to Financial Statements

45. POST BALANCE SHEET EVENTS (CONTINUED)

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

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

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

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

(c) On 20 March 2007, an ordinary resolution was passed at the special general meeting of the Company whereby the authorised share capital of the Company of HK$300,000,000 divided into 6,000,000,000 ordinary shares of HK$0.05 each be increased to HK$500,000,000 divided into 10,000,000,000 ordinary shares of HK$0.05 each by the creation of an additional 4,000,000,000 ordinary shares of HK$0.05 each, which such shares shall on their issue rank pari passu in all respects with existing issued shares.

(d) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Tax Law") was approved and will become effective on 1 January 2008. The New Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Tax Law to the Group cannot be reasonably estimated at this stage.

46. COMPARATIVE AMOUNTS

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

47. APPROVAL OF THE FINANCIAL STATEMENTS

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

HK$'000

Summary of Financial Information

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

RESULTS

	Year ended 31 December				
	2006	2005 Restated	2004	2003	2002
Revenue	**7,503,428**	5,786,386	3,610,791	24,535	24,003
Profit/(loss) before tax	**316,189**	342,157	59,725	(52,005)	(15,217)
Tax	**(70,152)**	(110,642)	(52,322)	–	–
Profit/(loss) for the year	**246,037**	231,515	7,403	(52,005)	(15,217)
Attributable to:					
Shareholders of the Company	**200,815**	221,703	4,772	(52,005)	(15,217)
Minority interests	**45,222**	9,812	2,631	–	–
	246,037	231,515	7,403	(52,005)	(15,217)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	31 December				
	2006	2005	2004	2003	2002
Non–current assets	**4,373,701**	3,080,713	2,699,246	94,770	120,541
Current assets	**4,954,660**	2,939,314	2,999,004	1,135,268	1,131,845
Total assets	**9,328,361**	6,020,027	5,698,250	1,230,038	1,252,386
Current liabilities	**2,854,539**	1,437,385	1,369,385	47,686	18,029
Non–current liabilities	**2,968,733**	1,615,235	1,672,332	11,862	11,862
Total liabilities	**5,823,272**	3,052,620	3,041,717	59,548	29,891
Minority interests	**279,746**	25,634	19,693	–	–
	3,225,343	2,941,773	2,636,840	1,170,490	1,222,495