五礦資源有限公司
MINMETALS RESOURCES LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 1208)

FOR INFORMATION ONLY

Information circular
containing extract of certain corporate and financial information regarding
Minmetals Resources Limited and Peak Strategic Industries Limited
and their respective subsidiaries
as set out in the Preliminary Offering Circular dated 16 September 2005

16 September 2005

CONTENTS

In this Information Circular, the terms “we”, “us” and “our” refer, as the context requires, either individually or collectively, to Minmetals Resources Limited 五礦資源有限公司 (formerly known as Oriental Metals (Holdings) Company Limited 東方鑫源(集團)有限公司) (the “Company”) and its subsidiaries (collectively, the “MMR Group”), and also to Peak Strategic Industries Limited (“Peak Strategic”) and its subsidiaries (collectively, the “Peak Strategic Group”) which we have agreed to buy (the “Acquisition”) from Top Create Resources Limited (“Top Create Resources”), whose obligations are guaranteed by China Minmetals Non-ferrous Metals Company Limited (“CMN”), on 30 December 2004 (the “Acquisition Agreement”).

In this Information Circular, the terms “PRC” or “China” refer, as the context requires, the People’s Republic of China (for the purpose of this Information Circular, excluding Hong Kong, Taiwan and the Macau Special Administrative Region of the PRC) and the term “Hong Kong” refers, as the context requires, the Hong Kong Special Administrative Region of the PRC.

GLOSSARY OF TECHNICAL TERMS

"AIL"	《自動進口許可證》(Automatic Import Licence) issued by the Ministry of Commerce of the PRC
"alumina"	a white granular powder, finer than table salt, refined from bauxite and also known as aluminium oxide
"alumina refiners" or "refiners"	entities which use bauxite ore in a crushing, precipitation and calcining conversion process to produce alumina
"aluminium"	an abundant, light metal with a silvery appearance used in the manufacture of products requiring a light weight, resistance to corrosion and good electrical conductivity
"aluminium fabricators" or "fabricators"	entities with production facilities which convert aluminium into plates, strips, foils, bars and tubes which can be converted further into consumer and other end products
"aluminium smelters" or "smelters"	entities with production facilities, using soderburg and, increasingly, pre-bake technology, which reduce alumina to aluminium in forms such as ingots
"CFR"	cost and freight, a term of sale whereby the seller quotes a price that includes the price of the goods and freight charges to the buyer's destination
"CIF"	cost, insurance and freight, a term of sale whereby the seller quotes a price that includes the price of the goods, insurance and freight charges to the buyer's destination
"dry bulk carrier"	an ocean-going vessel which transports dry (i.e. not liquid or gaseous form) cargo in bulk such as alumina, coal or grain
"floury alumina"	a finer type of alumina than sandy alumina but less preferred among modern aluminium smelters using pre-bake technology
"FOB"	free on board, a term of sale which means that the seller fulfils its obligation to deliver goods when the goods pass over the ship's (or other mode of transport) rail at the named point of shipment after which the buyer has to bear all shipping and other costs and risks in respect of loss of, or damage to, the goods from that point
"frame contract"	a non-legally binding agreement between two parties setting out their intention to agree on the precise delivery schedule and pricing terms in the future with respect to the supply and delivery of specified goods such as a commodity
"ingot" or "aluminium ingot"	a cast form of aluminium meeting international specifications such as the London Metal Exchange aluminium futures contract specifications, designed to facilitate handling, storage, shipping, trading, smelting and fabricating
"L/C" or "letter of credit"	a document issued by a bank to guarantee the payment of a customer's drafts for a specific period and up to a specified amount
"LIBOR"	the London interbank offered rate for deposits in U.S. dollars

"LME price"	London Metal Exchange price, the bid and ask price per tonne being quoted or fixed in relation to the price of aluminium of 99.7% purity in the form of ingots, T-bars and sows for immediate or subsequent delivery
"long-term contract"	a contract for the supply and delivery of a specified type of goods such as a commodity with a term of one or more years and includes frame contracts
"physical market"	the market involving buyers and sellers in respect of immediate delivery of a particular commodity
"primary aluminium"	aluminium produced from alumina rather than from scrap aluminium
"sandy alumina"	coarse alumina with higher absorptive quality and larger grains than floury alumina, designed to facilitate movement through the aluminium smelting process. Sandy alumina is the predominant form of alumina produced from gibbsite and is typically preferred by newer, large-scale aluminium smelters using pre-bake technology
"short-term contract"	a contract with a term of less than one year and includes frame contracts
"smelting"	the electrolytic reduction process undertaken by aluminium smelters to produce molten aluminium from alumina which is then cast into solidified forms such as ingots
"spot contract"	a contract for the delivery of a commodity against payment of the purchase price calculated by reference to the spot price of that commodity, or of a related commodity, at the time of delivery
"spot price"	the prevailing price in the physical market for a particular commodity for immediate delivery
"tolling"	a process undertaken by an owner of alumina involving the delivery of alumina to an aluminium smelter for processing into ingots for subsequent sale by such owner in consideration for which the aluminium smelter receives a processing fee
"tonne"	a unit of weight, one metric tonne is equal to 1,000 kilograms

RISK FACTORS

RISKS RELATING TO THE ACQUISITION

We may be unable to integrate our business with the business of the Peak Strategic Group in a timely and cost-effective manner

The integration will involve the centralisation of management and resource planning as well as the combination of various functional departments. The integration of these formerly separate operations will be accomplished in stages over a period of time and we cannot assure you that such integration will be accomplished in a timely or cost-effective manner. In addition, we will face costs related to the reconfiguration of the computerised systems supporting our sourcing, distribution, hedging and information management activities. If we are unable to integrate our business with that of the Peak Strategic Group in a timely and cost-effective manner, our business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO OUR BUSINESS

Our business is impacted by the PRC Government policies regarding the import of alumina and the aluminium industry

Our business is directly influenced by domestic demand for alumina in the PRC aluminium industry. The PRC Government exercises extensive influence over the aluminium industry by various measures that involve, among others:

- controls over banking, credit and interest rates;
- approval of major capital expenditure projects;
- safety, environmental and quality standards;
- delivery, pricing and availability of electricity supplies;
- railway schedules, routing, availability and pricing;
- imposition of taxes and the granting of tax concessions; and
- import tariffs.

Since 2003, the PRC Government has introduced various austerity measures, primarily by limiting the availability of banking credit, to control expansion in the aluminium and three other industries. These measures were implemented due to concerns regarding excess capacity and the potential for the inefficient use of limited resources, in particular, energy. We cannot assure you that the PRC Government will not implement further austerity measures to regulate the aluminium industry or that such measures will not have a material adverse effect on our business, financial condition or results of operations.

We have not yet obtained any automatic import licence for alumina imports in our sole name

Despite our discussions with the PRC Government, we have not obtained any AIL to import alumina in our sole name. We import alumina by including our name as a party to the AIL granted to CMN. We cannot assure you that the PRC Government will not impose restrictions on or cease to issue AILs under such dual-name arrangement or that the dual-name arrangement with CMN will continue. If we are unable to rely on this dual-name AIL arrangement, or if the PRC Government imposes any measures that adversely affect our import activities using such dual-name AIL arrangements, our import activities would be adversely affected or could cease completely and our business, financial condition and results of operations could be adversely affected.

We may not be able to manage our exposure to alumina and aluminium price volatility effectively

The price of alumina in the global and the PRC domestic markets fluctuates primarily due to changes in the supply of, and demand for, alumina and aluminium. In addition, due to the extensive applications for aluminium in industrial and consumer products, aluminium demand has generally been linked to fluctuations in domestic and international economic conditions, which may fluctuate and are beyond our control.

Historically, the international markets for alumina and primary aluminium are cyclical and have experienced periods of increased demand, characterised by increasing prices and margins, followed by periods of excess supply, characterised by declining prices and margins. For example, in 2000, the international and domestic prices of alumina decreased sharply as a result of reduced demand for alumina by primary alumina smelters in North America when they scaled back their operations to save energy. Since 2000, however, the average price of alumina has increased from less than US$200 per tonne in the fourth quarter of 2002 to approximately US$400 per tonne in the fourth quarter of 2004.

These fluctuations could lead to volatility in our turnover and profit margins. We cannot assure you that we will be able to enter into aluminium futures contracts to effectively hedge against adverse price movements in alumina and aluminium. The risks associated with the volatility of alumina and aluminium prices could have a material adverse impact on our business, financial condition and results of operations.

We depend on the long-term alumina sourcing agreement with Alcoa

Our most important alumina sourcing contract is the long-term alumina sourcing agreement with Alcoa Alumina & Chemicals L.L.C., Alcoa of Australia Ltd., Suriname Aluminium Company L.L.C., Alcoa Minerals of Jamaica, L.L.C., St. Croix Alumina, L.L.C. and Abalco S.A. (collectively, “Alcoa”) which allows us to purchase 400,000 tonnes of alumina from Alcoa each year until 30 June 2027 (the “Alcoa Contract”). The alumina purchased pursuant to this contract represented 24.4% of our total alumina purchases for 2004 and 25.1% for the six months ended 30 June 2005. Although this contract does not expire until 30 June 2027, either party can terminate the contract in the two years following October 2006.

We depend upon a small number of alumina suppliers

We are primarily involved in sourcing alumina from the international markets for sale in the PRC. This business requires dealing with a limited number of alumina refineries and many aluminium smelters.

Between 1999 and 2004, Pechiney Trading Company supplied an aggregate of 453,401 tonnes of alumina to the MMR Group pursuant to the alumina supply agreement dated 19 February 1999 as subsequently amended by a supplemental agreement dated 17 January 2004 (the “Pechiney Contract”) and was the sole alumina supplier of the MMR Group for 2003 and 2004. The Pechiney Contract was not renewed when it expired on 31 December 2004 as the parties could not agree on the price. Failure to maintain our relationship with our few suppliers as in the case of Pechiney Trading Company could have an adverse effect on our business, financial condition and results of operations.

Dependence on CMN

There are certain alumina sourcing and sales contracts entered into by CMN that were not transferred to the Peak Strategic Group at the time of the reorganisation of the alumina and aluminium-related operations and investments of CMN in connection with the Acquisition (the “Reorganisation”), and CMN has agreed to carry on these contracts to pass on the benefit to us as detailed in “Relationship with the Minmetals Group”. We cannot assure you that we or CMN will not encounter any problems in transferring these benefits in the manner intended. If we fail to obtain the benefits of these contracts from CMN, our business, financial condition and results of operations will be adversely affected.

We may be adversely affected by difficulties that we and our customers face transporting alumina to or within the PRC

We rely upon international shipping companies and port operators, both in the PRC and abroad, to transport alumina to the PRC. Such transportation services are priced at prevailing international prices and are subject to periodic capacity limitations, labour problems and the impact of adverse weather conditions or natural disasters. We may experience cargo losses, industrial action or transportation bottlenecks and the consequences resulting from them which may not be covered adequately, or at all, by any insurance policies or any of our contractual arrangements with them.

Within the PRC, our customers rely upon the railway network and, to a lesser extent, upon the highway system for the domestic transport of alumina from the port facilities. Historically, the PRC railway network has experienced capacity shortages and the schedule and operation of such network has been unpredictable. In addition, the PRC railway network is subject to seasonal variations in demand with consistently high usage levels during popular holidays. Any difficulties our customers face transporting alumina purchased from us within the PRC may result in reduced alumina purchases from us and such reduced customer demand could have a material adverse effect on our business, financial condition and results of operations.

We may be unable to complete future acquisitions or investments

We may invest in alumina refiners and aluminium smelters as part of our strategy to diversify our operations. These investments are intended to generate returns on investment and to facilitate the entry into long-term contracts for the supply and sale of alumina. This strategy could be delayed or adversely affected by failure to receive PRC or other regulatory approvals or to obtain adequate credit or other financing or by an inability to find appropriate investment candidates or to negotiate acceptance terms with such parties. In addition, the investment required for these projects may exceed the amount originally budgeted.

Some of our bank and credit facilities are uncommitted and repayable on demand

We rely to a certain extent on short-term banking facilities to finance our operations. As at 30 June 2005, we had aggregate short-term banking facilities of HK$2,417 million, HK$490 million of which were drawn down. We cannot assure you that the current banking facilities will continue to be available to us or that upon their termination we will be able to secure alternative financing on terms acceptable to us or at all. The repayment of our banking facilities or an inability to secure additional financing would adversely affect our cash flow position and would have an adverse impact on our business, financial condition and results of operations if such situation continues.

Our future performance is dependent on our ability to attract and retain key management personnel and other staff with industry expertise

Our future performance depends to a significant extent on our ability to identify, attract, train and retain qualified and skillful employees. Like other companies in the alumina and other non-ferrous metals industries, we rely on our key management who have extensive experience and market knowledges in the alumina and other non-ferrous metals industries. We also rely on other staff with industry expertise on alumina trading, risk management and hedging transactions. The loss of services from any member of our key management or our specialised staff may have a material adverse effect on our business and prospects if we are unable to secure suitable replacements in a timely manner.

Absence of good title to a property occupied by us in the PRC

The owner of the production workshop and storage occupied by 營口鑫源金屬套管有限公司 (Yingkou Orienmet Plica Tube Company Limited or "YOPT"), a Sino-foreign equity joint venture owned indirectly by the Company, does not possess good title to such property. Should the title to such property be challenged and we are required to vacate such property, our business, financial condition and results of operations may be adversely affected.

RISKS RELATING TO THE PRC

Economic, political and social conditions in the PRC are subject to uncertainties arising from changes in government policies and social conditions

Substantially all of our business, assets and operations are located in the PRC.

Since 1978, the PRC Government has promulgated various reforms of its economic system. These reforms have resulted in economic growth for the PRC in the last two decades. Many of the reforms are unprecedented or experimental, however, and are expected to be modified from time to time. Other political, economic and social factors may also lead to further readjustment of reform measures. This process may have a material impact on our operations in the PRC or a material adverse effect on our results of operations as our turnover is currently substantially derived from our operations in the PRC. Our financial condition and results of operations may be adversely affected by changes in the PRC's political, economic and social conditions and by changes in policies of the PRC Government or changes in laws, regulations or the interpretation or implementation thereof.

The PRC legal system is not fully developed and has inherent uncertainties that could limit the legal protections available

The PRC legal system is a codified system with written laws, regulations, circulars, administrative directions and internal guidelines. The PRC Government is still developing its legal system. As the PRC economy experiences faster development than its legal system, uncertainty exists in connection with whether and how existing laws and regulations will apply to certain events or circumstances. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these laws and regulations involve uncertainties. Accordingly, the outcome of dispute resolution may not be as consistent or predictable as in other more developed jurisdictions and it may be difficult to obtain swift and equitable enforcement of the laws in the PRC, or to obtain enforcement of a judgment by a foreign court.

PRC laws and foreign exchange controls may affect our ability to receive dividends and other payments from our PRC subsidiaries

Our principal operating subsidiaries are located in the PRC and are subject to PRC regulations on currency conversion. Since 1996, a number of rules, regulations and notices regarding foreign exchange control have been issued by the PRC Government which are designed to allow a heightened degree of convertibility of Renminbi, under which foreign investment enterprises are permitted to convert Renminbi into foreign currencies for current account transactions (including, for example, distribution and payment of dividends to foreign investors) through designated foreign exchange banks. Control over conversion of Renminbi into foreign currencies for capital account transactions (including, for example, direct investment, loan and investment in securities), however, is more stringent and such conversion is subject to a number of restrictions. Such regulations may restrict our PRC subsidiaries from paying dividends or making other distributions to us. Our PRC subsidiaries may only distribute dividends after deduction of required allocations to the statutory surplus reserve, the statutory public welfare fund and the discretionary surplus reserve, if any, from distributable earnings determined under the accounting rules and regulations in the PRC. The amount of such required allocations may vary among our subsidiaries. We cannot assure you that the relevant regulations will not be amended to our disadvantage and that the ability of our PRC subsidiaries to distribute dividends to us will not be adversely affected.

Future movements in exchange rates may adversely affect our business and results of operations

We receive substantially all of our turnover in Renminbi. For 2002, 2003 and 2004 and the six months ended 30 June 2005, approximately 66.3%, 68.9%, 74.7%, and 71.9%, respectively, of the Peak Strategic Group's turnover was denominated in Renminbi. The Renminbi is not freely convertible into other currencies, except under certain circumstances. The PRC Government may, however, at its discretion, restrict access in the future to foreign currencies for current account transactions and prohibit us from converting our Renminbi sales into foreign currencies. If this were to occur, we might not be able to make purchases of alumina or equipment in foreign currencies.

The value of the Renminbi against other foreign currencies is subject to changes in the PRC's Renminbi policies and international economic and political developments. Under the current unified floating exchange rate system, the conversion of Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the People's Bank of China, which are quoted daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. Since 1994, the official exchange rates for the conversion of Renminbi into Hong Kong dollars and U.S. dollars generally have been stable. As at 21 July 2005, the Renminbi will no longer be pegged to the U.S. dollar but to a basket of currencies. On 21 July 2005, this revaluation resulted in the Renminbi appreciating against the Hong Kong dollar and the U.S. dollar by approximately 2%. Our financial condition and results of operations may be adversely affected by any future changes in the exchange rates of Renminbi into Hong Kong dollars or U.S. dollars.

Expected increases in competition following the PRC's entry into the WTO may have an adverse effect on our business and results of operations

China's accession to the World Trade Organisation ("WTO") on 11 December 2001 has resulted in the reduction or elimination of various restrictions including:

- the elimination of quotas for alumina imports;
- the reduction of import tariffs on alumina and primary aluminium;
- the elimination of export rebates on primary aluminium; and
- the removal of certain obstacles to foreign direct investment in the PRC aluminium industry.

The abolishment of export rebate of 8% on 1 January 2005 has had a negative impact on the PRC's aluminium smelters, which may, in turn, impact on the demand for alumina. China's accession to the WTO also increased competition for us from our international competitors which are our major suppliers and the world's dominant aluminium companies that ultimately wish to sell alumina directly to aluminium smelters in China. A reduction in import tariffs and barriers will intensify competition and may force us to lower the prices of our products. In the event we are forced to lower our prices, our operating margins will be reduced, which would have an adverse effect on the results of operations.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could adversely affect our results of operations

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiments and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, the overall gross domestic product ("GDP") growth of the PRC. As substantially all of our turnover is derived from sales of alumina in the PRC, any contraction in the growth of domestic consumption and possible slowdown in the GDP growth of the PRC will adversely affect our business, financial condition and results of operations. The outbreak of severe communicable disease may also discourage trading activities across PRC borders, which in turn would disrupt our import activities and adversely impact our business. In addition, our business and results of operations could be adversely affected through port closures, internal distribution difficulties or the closure of our customers' aluminium production facilities to prevent the spread of the disease.

RISKS RELATING TO THE OWNERSHIP OF OUR SHARES

Our prior trading record may not reflect our future performance

The Peak Strategic Group and the MMR Group have not operated previously as one single group. In addition, certain accounting policies used to prepare our financial information and for both the Peak Strategic Group and the MMR Group for the financial periods after 1 January 2005 have been changed as a result of the replacement of generally accepted accounting principles in Hong Kong ("HK GAAP") by the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (including all Hong Kong Accounting Standards and Interpretations) (the "new HKFRSs"). We adopted the new HKFRSs to the extent that they have become effective for compiling our financial information and accounts for the accounting periods commencing on or after 1 January 2005. Accordingly, our pro forma financial information and the historical financial information of each of the Peak Strategic Group and the MMR Group may not necessarily be indicative of our future financial performance or what our results of operations would have been had we operated as a combined group during the periods presented or had we adopted the new HKFRSs for the periods presented. Changes in our financial information in 2004 and 2005 may not necessarily be indicative of the trend of financial performance had we adopted the new HKFRSs during the periods. See Note 2 to each of the "Unaudited consolidated financial statements of the Peak Strategic Group for the six months ended 30 June 2005" and the "Unaudited interim results of the MMR Group for the six months ended 30 June 2005".

Our share price may be volatile which could result in substantial losses for investors purchasing Shares in the Offering

The market price of our ordinary shares of nominal value of HK$0.05 each (the "Shares") may fluctuate significantly and rapidly as a result of any or a combination of the following factors, amongst others, some or all of which are beyond our control:

- variations of our results of operations (including variations arising from foreign exchange rate fluctuations);
- changes in securities analysts' estimates of our financial performance;
- announcement by us of significant acquisitions, strategic alliances or joint ventures;
- addition or departure of key personnel;
- fluctuations in stock market prices and volume;
- involvement in litigation; or
- general economic and stock market conditions.

Moreover, in recent years, stock markets in general, and the shares of companies with substantial operations in the PRC in particular, have experienced increasing price and volume fluctuations, some of which have been unrelated or disproportionate to the operating performance of such companies. These broad market and industry fluctuations may adversely affect the market price of our Shares.

We may be unable to pay any dividends on our Shares

We will only pay dividends out of our accumulated realised profits so far as not previously utilised by distribution or capitalisation, less our accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made. As at 31 December 2004, we had accumulated losses of HK$1,040.4 million. Our ability to pay dividends will therefore depend on our ability to make up these losses and to generate sufficient accumulated net realised profits. We are undertaking a proposal to reduce our share premium account for the purpose of eliminating such accumulated losses, but we cannot assure you as to whether and when such proposal may materialise.

Any future declaration of dividends may or may not be consistent with our historical declarations of dividends. Even if we are able to accumulate profits in the future, there can be no assurance as to when or whether any dividend will be declared and the amount of any such dividend. Future dividends, if any, will be at the discretion of the directors of the Company (the “Directors”, and the board of Directors collectively, the “Board”) and will depend upon our future results of operations, capital requirements, general financial condition, legal and contractual restrictions and any other factors the Board may deem relevant.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

The following table sets forth our selected consolidated financial data. This section should be read in conjunction with the financial statements and information set forth in the section "Management's discussion and analysis of financial condition and results of operations" and the consolidated financial statements in this Offering Circular.

Our Unaudited pro forma combined profit and loss accounts

Set forth below is a summary of our unaudited pro forma combined profit and loss accounts as extracted from the unaudited pro forma financial information as set forth elsewhere herein.

	Year ended 31 December 2004 (Unaudited)	Six months ended 30 June 2005 (Unaudited)
	(in thousands of HK$)	
Turnover	8,029,357	5,017,095
Gross profit	890,620	536,095
Operating profit	783,374	551,082
Profit before income tax	712,924	546,075
Income tax expense	(186,576)	(106,121)
Profit after income tax	526,348	439,954
Minority interest	(35,630)	(8,047)
Profit attributable to shareholders	490,718	431,907

The Peak Strategic Group

Set forth below is a summary of the consolidated profit and loss accounts of the Peak Strategic Group as extracted from its financial statements set out elsewhere in this Offering Circular.

	Year ended 31 December			Six months ended 30 June	
	2002 (Audited)	2003 (Audited)	2004 (Audited)	2004 (Unaudited)	2005 (Unaudited)
			(in thousands of RMB)		
Turnover	1,745,228	5,162,040	7,335,872	3,648,685	4,624,064
Gross profit	282,409	589,137	797,212	417,434	509,414
Operating profit	227,720	470,418	670,228	362,324	482,718
Profit before income tax	143,783	393,093	601,902	322,692	478,370
Income tax	(20,291)	(117,810)	(185,784)	(80,452)	(113,878)
Profit after income tax	123,492	275,283	416,118	242,240	364,492
Minority interest	(61,492)	(12,441)	(20,116)	(19,860)	(222)
Profit attributable to shareholders	62,000	262,842	396,002	222,380	364,270

Set forth below is a summary of the consolidated balance sheets of the Peak Strategic Group as extracted from its financial statements set out elsewhere in this Offering Circular:

	As at 31 December		
	2002 (Audited)	**2003 (Audited)**	**2004 (Audited)**
	(in thousands of RMB)		
Non-current assets			
Fixed assets	1,402	1,261	1,559
Interest in associated company	–	1,093	4,089
Investment securities	33,258	32,204	32,196
Goodwill	–	–	7,253
Long-term receivables	–	9,816	7,863
Upfront payment for alumina purchasing rights	1,622,284	1,555,920	1,489,637
	1,656,944	1,600,294	1,542,597
Current assets			
Inventories	102,667	505,283	697,113
Trade receivables, prepayments, and other receivables	57,134	79,166	335,866
Bill receivables	250	650	22,548
Due from related companies	11,544	59,179	166,513
Deferred losses	–	–	12,282
Pledged bank deposits	37,248	37,245	37,245
Cash and bank balances	148,123	164,000	176,061
	356,966	845,523	1,447,628
Current liabilities			
Trade payables, other payables and accruals	78,057	131,521	225,495
Bill payables	–	–	189,267
Advances from customers	125,271	372,367	347,997
Due to related companies	6,456	3,372	219,661
Taxation payable	1,464	4,222	839
Deferred income	2,359	927	2,351
Derivative financial instruments	4,056	4,238	4,193
Short-term bank loans – unsecured	62,430	257,182	501,150
Current portion of long-term loans	62,080	49,660	77,799
	342,173	823,489	1,568,752
Net current assets/(liabilities)	14,793	22,034	(121,124)
Total assets less current liabilities	1,671,737	1,622,328	1,421,473
Non-current liabilities			
Deferred income	–	9,816	8,442
Derivative financial instruments	14,584	8,790	6,665
Long-term loans	826,902	731,660	653,844
	841,486	750,266	668,951
Minority interests	434,330	447,595	814
Represented by owner's equity	395,921	424,467	751,708

The MMR Group

Set forth below is a summary of the consolidated profit and loss accounts of the MMR Group as extracted from its financial statements set out elsewhere in this Offering Circular.

	Year ended 31 December			Six months ended 30 June	
	2002 (Audited)	2003 (Audited)	2004 (Audited)	2004 (Unaudited) (Restated)	2005 (Unaudited)
	(in thousands of HK$)				
Turnover	875,676	1,363,072	1,288,485	670,147	664,215
Gross profit	108,480	232,785	192,947	99,492	67,901
Operating profit	73,737	118,441	252,239	149,058	108,019
Profit before income tax	27,504	91,567	246,108	142,078	107,105
Income tax (charge)/credit	(2,487)	6,470	(11,688)	(4,748)	1,078
Profit after income tax	25,017	98,037	234,420	137,330	108,183
Minority interest	(5,341)	(8,835)	(16,694)	(6,354)	(7,838)
Profit attributable to shareholders	19,676	89,202	217,726	130,976	100,345
Dividend per Share	–	–	–	–	–
Basic earnings per Share *(HK$)*[(1)]	0.15	0.68	0.37	0.23	0.17

(1) The calculation of basic earnings per Share is based on the MMR Group's profit attributable to shareholders of HK$19,676,000, HK$89,202,000 and HK$217,726,000 for the years ended 31 December 2002, 2003 and 2004, and HK$130,976,000 and HK$100,345,000 for the six months ended 30 June 2004 and 2005 respectively and the weighted average number of 131,972,695, 131,972,695, 593,062,328, 578,618,040 and 607,349,612 Shares in issue during the same periods, respectively.

Set forth below is a summary of the consolidated balance sheets of the MMR Group as extracted from its financial statements set out elsewhere in this Offering Circular.

	As at 31 December	
	2003 (Audited)	2004 (Audited)
	(in thousands of HK$)	
Non-current assets		
Fixed assets	286,337	308,264
Construction in progress	202,381	203,008
Interests in associated companies	48,121	43,059
Investment securities	2,217	–
Long-term receivables	5,392	4,717
Deferred tax assets	12,916	7,843
	557,364	566,891
Current assets		
Inventories	170,620	224,518
Trade receivables, prepayments and other receivables	230,962	266,775
Amounts due from fellow subsidiaries	–	24,959
Pledged bank deposits	9,892	14,648
Cash and bank balances	140,879	176,236
	552,353	707,136
Current liabilities		
Trade payables and accrued charges	280,006	291,920
Bills payable	11,321	18,116
Amount due to a shareholder	4,930	–
Amounts due to related companies	51,630	–
Amounts due to associated companies	7,250	–
Amounts due to minority investors	31,730	–
Taxation payable	8,389	14,721
Provision	7,501	6,792
Bank loans	638,514	218,868
	1,041,271	550,417
Net current assets/(liabilities)	(488,918)	156,719
Total assets less current liabilities	68,446	723,610
Financed by:		
Share capital	131,973	30,367
Reserves	(393,778)	391,638
Shareholders' funds/(deficit)	(261,805)	422,005
Minority interests	165,157	178,963
Non-current liabilities		
Bank loans	136,792	94,340
Deferred income	28,302	28,302
	165,094	122,642
	68,446	723,610

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our audited financial statements as at and for the years ended 31 December 2002, 2003 and 2004 and our reviewed financial statements as at and for the six months ended 30 June 2004 and 2005, including the notes thereto, included elsewhere in this Offering Circular. We have prepared our financial statements in accordance with generally accepted accounting principles in Hong Kong, which differ from generally accepted accounting principles in other jurisdictions, including the United States. The accounting policies of the accounts are consistent throughout the periods presented, except for the six months ended 30 June 2005 which adopts the new HKFRSs.

Overview

We are the leading importer and supplier of imported alumina in the PRC. To a lesser extent, we engage in aluminium fabrication and the sourcing and trading of aluminium ingots. In addition, we also maintain investments in various PRC-based industrial projects related to, among others, copper refinery and plica tube production. In 2004, we sourced approximately 1,894,200 tonnes of alumina from our overseas suppliers for our customers, representing approximately 32.4% of alumina imported into the PRC.

For 2001 and 2002, the MMR Group's auditors stated that they were unable to form an opinion as to whether its financial statements gave a true and fair view of its state of affairs due to the fundamental uncertainty regarding the MMR Group's ability to continue as a going concern.

On 16 October 2003, the MMR Group announced the debt and capital restructuring proposal (the "Restructuring Proposal") which was completed on 12 January 2004. Pursuant to the Restructuring Proposal, 中國五礦集團公司(China Minmetals Corporation) ("China Minmetals") became the Company's ultimate controlling shareholder. Following the introduction of China Minmetals as the Company's ultimate controlling shareholder, the financial position of the MMR Group has improved, benefiting from China Minmetals' extensive experience in both metal trading and investment management. Upon completion of the Restructuring Proposal, the MMR Group has also eliminated indebtedness totalling HK$466.7 million and has been restored to a positive net asset value position.

In March 2004, CMN completed its acquisition of the remaining 49% interest in Sino Mining International Limited ("Sino Mining International" or "SMI") from China Minmetals. Accordingly, the results of operations of Sino Mining International have been consolidated in the financial statements of the Peak Strategic Group since 1 April 2004.

Factors affecting our performance

Over the past three years, our turnover and gross profit have improved, reflecting the increase in our alumina imports to the PRC and higher alumina prices in the global and the PRC markets. Our business, financial condition and results of operations are affected by a number of factors, including:

- *Purchase costs and sales prices for alumina*. In general, our purchase price of alumina is determined by a formula linked to the LME price while our sales prices are determined by a formula linked to the LME or Shanghai Futures Exchange ("SFE") prices. The gross margin generated by the alumina business depends upon our ability to purchase alumina at a lower cost in markets experiencing rising alumina prices and our ability to sell alumina at a higher price in markets experiencing declining alumina prices. In an attempt to maintain our gross margins, we strive to increase our purchases and sales of alumina pursuant to long-term contracts, which reduces our dependence on the physical market and the price volatility associated with spot purchases.

- *Production cost for aluminium fabrication*. The purchase cost of consumables for our aluminium fabrication business is affected by the price of crude oil, coal and natural gas in the international and domestic markets. In addition, the price of water and electricity have been increasing in recent years and affecting our production costs. For our aluminum fabrication business, we strive to lower or control the production cost per unit of our products by reducing consumption of raw materials through advancements in production techniques and technologies, as well as the reinforcement of effective on-site operation and management. The price of aluminium ingots is primarily based on the Shanghai Metal Exchange and we try to reduce our exposure to market risk through hedging activities and entering into long-term supply agreements.

- *Long-term alumina sourcing agreement with Alcoa*. We source some of our alumina under the Alcoa Contract. Unlike our other long-term sourcing contracts where price is determined with reference to the LME price for aluminium or a fixed price, our arrangement with Alcoa has been structured as a long-term production relationship with economic terms similar to those enjoyed by owners of bauxite deposits and processing facilities. Higher or lower LME prices for aluminium directly cause higher or lower prices of our alumina sales, and our alumina trading performance in relation to the alumina sourced under the Alcoa Contract are therefore directly exposed to movements in LME prices.

- *Economic growth in the PRC*. Our business operations primarily involve the sourcing of alumina from the international markets and the sale of such imported alumina to aluminium smelters in the PRC. For 2004, approximately 74.7% of the total turnover of the Peak Strategic Group was derived from domestic sales of alumina. Boosted by the comprehensive economic reforms initiated by the PRC Government since 1979, the PRC economy has grown rapidly. The PRC's rapid economic growth has been accompanied by growth in primary aluminium consumption at a compound annual growth rate of approximately 15.3% from 2000 to 2004. As the PRC's domestic production of alumina is lower than its consumption and there are constraints limiting the potential expansion of domestic production capacity, we believe that, with continued growth of the PRC economy, alumina will continue to be imported to meet domestic demand. For our aluminium fabrication business, there has been a significant increase in the consumption of aluminium plates, strips and foils in the PRC market from approximately 1.72 million tonnes in 2000 to approximately 3.21 million tonnes in 2004, representing a compound annual growth rate of over 17%. We expect demand for aluminium plates, strips and foils will continue to increase as the PRC economy continues to grow.

- *Increased competition*. As the dominant supplier of imported domestic alumina to the PRC market, we have exercised some influence over the domestic sales price for imported alumina. As the supply of imported and domestically produced alumina increases in the PRC and as new competitors enter the PRC market, we may face increased pricing pressure and lose our ability to influence domestic prices for imported alumina.

- *PRC Government control and polices*. The PRC Government exercises a substantial degree of influence over the domestic aluminium industry, including setting, amending or abolishing import tariffs, export rebate, export tax and issuance of the automatic import licence necessary to import alumina. We currently import alumina by having our name included as a party to CMN's AIL. Future changes in the level of government control may have a direct impact on our business, financial condition and results of operations. However, we attempt to adjust our business strategies and operations to respond to evolving PRC Government policies.

- *Product mix for, and scale of, our aluminium fabrication business*. Since 2002, our aluminium fabrication business has achieved growth in both turnover and profits despite the increasing competition. This is primarily due to our ability to adjust our product mix and to shift our focus towards products with greater market demand and higher profit margins. Our research and development capabilities enable us to enhance product quality and to enrich product variety. We also aim to increase our production capacity to take advantage of economies of scale to improve our operating margins.

Impact of the new accounting standards

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new accounting standards, or the new HKFRSs, which are effective for accounting periods on or after 1 January 2005. We have adopted these new HKFRSs since 1 January 2005. These new HKFRSs will have an impact on the presentation of some aspects of our results of operations, particularly the following financial information:

- *Goodwill*: under the new HKFRSs, goodwill is no longer amortised but subject to annual impairment testing;

- *Hedging*: under the new HKFRSs, hedging activities are subject to different classification and stricter requirements for effective hedging than under HK GAAP. To qualify as hedging instruments, we are required to document at the inception of a hedge transaction the relationship between the hedging instruments and the hedged items, as well as our risk management objective and strategy for undertaking various hedge transactions. We are also required to document our assessment, both at hedge inception and on an ongoing basis, of whether the derivative instruments that are used in hedge transactions are highly effective in offsetting changes in fair values or cash flows of hedged items; and

- *Investment*: unlike HK GAAP which recognises investment securities at cost less provisions for impairment losses, investments under the new HKFRSs are classified into different categories and are subject to different recognition and measurement standards.

For further information about the change in accounting policies, see Note 2 to each of the "Unaudited consolidated financial statements of the Peak Strategic Group for the six months ended 30 June 2005" and the "Unaudited interim results of the MMR Group for the six months ended 30 June 2005".

The Peak Strategic Group

Turnover

For the Peak Strategic Group, turnover primarily represents the net invoiced value of goods sold net any value-added tax payable for sales of alumina and aluminium ingots. Sales of alumina and others represent principally alumina sales and, to a limited extent, sales of packaging materials used for the discharge, storage and transport of alumina. Sales of aluminium ingots represent turnover generated from the sale of aluminium ingots sourced from the Peak Strategic Group's tolling operations and third-party aluminium smelters. Commission income represents turnover generated by Sino Mining Trading Pty. Limited ("Sino Mining Trading") by providing trade finance services, including obtaining letters of credit from banks for third-party import activities. Logistics agency fees represent fees received from third parties for alumina discharge, bagging and warehousing services provided by Minmetals Non-ferrous Lianyungang Company Limited ("LYG") at the port at Lianyungang. The following table sets forth a breakdown of the Peak Strategic Group's turnover for the periods presented:

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	(in thousands of RMB, except percentages)									
Sales of alumina and others	1,689,677	96.8%	4,455,111	86.3%	6,399,969	87.2%	3,267,311	89.5%	3,635,224	78.6%
Sales of aluminium ingots	45,391	2.6	695,991	13.5	922,763	12.6	374,269	10.3	983,918	21.3
Commission income	8,822	0.5	9,952	0.2	12,523	0.2	6,585	0.2	4,535	0.1
Logistics agency fee	1,338	0.1	986	0.0	617	0.0	520	0.0	387	0.0
Total	1,745,228	100.0%	5,162,040	100.0%	7,335,872	100.0%	3,648,685	100.0%	4,624,064	100.0%

Sales of alumina and aluminium ingots represented substantially all of the Peak Strategic Group's turnover for 2002, 2003 and 2004 and the six months ended 30 June 2005. The following table sets forth our turnover, sales volume and average selling price for sales of alumina for the periods presented:

	Year ended 31 December			Six months ended 30 June	
	2002	2003	2004	2004	2005
Turnover[(1)] *(RMB'000)*	1,687,903	4,453,119	6,395,600	3,266,722	3,635,462
Sales volume *('000 tonnes)*	1,102.9	1,768.5	1,889.1	930.1	1,010.1
Average selling price *(RMB per tonne)*	1,530	2,518	3,386	3,512	3,599

(1) *For the purposes of this table only, turnover represents sales of alumina and excludes other revenue items relating to sales of packing materials used for the discharge, storage and transport of alumina from the vessels to our customers.*

Cost of goods sold

Cost of goods sold is primarily comprised of the purchase costs for alumina and aluminium ingots. The remainder represents customs duty paid, cost of insurance and freight, amortisation of the upfront payment for alumina purchasing rights under the Alcoa Contract, as well as realised hedging gain/loss attributable to effective commodity futures contracts undertaken by the Peak Strategic Group.

The following table sets forth our cost of goods sold, volume sold and average purchase cost for alumina for the periods presented:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
Purchases of alumina					
Cost of goods sold *(RMB'000)*	1,253,215	3,480,141	4,995,486	2,535,656	2,790,488
Volume sold *('000 tonnes)*	1,102.9	1,768.5	1,889.1	930.1	1,010.1
Average purchase cost *(RMB per tonne)*	1,136	1,968	2,644	2,726	2,763

Gross profit

The following table sets forth the gross profit margin of the Peak Strategic Group for the periods presented:

	Year ended 31 December			Six months ended 30 June	
	2002	**2003**	**2004**	**2004**	**2005**
	(in thousands of RMB, except percentages)				
Turnover	1,745,228	5,162,040	7,335,872	3,648,685	4,624,064
Less: Cost of goods sold	(1,462,819)	(4,572,903)	(6,538,660)	(3,231,251)	(4,114,650)
Gross profit	282,409	589,137	797,212	417,434	509,414
Gross profit margin	16.2%	11.4%	10.9%	11.4%	11.0%

Since 2002, our gross profit margin declined from 16.2% for 2002 to 10.9% for 2004, while achieving a compound annual growth rate of 105.0% in turnover between 2002 and 2004.

The Peak Strategic Group has long-term alumina sourcing contracts, including the Alcoa Contract for the annual supply of 400,000 tonnes of alumina, representing approximately half of the total volume of alumina sold. Increasing global prices for alumina since 2002 caused the average purchase cost per tonne of alumina by the Peak Strategic Group to increase. However, the Peak Strategic Group has not been able to increase the average selling price per tonne of alumina to the same extent in 2003, which contributed to a decline in gross margin for that year.

Although the Peak Strategic Group increased its alumina sold pursuant to long-term sales contracts as a percentage of total alumina sold from 37.7% for 2002 to 56.0% for 2004 and 49.8% for the six months ended 30 June 2005, these new long-term sales contracts were entered into in 2003 during a period of rising alumina prices, which led to an increase in the average purchase price of alumina. In particular, our lowest and highest purchase cost of alumina in the physical market was RMB1,408.5 per tonne and RMB3,632.7 per tonne, respectively, resulting in an increase in the average purchase cost for the year to RMB1,968.0 per tonne. This increase contributed directly to a decrease in gross profit margin in 2003. In addition, the Peak Strategic Group increased the alumina sold under long-term sales contracts as a percentage of total volume of alumina sold from 7.3% in 2002 to 50.4% in 2004 and 54.0% for the six months ended 30 June 2005 in a market of rising alumina prices, leading to a decline in the gross profit margin as the sales prices were less than the prevailing market prices in the physical market. However, it is not possible to accurately predict the movement of alumina prices in the domestic or global commodity markets. The management of the Peak Strategic Group, based on their experience and knowledge of the industry, seeks to enter into long-term sourcing and sales contracts while attempting to maintain flexibility to capitalise on any significant price movement in the physical market or growth in alumina demand.

Other revenue

Other revenue consists primarily of interest income earned on bank deposits.

Selling and marketing costs

Selling and marketing costs primarily relate to port expenses and inspection fees incurred for the discharge, bagging, warehousing and quality inspection of alumina when it arrives in the PRC.

Administrative expenses

Administrative expenses consists primarily of employees’ costs, travelling expenses, rental and bank charges.

Other operating income/expenses

Other operating income/expenses primarily consists of gains or losses arising from ineffective derivatives undertaken for hedging purposes.

Finance costs

Finance costs consists primarily of interest expenses related to bank loans financing the Alcoa Contract and gains and losses on the corresponding interest rate swap entered into to hedge the interest rate exposure of the loan related to the Alcoa Contract.

Income tax

Income tax refers to PRC income tax derived from taxable income generated in the PRC, as well as overseas income tax derived from taxable income generated by SMI and its subsidiaries (collectively, the “Sino Mining Group”).

Minority interests

Minority interests primarily relate to the 49% of SMI owned by China Minmetals prior to 1 April 2004 when the ownership stake was acquired by the Peak Strategic Group and the operating results of SMI were consolidated in the financial statements of 五礦鋁業有限公司(Minmetals Aluminium Company Limited) (“Minmetals Aluminium”) and, consequently, the financial statements of the Peak Strategic Group. Minority interests also relate to the performance of the 10% stake in LYG.

Results of operations – the Peak Strategic Group

Six months ended 30 June 2005 compared to the six months ended 30 June 2004

Turnover

Turnover increased by 26.7% to RMB4,624.1 million for the six months ended 30 June 2005 as compared to RMB3,648.7 million for the same period in 2004 primarily due to the increase of 8.6% in the volume of alumina sold and 2.5% in the average sales price of alumina. Sales of aluminium ingots increased by 162.9% to RMB983.9 million primarily as a result of the increase of 117.5% in the volume of aluminium ingots traded and the increase of 20.9% in the average sales price of aluminium ingots. The Peak Strategic Group increased its purchase of aluminium ingots from aluminium smelters, which increased their tolling activities during the first six months of 2005 in anticipation of the PRC Government policies designed to reduce or eliminate such tolling activities.

Cost of goods sold

Cost of goods sold totalled RMB4,114.7 million for the six months ended 30 June 2005, an increase of 27.3% from RMB3,231.3 million for the same period in 2004. The increase was primarily attributable to the increase in the average purchase price of alumina of 1.3% and the increase in sales volume of 8.6%.

The following table sets forth additional information regarding cost of goods sold for the periods presented:

	Six months ended 30 June			
	2004		2005	
	(in thousands of RMB, except percentages)			
Purchase cost of alumina and aluminium ingots	2,909,593	90.1%	3,772,851	91.6%
Customs duty	171,782	5.3	216,212	5.3
Insurance and freight	52,928	1.6	86,382	2.2
Amortisation of upfront payment for alumina purchasing rights under the Alcoa Contract	33,142	1.0	33,123	0.8
Hedging loss	12,503	0.4	–	–
Others	51,303	1.6	6,082	0.1
Total	**3,231,251**	**100.0%**	**4,114,650**	**100.0%**
Percentage of turnover	88.6%		89.0%	

The increase in customs duty was attributable to the increase in purchase costs of alumina and the increase in insurance and freight resulted from the increased freight costs from approximately US$20-29 per tonne to over US$30 per tonne. The decrease in hedging losses for the six months ended 30 June 2005 was due to the adoption of the new HKFRSs, resulting in the change in accounting policies for derivative instruments. Included in the balance for others for the six months ended 30 June 2004 was RMB48.8 million attributable to the provision for stock obsolescence taken when the price for alumina decreased from an average of approximately US$400 per tonne to approximately US$350 per tonne in the third quarter of 2004. However, as the alumina price recovered during the last quarter of 2004, such provision was written back as at 31 December 2004.

Gross profit

Gross profit for the six months ended 30 June 2005 was RMB509.4 million, which increased by 22.0% when compared to the same period in 2004. Although the increase in the average sales price of alumina of 2.5% exceeded the increase in the average purchase cost of 1.3%, gross profit margin decreased from 11.4% for the six months ended 30 June 2004 to 11.0% for the six months ended 30 June 2005. This slight decrease in gross profit margin was primarily attributable to the negative impact from 162.9% increase in sales of aluminium ingots for the six months ended 30 June 2005, representing 21.3% of turnover for the six months ended 30 June 2005 as compared to 10.3% of turnover for the six months ended 30 June 2004. Gross profit margins related to the sales of aluminium ingots is lower than the gross profit margins related to sales of alumina.

Selling and marketing expenses

Selling expenses totalled RMB45.9 million for the six months ended 30 June 2005, representing an increase of 12.2% from RMB40.9 million for the same period in 2004. The increase was primarily due to the increase in turnover and, as a percentage of turnover, selling and marketing expenses remained relatively stable at 1.0% for the six months ended 30 June 2005 compared to 1.1% for the same period in 2004.

Administrative expenses

Administrative expenses decreased from RMB15.8 million for the six months ended 30 June 2004 to RMB14.5 million for the six months ended 30 June 2005 primarily due to lower employees' cost. As a percentage of turnover, administrative expenses remained relatively stable at 0.3% for the six months ended 30 June 2005 compared to 0.4% for the same period in 2004.

Other operating income

Other operating income totalled RMB28.4 million for the six months ended 30 June 2005. This was primarily due to the increase in the gains recognised for derivatives instruments which did not qualify for hedge accounting treatment.

Operating profit

Operating profit for the six months ended 30 June 2005 totalled RMB482.7 million, representing an increase of 33.2% from RMB362.3 million in the same period in 2004 primarily due to an increase in turnover and other operating income. Operating profit margin increased to 10.4% for the six months ended 30 June 2005 compared to 9.9% for the same period in 2004.

Finance costs

Finance costs decreased RMB30.7 million, or 77.5%, from RMB39.6 million for the six months ended 30 June 2004 to RMB8.9 million for the same period in 2005. Interest expense decreased to RMB31.2 million for the six months ended 30 June 2005 compared to RMB44.4 million for the same period in 2004 primarily due to a reduction in the principal amount of outstanding loans. Gains on the interest rate swap increased from RMB5.5 million for the six months ended 30 June 2004 to RMB26.0 million for the six months ended 30 June 2005 also contributed to the decrease in finance costs.

Income tax

Income tax for the six months ended 30 June 2005 totalled RMB113.9 million, representing an increase of 41.5% from RMB80.5 million for the same period in 2004. This increase was primarily attributable to the increase in taxable income generated from the sale of alumina in the PRC, which is subject to the statutory income tax rate of 33.0%. The effective income tax rate of Sino Mining International and its subsidiaries (the "Sino Mining Group") was 1.3% for the six months ended 30 June 2005 compared to 3.3% for the six months ended 30 June 2004.

Minority interests

Minority interests decreased 98.9% due to the completion of the acquisition of the 49% equity interest in SMI by the Peak Strategic Group on 1 April 2004.

Net profit

The Peak Strategic Group recorded net profit of RMB364.3 million for the six months ended 30 June 2005, representing an increase of 63.8% from RMB222.4 million for the same period in 2004. Such increase resulted primarily from the increase in turnover due to increased sales volume, higher alumina prices, a reduction in finance costs and minority interests and the adoption of the new HKFRSs for derivative financial instruments, which was offset by the increase in income tax.

2004 compared to 2003

Turnover

Turnover increased by 42.1% to RMB7,335.9 million in 2004 compared to RMB5,162.0 million in 2003 primarily due to the increase of approximately 34.5% in the average sales price of alumina. Sales of aluminium ingots increased by 32.6% to RMB922.8 million in 2004 from RMB696.0 million primarily due to the increase of 18.4% in the average sales price of aluminium ingots and an increase in sales volume of 12.0%. Commission income rose to RMB12.5 million in 2004 from RMB10.0 million in 2003 primarily due to a higher number of transactions in 2004.

Cost of goods sold

Cost of goods sold totalled RMB6,538.7 million in 2004, or an increase of 43.0% from RMB4,572.9 million in 2003. The following table sets forth additional information regarding the Peak Strategic Group's cost of goods sold for 2003 and 2004:

	Year ended 31 December			
	2003		**2004**	
	(in thousands of RMB, except percentages)			
Purchase cost of alumina and aluminium ingots	4,173,185	91.3%	5,923,548	90.7%
Customs duty	280,648	6.1	355,709	5.4
Insurance and freight	55,669	1.2	145,035	2.2
Amortisation of upfront payment for alumina purchasing rights under the Alcoa Contract	66,364	1.5	66,283	1.0
Hedging (gain)/loss	(7,956)	(0.2)	41,605	0.6
Others	4,993	0.1	6,480	0.1
Total	**4,572,903**	**100.0%**	**6,538,660**	**100.0%**
Percentage of turnover	88.6%		89.1%	

The increase in cost of goods sold from RMB4,572.9 million for 2003 to RMB6,538.7 million in 2004 was primarily due to a 42.1% increase in turnover resulting principally from increased demand for alumina and aluminium ingots. The increase in turnover was accompanied by a corresponding increase of 41.9% in costs associated with the purchase of alumina and aluminium ingots in 2004. The increase in customs duty was attributable to the increase in purchase cost of alumina while the increase in insurance and freight resulted from the increase in average freight costs as well as the increase in the amount of alumina purchased by the Peak Strategic Group on a FOB basis for 2004.

Gross profit

The Peak Strategic Group's gross profit for 2004 totalled RMB797.2 million, an increase of 35.3% compared to 2003, and gross profit margin remained relatively stable at 10.9% for 2004 compared to 11.4% for 2003. The slight decrease in gross profit margin was primarily attributable to the increase in the average sales price of alumina of 34.5%, which is consistent with the 34.3% increase in the average purchase cost of alumina. In addition, the Peak Strategic Group's purchases of alumina from the physical market decreased by approximately 88,400 tonnes, or approximately 9.6%, in 2004 compared to 2003, which placed downward pressure on gross profit margin in 2004.

Selling and marketing expenses

Selling and marketing expenses totalled RMB82.0 million for 2004, representing a decrease of 7.3% from RMB88.4 million in 2003. As a percentage of turnover, selling expenses decreased from 1.7% in 2003 to 1.1% in 2004 primarily due to reductions in the average port logistics fee rate of approximately RMB51 per tonne in 2003 to approximately RMB40 per tonne in 2004. The decrease in the average port logistics fee rate was primarily due to an increase in the amount of alumina we imported in 2004 as compared with 2003.

Administrative expenses

Administrative expenses totalled RMB46.3 million for 2004, representing an increase of 25.5% from RMB36.9 million in 2003. As a percentage of turnover, administrative expenses remained relatively stable at 0.6% in 2004 as compared to 0.7% in 2003.

Operating profit

Operating profit for 2004 totalled RMB670.2 million, representing an increase of 42.5% from RMB470.4 million in 2003 primarily due to an increase in the average sales price of alumina. Operating profit margin remained relatively stable at 9.1% for 2004 and 2003 primarily due to relatively stable gross profit margin as discussed above.

Finance costs

Finance costs decreased RMB7.4 million, or 9.6%, from RMB77.3 million in 2003 compared to RMB69.9 million in 2004. Interest expense decreased slightly to RMB77.9 million in 2004 compared to RMB78.8 million in 2003. Despite these higher costs, finance costs decreased in 2004 primarily due to the reduction in the principal amount of loans outstanding in 2004 and gains related to the interest rate swap totalling RMB8.5 million in 2004 compared to RMB5.7 million in 2003.

Income tax

Income tax for 2004 totalled RMB185.8 million, representing an increase of 57.7% from RMB117.8 million in 2003. This increase was primarily attributable to the increase in taxable income generated from the sale of alumina. Income tax for income generated in the PRC is based on the statutory income tax rate of 33.0% in the PRC, while the effective income tax rate of the Sino Mining Group was 8.8% for 2004 compared to 14.5% in 2003. The decrease in effective income tax rate of the Sino Mining Group in 2004 was due to a higher percentage of profits being derived from Sino Mining Alumina Limited ("Sino Mining Alumina"), which was not subject to taxation.

Minority interests

Minority interests, as a reduction to profit before tax, increased by 61.7% as a result of the increase in profit for Sino Mining International for 2004 compared to 2003. As the Peak Strategic Group completed its acquisition of the remaining 49% interest in Sino Mining International and accordingly, the entire operational results of Sino Mining International (i.e. 100%) have been recorded in the financial statements of the Peak Strategic Group since 1 April 2004.

Net profit

The Peak Strategic Group recorded net profit of RMB396.0 million for 2004, representing an increase of 50.7% from RMB262.8 million in 2003. Such increase resulted primarily from the increase in gross profit and reduction in finance costs.

2003 compared to 2002

Turnover

Turnover increased by RMB3,416.8 million, or 195.8%, from RMB1,745.2 million in 2002 to RMB5,162.0 million for 2003 primarily due to an increase in the average sales price of alumina of 64.6% and a 60.3% increase in sales volume in 2003. The increase in average sales price and sales volume was primarily due to increased global alumina prices and sustained domestic demand for alumina. Sales of aluminium ingots increased by 54.5 tonnes to RMB696.0 million in 2003 from RMB45.4 million in 2002. For 2003, commission income increased RMB1.2 million, or 13.6%, to RMB10.0 million compared to RMB8.8 million in 2002 primarily due to a higher number of transactions undertaken during the year.

Cost of goods sold

Cost of goods sold increased RMB3,110.1 million, or 212.6%, from RMB1,462.8 million in 2002 to RMB4,572.9 million in 2003 primarily due to increased alumina and aluminium ingot purchases and an increase in the average purchase cost of alumina per tonne of 73.2% in 2003. The following table sets forth additional information regarding the Peak Strategic Group's cost of goods sold for the periods indicated:

	Year ended 31 December			
	2002		**2003**	
	(in thousands of RMB, except percentages)			
Purchase cost of alumina and aluminium ingots	1,299,446	88.8%	4,173,185	91.3%
Customs duty	74,657	5.1	280,648	6.1
Insurance and freight	34,686	2.4	55,669	1.2
Amortisation of upfront payment for alumina purchasing rights under the Alcoa Contract	66,109	4.5	66,364	1.5
Hedging gain	(16,692)	(1.1)	(7,956)	(0.2)
Others	4,613	0.3	4,993	0.1
Total	1,462,819	100.0%	4,572,903	100.0%
Percentage of turnover	83.8%		88.6%	

As the amount of alumina purchased by the Peak Strategic Group on a FOB basis for 2003 was higher than 2002, insurance and freight expenses for 2003 increased by 60.5% as compared with 2002. Customs duty increased by RMB206.0 million as a result of the increase in purchase cost of alumina.

Gross profit

Gross profit for 2003 was RMB589.1 million, which increased by 108.6% as compared to 2002 primarily due to the increase in turnover while the gross profit margin decreased from 16.2% in 2002 to 11.4% in 2003 mainly as a result of the increase in the average purchase cost of alumina of 73.2% exceeding the corresponding increase in the average sales price of 64.6% due to the increase in global price cycle of alumina. As imported alumina purchased under our long-term sourcing contracts was insufficient to satisfy increased domestic demand, the Peak Strategic Group made purchases from the physical market at then prevailing market prices. Of the total volume of alumina sold in 2003, 919,600 tonnes, or 52.0%, was purchased from the physical market, which was 232,500 tonnes, or 33.8%, more than 2002. In 2003, our lowest and highest purchase cost of alumina in the physical market were RMB1,408.5 and RMB3,632.7 per tonne, respectively. As the Peak Strategic Group increased the volume of alumina purchased from the physical market in a market of rising alumina prices while it conducted 6.8% of its sales under long-term sales contracts, it was unable to pass the entire increase in its purchase costs to its customers, thereby contributing to a decrease in gross profit margin in 2003.

Selling and marketing expenses

Selling and marketing expenses totalled RMB88.4 million in 2003, representing an increase of 86.1% from 2002. The increase in port expenses, which is related to expenses incurred for discharge, storing and packing of alumina at the port facilities, was lower than the rate of increase in turnover. As a result, selling expenses as a percentage of our turnover decreased from 2.7% in 2002 to 1.7% in 2003.

Administrative expenses

Administrative expenses totalled RMB36.9 million for 2003, representing a decrease of 14.4% from 2002. Expressed as a percentage of turnover, administrative expenses decreased from 2.5% in 2002 to 0.7% in 2003, primarily due to economies of scale and the fixed nature of most of the administrative expenses.

Gain on disposal of an associated company

In 2002, the Peak Strategic Group recorded a gain on the disposal of an associated company totalling RMB32.4 million, representing an investment gain associated with the sale of a portion of its equity interest in Sino Gold Limited prior to the listing of Sino Gold Limited's shares on the Australian Stock Exchange on 3 December 2002.

Gain on disposal of investment securities

Gain on disposal of investment securities totalled RMB4.2 million in 2003 and represented the Peak Strategic Group's investment gain in Sino Gold Limited when it reduced its interests in Sino Gold Limited from 16.0% as at 31 December 2002 to 12.2% as at 31 December 2003.

Operating profit

Operating profit for 2003 totalled RMB470.4 million, representing an increase of 106.6% from 2002 primarily due to an increase in sales volume and the average sales price of alumina per tonne of 60.3% and 64.6%, respectively. Operating profit margin declined from 13.0% in 2002 to 9.1% in 2003 primarily due to declining gross profit margin.

Finance costs

Finance costs of the Peak Strategic Group consisted primarily of interest expense on the bank loan undertaken to finance the upfront payment of US$240 million pursuant to the Alcoa Contract and the gain and loss on the corresponding interest rate swap undertaken to hedge the interest rate exposure of this loan which decreased from RMB96.7 million for 2002 to RMB77.3 million for 2003. Interest expense totalled RMB78.8 million in 2003 compared to RMB93.2 million in 2002. The decrease in finance costs in 2003 was primarily due to a reduction in the loans principal amount outstanding, as well as the reduction in interest margin from LIBOR+3.0% to LIBOR+0.9% when the syndicated loan was refinanced in December 2002. For 2003, the gain on the interest rate swap was RMB5.7 million (compared to RMB23.0 million in 2002). Interest expense for 2002 also included an amount relating to the amortisation of capitalised syndicated loan fees of RMB25.2 million as a result of refinancing of the loan facility in December 2002.

Income tax

Income tax for 2003 was RMB117.8 million, representing an increase of 480.6%. The increase in taxation was principally attributable to the significant increase in taxable income for the alumina import business. Income tax for taxable income generated in the PRC is based on the statutory income tax rate of 33.0% in the PRC for the past three years while the effective income tax rate of the Sino Mining Group was 14.5% for 2003 (2002: 7.06%). The increase in effective income tax rate of the Sino Mining Group in 2003 as compared to 2002 was primarily attributable to a higher percentage of the profit being derived from Sino Mining Trading which was subject to taxation in Australia as profits derived from Sino Mining Alumina was not subject to taxation.

Minority interests

Minority interests for 2003 were RMB12.4 million, representing a decrease of 79.8% from 2002 mainly as a result of the decrease in profit for Sino Mining International for the year. The profit recorded by Sino Mining International primarily relates to the purchase of alumina pursuant to the Alcoa Contract and its sale to Minmetals Aluminum pursuant to the offtake agreement. The decline in profit in 2003 was primarily due to a reduction in gain from the disposal of the Peak Strategic Group investments in Sino Gold Limited, held through Sino Mining International, of RMB4.2 million in 2003 as compared to a gain of RMB32.4 million in 2002.

Net profit

The Peak Strategic Group recorded a net profit of RMB262.8 million for 2003, representing an increase of 323.9% when compared to 2002. Net profit margin increased from 3.6% for 2002 to 5.1% in 2003, primarily due to the reduction in finance costs and minority interests.

Analysis of the consolidated balance sheet items of the Peak Strategic Group

Inventories

The Peak Strategic Group had inventories valued at approximately RMB697.1 million as at 31 December 2004, compared to approximately RMB505.3 million as at 31 December 2003. The higher inventory balance as at 31 December 2004 was due in large part to higher purchase cost of alumina in 2004. Inventories comprised alumina in storage at the port or in transit at sea and are stated at the lower of cost and net realisable value. Our inventory turnover days was approximately 38.9 days in 2004 (2003: 40.3 days and 2002: 25.6 days), defined as (inventory balance at year-end/cost of sales for the year) x 365 days. Inventory turnover days averaged approximately 34.9 days for 2002, 2003 and 2004 as our policy is to keep approximately one month of inventory at any one time.

As at 31 December 2004, the entire inventory balance of RMB697.1 million relates to alumina held for less than six months. As at 30 April 2005, the entire balance has been sold.

Trade receivables, prepayments and other receivables

As at 31 December 2004, the balance for trade receivables, prepayments and other receivables relates to:

	Year ended 31 December	
	2003	**2004**
	(in thousands of RMB)	
Trade receivables	17,620	68,682
Prepayments	15,933	191,459
Other receivables	45,613	75,725
Total	79,166	335,866

Trade receivables (net of provision for doubtful debts) increased from RMB17.6 million as at 31 December 2003 to RMB68.7 million as at 31 December 2004 primarily due to the increase in turnover during that year. Due to our business practise of accepting advance payment or letters of credit from customers, trade receivables turnover days, defined as (trade receivables balance at year-end/turnover for the year) x 365 days, was not significant at 3.4 days in 2004 (2003: 1.2 days and 2002: 2.7 days). As at 31 May 2005, 98.3% of the outstanding trade receivables balance was fully settled. Our general provisioning policy is as follows:

Amount of provision Days overdue	**(Percentage of amount outstanding)**
181- 365 days	25%
1 year to 2 years	50%
Over 2 years	100%

As at 31 December 2004, the Peak Strategic Group had prepayments of RMB191.5 million (2003: RMB15.9 million), which primarily relate to our prepayment for alumina purchases via L/Cs. As at 31 May 2005, inventories relating to the entire prepayments balance as at year end were received.

Due from/to related companies

As at 31 December 2004, the Peak Strategic Group had RMB166.5 million due from related companies, of which RMB74.1 million was non-trading in nature. Of the non-trading amount due from related companies, RMB73.2 million relate to funds placed by the Peak Strategic Group at 五礦集團財務有限責任公司 (Minmetals Finance Company Limited), a 92.5%-owned subsidiary of China Minmetals, engaged in the provision of funds collection and payment services, opening of L/Cs and provision of guarantees for China Minmetals and its subsidiaries excluding Minmetals Resources with licence from the People’s Bank of China. The practice of placing funds, primarily from cashflows generated from the operations of the Peak Strategic Group at 五礦集團財務有限責任公司 (Minmetals Finance Company Limited) will be discontinued by the Peak Strategic Group upon completion of the Acquisition and this Offering (“Completion”), which will take place on the same date.

As at 31 December 2004, the Peak Strategic Group had RMB219.7 million due to related companies, of which RMB3.0 million was non-trading in nature and related to reimbursement of travelling expenses of employees of Sino Mining International to CMN.

Trade payables, other payables and accruals

As at 31 December 2004, the balance for trade payables, other payables and accruals relates to:

	Year ended 31 December	
	2003	2004
	(in thousands of RMB)	
Trade payables	38,882	122,641
Other payables	64,266	67,668
Accruals	28,373	35,186
Total	131,521	225,495

Trade payables totalled RMB122.6 million as at 31 December 2004, compared to RMB38.9 million as at 31 December 2003. Such increase was primarily due to a transaction at year end whereby the Peak Strategic Group has yet to receive the supplier's invoice for inventories received. In 2004, trade payables turnover days, defined as (trade payables balance at year-end/cost of sales for the year) x 365 days, for the Peak Strategic Group was 6.8 days (compared to 3.1 days in 2003 and 10.9 days in 2002). The decrease in trade payables turnover in 2003 as compared to 2002 was mainly due to the increase of payment to suppliers via L/Cs by the Peak Strategic Group. The increase in trade creditors days from 2003 was primarily due to the increase in trade creditors balance as noted above.

Advances from customers

Advances from customers relate to advance payments made by the customers to the Peak Strategic Group to secure the alumina sales. Normally, in a market where the supply of alumina is tight, customers are willing to place more advance orders with the Peak Strategic Group so as to lock in the certainty of the sales contracts. The Peak Strategic Group had RMB348.0 million of advances from customers as at 31 December 2004, compared to RMB372.4 million as at 31 December 2003 and RMB125.3 million as at 31 December 2002. The slight decrease in this balance from 2003 to 2004 was due primarily to non-occurrence of the situation as at 2003 whereby in view of rising alumina prices, customers made more advance payments to the Peak Strategic Group to secure the supply of alumina.

Bank loans

Our total debt was RMB1,232.8 million as at 31 December 2004. As at 31 December 2004, the Peak Strategic Group had total cash (including pledged bank deposits) of RMB213.3 million and net debt of RMB1,019.5 million. The net gearing of the Peak Strategic Group, defined as net debt divided by shareholders funds, was 135.6% as at 31 December 2004 (compared to approximately 197.2% as at 31 December 2003 and 193.5% as at 31 December 2002). During 2002 to 2004, the high net gearing ratio of the Peak Strategic Group was due to the upfront payment for alumina purchasing rights under the Alcoa Contract, being primarily funded by external bank loans as mentioned in "Our businesses".

The increase in short-term loans during 2002 to 2004 was primarily due to the increase in funding for working capital as the business activities of the Peak Strategic Group increased from revenue amounting to RMB1,745.2 million in 2002 to RMB7,335.8 million in 2004.

External bank loans for the upfront payment of US$240 million pursuant to the Alcoa Contract were refinanced in 2002 whereby Sino Mining Alumina and CMN entered into an agreement dated 13 September 2002 (the "CMN Loan Agreement") in respect of the utilisation of a US$100 million special-purpose foreign exchange loan granted by Bank of China to CMN (the "BOC Loan") for on-lending to Sino Mining Alumina (the "CMN Loan") on the same commercial terms as the CMN Loan Agreement. As at 31 December 2004, the outstanding amount of the CMN Loan was RMB703.5 million. BOC, CMN and Minmetals Aluminium entered into an agreement to transfer the BOC Loan whereby Minmetals Aluminium has agreed to assume CMN's responsibility to repay the outstanding amount of the BOC Loan to BOC on the same terms (including the interest rate) as those in relation to the BOC Loan with effect from 13 June 2005. Incidentally, Minmetals Aluminium has also assumed the loan under the CMN Loan Agreement on 13 June 2005. As a result, the Peak Strategic Group has no outstanding shareholder's loan due to CMN as at 30 June 2005.

The unsecured loans from CMN of RMB28.1 million as at 31 December 2004 were fully repaid in February 2005.

The MMR Group

Turnover

Turnover from trading represents turnover generated when the MMR Group purchases and distributes non-ferrous metals. The MMR Group suspended its trading operations in 2002 due to financial difficulties and resumed operations in 2003. For 2003 and 2004, the MMR Group has only purchased alumina under the Pechiney Contract. Turnover from aluminum fabrication primarily relate to turnover generated by the aluminium fabrication business which is carried out by its 51%-owned subsidiary, 華北鋁業有限公司 (North China Aluminium Company Limited) ("NCA"). Turnover from other direct investments primarily related to the production and sale of flexible metal conduits business which is carried out by YOPT. For 2002, 2003 and 2004, and the six months ended 30 June 2004, turnover from other direct investments also included turnover generated by two subsidiaries of the MMR Group which have been liquidated on 28 June 2004 and 30 July 2004, respectively, and accordingly, their financial results are no longer included in turnover for the six months ended 30 June 2005.

The table below sets forth a breakdown of the MMR Group's turnover by business segment for the periods represented:

	Year ended 31 December						Six months ended 30 June			
	2002		2003		2004		2004		2005	
	(in thousands of HK$, except percentages)									
Aluminium fabrication	763,538	87.2%	959,292	70.4%	1,058,593	82.2%	538,657	80.4%	620,027	93.3%
Trading	–	–	296,470	21.8	164,778	12.8	85,640	12.8	29,386	4.4
Other direct investments	112,138	12.8	107,310	7.8	65,114	5.0	45,850	6.8	14,802	2.3
Total	875,676	100.0%	1,363,072	100.0%	1,288,485	100.0%	670,147	100.0%	664,215	100.0%

Selling expenses

Selling expenses primarily relate to transportation charges, sales services fees and sales employees' costs incurred by NCA.

Administrative expenses

Administrative expenses primarily relate to employees' costs and depreciation charges for non production fixed assets.

Other income/expenses

Other income and expenses primarily relate to reversal of provision for and provision for bad and doubtful debts on amounts due from fellow subsidiaries, associated companies, as well as trade receivables and prepayments.

Finance costs

Finance costs primarily relate to interest expense on borrowings of the MMR Group for capital expenditures and working capital purposes.

Share of profits less losses of associated companies

Share of profits less losses of associated companies primarily relate to contribution from the MMR Group's associated companies which were engaged in manufacture and sale of copper rods and aluminium cans in the PRC.

Income tax

The MMR Group is subject to Hong Kong income tax on profits generated from its trading business and PRC income tax on profits generated by its PRC based subsidiaries upon the expiration of their tax exemption period. In accordance with the relevant income tax laws and regulations applicable to sino-foreign equity joint venture in the PRC, the MMR Group's subsidiaries are exempt from income tax for two years starting from first profit-making year, after offsetting tax losses brought forward from the previous five years, if any, followed by a 50% reduction in the tax rate for the immediate next three years.

Results of operations – the MMR Group

Six months ended 30 June 2005 compared to six months ended 30 June 2004

Turnover

The MMR Group's turnover decreased slightly by 0.9% to HK$664.2 million for the six months ended 30 June 2005 when compared to the same period in 2004 as a result of the reduction in the scale of its trading business for the six months ended 30 June 2005 and liquidation of two subsidiaries, namely, Zhangzhou International Aluminium Container Company Limited ("ZIAC") and Yixing Jinfeng Copper Materials Company Limited ("YJCM") by the end of 2004. The MMR Group traded 5,033 tonnes of copper concentrates for the six months ended 30 June 2005 but did not trade in copper concentrates in the same period in 2004. For the six months ended 30 June 2004, the MMR Group traded 30,928 tonnes of alumina. Turnover generated from the MMR Group's aluminium fabrication operation increased by 15.1% for the six months ended 30 June 2005 was primarily due to the increase in trading volume from 25,300 tonnes for the six months ended 30 June 2004 to 29,000 tonnes for the same period in 2005.

Gross profit

Gross profit decreased by 31.8% to HK$67.9 million for the six months ended 30 June 2005 and gross profit margin decreased from 14.8% for the six months ended 30 June 2004 to 10.2% for the same period in 2005 primarily due to the decrease in trading volume as discussed above. As the sale of copper concentrates conducted during the six months ended 30 June 2005 was sourced from the physical market, it generated a lower gross margin as compared to the sale of alumina for the six months ended 30 June 2004 which was sourced pursuant to the Pechiney Contract.

Selling expenses

Selling expenses increased by 10.8% to HK$23.1 million for the six months ended 30 June 2005, while as a percentage of total turnover, such expenses remained relatively stable at 3.1% for the six months ended 30 June 2004 and 3.5% for the six months ended 30 June 2005.

Administrative expenses

Administrative expenses decreased by 26.4% to HK$22.8 million for the six months ended 30 June 2005 and as a percentage of total turnover, such expenses decreased from 4.6% for the six months ended 30 June 2004 to 3.4% for the same period in 2005. This was primarily due to the administrative expenses attributable to ZIAC, a subsidiary liquidated in June 2004, which did not recur for the six months ended 30 June 2005.

Other income

Other income of HK$81.6 million for the six months ended 30 June 2005, which represented an increase of 810.5% when compared to the same period in 2004, was primarily due to write back of provisions for amounts due from associated companies, receivables and prepayments which are non recurring in nature.

Reversal of consolidated losses upon deconsolidation of a subsidiary

The amount of HK$91.6 million for the six months ended 30 June 2004 (30 June 2005: nil) related to the winding up of ZIAC as discussed above, which was non recurring in nature and hence nil amount for the six months ended 30 June 2005.

Operating profits

The MMR Group's profit from operations for the six months ended 30 June 2005 was HK$108.0 million, representing a decrease of 27.5% from the same period in 2004, which was primarily due to the non-occurrence of the reversal of consolidated losses upon the deconsolidation of ZIAC, which was slightly offset by the increase in other income as discussed above.

Finance costs

Finance costs decreased by 7.8% to HK$8.7 million for the six months ended 30 June 2005 as compared to the same period in 2004. Finance costs for the six months ended 30 June 2004 included the interest expense of ZIAC, which was liquidated in June 2004 and hence, its interest expense was not included in the finance costs for the six months ended 30 June 2005. Excluding the interest expense of this subsidiary for the six months ended 30 June 2004, finance costs for the six months ended 30 June 2005 were higher regarding non capitalisation of the interest expense of NCA upon completion of the construction of the aluminium cold mill project in June 2005.

Share of profits less losses of associated companies

Share of profits less losses of associated companies increased by 216.4% for the six months ended 30 June 2005 to HK$7.8 million primarily as a result of earnings contribution from the MMR Group's 20%-owned associated company, 青島美特容器有限公司(Qingdao M.C. Packaging Limited) which has shown improvement in its operations and restored itself to a positive net assets position as at 30 June 2005 by writing back provision for impairment in value of certain fixed assets.

Income tax

The MMR Group recorded a tax credit of HK$1.1 million for the six months ended 30 June 2005, compared to a tax expense of HK$4.7 million for the same period in 2004, primarily due to a deferred tax asset of HK$5.5 million arising from the provision for impairment in value of certain fixed assets at one of its subsidiaries.

Net profit

The MMR Group recorded a net profit of HK$100.3 million and a net profit margin of 15.1% for the six months ended 30 June 2005 as compared with a net profit of HK$131.0 million and net profit margin of 19.5% for the six months ended 30 June 2004, mainly due to the decline in gross profit margin, non-occurrence of the reversal of consolidated losses upon deconsolidation of its subsidiary which was not fully offset by the increase in other income as discussed above.

2004 compared to 2003

Turnover

The MMR Group's turnover decreased slightly by 5.5% to HK$1,288.5 million for 2004 when compared to 2003. The decrease in revenue of the trading operations by 44.4% from 2003 was mainly due to the decreased volume of alumina traded during 2004 of 59,000 tonnes as compared to 140,000 tonnes in 2003. In 2003 and 2004, the MMR Group only had one alumina trading contract, i.e., the Pechiney Contract, which was for the purchase of an aggregate of 453,401 tonnes of alumina. The decline in trading volume of alumina in 2004 as compared with 2003 was mainly due to the decrease in remaining volume of alumina to be executed under this contract. The increase in revenue generated from the aluminium fabrication operations by 10.4% for 2004 was primarily due to the improved aluminium price in the market.

Gross profit

Gross profit decreased by 17.1% to HK$192.9 million for 2004 when compared to 2003, primarily due to the decrease in trading volume as discussed above. Gross profit margin also decreased correspondingly from 17.1% for 2003 to approximately 15.0% for 2004 primarily due to the decrease in gross profit margin from other direct investments of 24.2% in 2003 to 20.2% in 2004 as ZIAC and YJCM, both of which were liquidated in 2004, reflected a gross loss margin in 2004 as against a gross profit margin in 2003.

Selling expenses

Selling expenses increased slightly by 10.0% to HK$41.8 million for 2004 while as a percentage of total turnover, it remained relatively stable at 3% for 2004 and 2003.

Administrative expenses

As a percentage of total turnover, administrative expenses remained relatively stable at 5% for 2004 and 2003.

Other income

The MMR Group recorded other income of HK$64.6 million for 2004, as compared to other expenses of HK$5.0 million for 2003, attributable mainly to the reversal of provision for bad and doubtful debts on amounts due from fellow subsidiaries, receivables and prepayments of HK$49.1 million, as well as the reversal of provision for impairment in value of fixed assets of HK$8.5 million.

Reversal of consolidated losses upon deconsolidation of subsidiaries

The amount of HK$97.4 million (2003: nil) related to the liquidation of the MMR Group's two subsidiaries, ZIAC and YJCM, as discussed above.

Operating profits

The MMR Group's profit from operations for 2004 was HK$252.2 million, representing an increase of 113.0% from 2003, which was primarily due to the gain in other income and reversal of consolidated losses upon the deconsolidation of ZIAC and YJCM as discussed above.

Finance costs

Finance costs decreased to HK$16.4 million for 2004, as compared to HK$38.2 million for 2003, principally due to the reduction in the MMR Group's borrowings following completion of the Restructuring Proposal in January 2004.

Share of profits less losses of associated companies

The MMR Group's share of profits from associated companies for 2004 amounted to HK$10.3 million, resulting primarily from its share of profits of 常州金源銅業有限公司(Changzhou Jinyuan Copper Company Limited).

Income tax

The MMR Group recorded a tax expense of HK$11.7 million for 2004 as compared with a tax credit of HK$6.5 million in 2003, resulting from the higher profit before taxation generated during the year. The fluctuation in tax expense for 2004 and 2003 was primarily due to deferred taxation.

Net profit

The MMR Group recorded a net profit of HK$217.7 million and a net profit margin of 16.9% for 2004 as compared with a net profit of HK$89.2 million and net profit margin of 6.5% for 2003, mainly due to the reversal of consolidated losses upon deconsolidation of subsidiaries, an increase in other income and reduction in finance costs.

2003 compared to 2002

Turnover

The MMR Group's turnover improved significantly by 55.7% to HK$1,363.1 million in 2003 when compared to 2002, which was mainly driven by the resumption of alumina trading operations in 2003, due to strong demand of alumina in the PRC caused by insufficient supply. The MMR Group temporarily suspended its alumina trading operations in 2002 as it was unable to obtain the necessary trade credit facilities due to financial difficulties encountered by the MMR Group in 2001 and had to defer certain shipments of alumina under the Pechiney Contract to 2004. The MMR Group traded 140,000 tonnes of alumina in 2003. Turnover from its aluminium fabrication operation also recorded a significant improvement of 25.6% to HK$959.3 million and accounted for 70.4% of the MMR Group's turnover in 2003, with its trading volume increased by 14% to 48,000 tonnes in 2003. The increase in turnover from aluminium fabrication operations was attributable to improvement in the sales and operating environment of the aluminium fabricators which was stimulated by increased demand for aluminium products in the PRC during the year.

Gross profit

Gross profit increased significantly by 114.6% to HK$232.8 million in 2003 when compared to 2002, primarily due to the contribution from the resumed alumina trading operations in 2003 as driven by the strong demand for alumina in the PRC. Gross profit margin also improved from 12.4% in 2002 to 17.1% in 2003 as the resumed alumina trading operations reflected a gross profit margin of 34.4% in 2003 as compared to 0% in 2002 while gross profit margin from other direct investments improved from 13.9% in 2002 to 24.2% in 2003.

Selling expenses

The increase in selling expenses of 22.3% to HK$38.0 million in 2003 was mainly attributable to the resumption of alumina trading operations during the year.

Administrative expenses

Although administrative expenses increased by 24.8% to HK$76.4 million in 2003, as a percentage of turnover, it decreased from 7.0% for 2002 to 5.6% for 2003 given the fixed nature of these costs which did not increase proportionately with the increase in turnover.

Other income/(expenses)

The MMR Group incurred other expenses of HK$5.0 million for 2003 as compared with other income of HK$53.1 million in 2002, comprising mainly, a provision for bad and doubtful debts on amounts due from associated companies of HK$14.6 million.

The MMR Group recorded other income of HK$53.1 million for 2002, which was mainly attributable to the reversal of provision for foreseeable loss on the Pechiney Contract of HK$43.8 million as a result of the recovery in the market price of alumina, as well as a gain on deconsolidation of Da Hua Non-ferrous Metals Company Limited, a wholly owned subsidiary of the MMR Group which was ordered by the Court to wind up on 21 October 2002, of HK$29.8 million.

Operating profit

The MMR Group's operating profit for 2003 was HK$118.4 million, representing a significant increase of 60.6% from 2002, which was primarily due to the increase in turnover for 2003 as discussed above.

Finance costs

Finance costs decreased by 26.7% from 2002 to HK$38.2 million for 2003, which was mainly due to reduced interest rates in 2003 on bank debts and reduction in the MMR Group's long-term borrowings.

Share of profits less losses of associated companies

The MMR Group's share of profits from associated companies for 2003 amounted to HK$11.3 million, representing an increase of 93.5% from 2002, primarily attributable to higher profit contribution from its investment in Changzhou Jinyuan Copper Company Limited which recorded improved profit due to the adoption of various measures such as market development and reduction of purchasing and finance costs.

Income tax

The MMR Group recorded a tax credit of HK$6.5 million in 2003, which related primarily to the deferred tax effect of the utilisation of unrecognised tax losses. The fluctuation in tax expense for 2003 and 2002 was primarily due to deferred taxation.

Net profit

The MMR Group recorded a net profit of HK$89.2 million and a net profit margin of 6.5% in 2003 as compared with a net profit of HK$19.7 million and net profit margin of 2.2% in 2002, mainly due to higher gross margins, reduction in finance costs and recognition of a tax credit in 2003.

Liquidity and capital resources

Net current assets

As at 30 June 2005, we had net current assets of HK$563.3 million. Our current assets consisted primarily of cash and bank balances of HK$1,105.6 million, inventories of HK$619.0 million, and trade receivables, prepayments and other receivables of HK$361.9 million. Our current liabilities comprised primarily of trade payables and accrued charges of HK$910.9 million, short-term bank loans of HK$274.1 million and trade payables under endorsed bills of HK$269.7 million.

Funding and banking facilities

We generally finance our operations through cash generated from operations and external bank borrowings. Our cash requirements relate primarily to our alumina trading activities, production and operation activities, repayment of liabilities as they become due and capital expenditures. As at 30 June 2005, we had aggregate banking facilities of HK$3,149 million, of which HK$1,175 million have been utilised. Our banking facilities are secured by certain fixed assets and construction in progress. There is no guarantee given by the Directors and the Directors proposed to be appointed to the Board with effect from the date of Completion (the "Proposed Directors") in respect of these banking facilities.

Analysis of cash flows – Peak Strategic Group

The Peak Strategic Group has historically met its working capital and other capital requirements principally from cash generated from operating activities, advances from customers and short-term bank loans. A significant cash position is required to fund its operations. Any significant reduction in net cash flows from operations, which reduction cannot be financed through bank credit, would result in a material adverse effect on our business, financial condition and results of operations. The following table sets forth the consolidated cash flow statement for the Peak Strategic Group for the periods presented:

	Year ended 31 December		
	2002	**2003**	**2004**
	(in thousands of RMB)		
Net cash inflow from operating activities	176,762	156,500	358,541
Net cash inflow/(outflow) from investing activities	61,905	6,001	(471,606)
Net cash (outflow)/inflow from financing activities	(177,382)	(148,063)	125,535
Increase in cash and cash equivalents	61,285	14,438	12,470
Cash and cash equivalent at end of year	148,123	164,000	176,061
Pledged bank deposits at end of year	37,248	37,245	37,245

Cash flow from operating activities

The Peak Strategic Group derives its cash inflow from operations primarily from the receipt of advance cash payments for alumina and aluminium ingots from customers and payments for the sale of its products and services while cash outflow primarily relates to payment for purchases of alumina and aluminium ingots, selling and administrative expenses.

For 2004, the Peak Strategic Group had a net cash inflow from operating activities of RMB358.5 million which was generated from a net cash inflow from operations of RMB626.6 million which was reduced by payment of interest and income tax expense of RMB268.0 million. The net cash inflow generated from operations was primarily attributable to RMB737.9 million of operating profit before working capital charges and RMB189.3 million and RMB216.3 million increase in bills payable and balance due to related companies, respectively, partially offset by an increase of RMB191.8 million in inventories and RMB255.2 million in trade receivables, prepayments and other receivables. The increase in bills payable was primarily attributable to a transaction entered into at the end of 2003 whereby the Peak Strategic Group has yet to receive the supplier's invoice to be settled via L/C; while the increase in balance due to related companies was attributable to higher trade balance due to a related company's purchase of alumina.

For 2003, the Peak Strategic Group had a net cash inflow generated from operating activities of RMB156.5 million. This inflow was primarily attributable to operating profit before working capital charges of RMB527.0 million and an increase of RMB247.1 million in advances from customers, partially offset by an increase of RMB402.7 million in inventories. The increase in advances due from customers was due to customers who made more advance payments to the Peak Strategic Group to secure the supply of alumina in view of the rising alumina price market as at 31 December 2003.

For 2002, the Peak Strategic Group had a net cash inflow generated from operating activities of RMB176.8 million. This inflow was primarily attributable to operating profit before working capital changes of RMB258.3 million and an increase of RMB103.9 million increase in advances from customers, partially offset by an increase of RMB20.2 million in inventories.

Cash flow from investing activities

The Peak Strategic Group's cash inflow from investing activities primarily consists of interest income and proceeds from disposal of investments while cash outflow primarily consists of investments made. For 2004, the Peak Strategic Group had a net cash outflow from investing activities of RMB471.6 million, which was mainly attributable to RMB474.7 million of additional purchases of interests in SMI.

For 2003, the Peak Strategic Group had a net cash inflow from investing activities of RMB6.0 million, which was mainly attributable to the RMB5.3 million of proceeds from disposal of interests in Sino Gold Limited. For 2002, the Peak Strategic Group had a net cash inflow from investing activities of RMB61.9 million, which was mainly attributable to the RMB59.9 million of proceeds from disposal of interests in Sino Gold Limited.

Cash flow from financing activities

Our cash inflow from financing activities primarily consists of draw downs of new loans while cash outflow primarily consists of repayment of loans and funds to CMN. For 2004, the Peak Strategic Group had a net cash inflow from financing activities of RMB125.5 million, which was mainly attributable to an RMB501.2 million increase in new loans, which was offset by RMB306.9 million in loans repayment and payment of RMB68.8 million returned to CMN.

For 2003, the Peak Strategic Group had a net cash outflow from financing activities of RMB148.1 million, which was mainly attributable to the RMB170.1 million in loans repayment and payment of RMB235.2 million to CMN, which was offset by a RMB257.2 million increase in new loans. For 2002, the Peak Strategic Group had a net cash outflow from financing activities of RMB177.4 million, which was mainly attributable to the RMB189.9 million loan repayment and payment of RMB50.0 million to CMN, which was partially offset by an RMB62.4 million increase in new loans.

Analysis of cash flows – the MMR Group

	Year ended 31 December		
	2002	2003	2004
	(in thousands of HK$)		
Net cash inflow from operating activities	35,198	197,133	122,998
Net cash used in investing activities	(57,990)	(119,547)	(47,981)
Net cash inflow/(outflow) from financing	62,183	(32,517)	(39,660)
Increase in cash and cash equivalents	39,391	45,069	35,357
Cash and cash equivalent at end of year	95,810	140,879	176,236
Pledged bank deposits at end of year	3,056	9,892	14,648

Cash inflow from operating activities

The MMR Group derives cash inflow from operations primarily from the receipt of sales proceeds from customers while cash outflow primarily relates to payment for purchases of raw materials, selling, administrative and interest expenses.

For 2004, the MMR Group had a net cash inflow generated from operating activities of HK$123.0 million, primarily as a result of RMB183.4 million of operating profit before working capital changes and an increase of HK$78.7 million in trade payables and accrued charges as well as bills payable, but partially offset by an increase in inventories of HK$54.4 million, an increase in trade receivables and prepayments and other receivables of HK$35.1 million and increase in amounts due from fellow subsidiaries of HK$25.0 million. The increase in inventories and trade payables and accrued charges was primarily due to intentional inventory build up at year end to take advantage of the favourable pricing situation of aluminum ingots, one of its major raw materials.

For 2003, the MMR Group had a net cash inflow generated from operating activities of HK$197.1 million, primarily as a result of HK$166.6 million of operating profit before working capital changes and HK$37.5 million decrease in inventories and HK$54.6 million increase in trade payables and accrued charges but partially offset by a HK$29.0 million increase in trade receivables, prepayments and other receivables. The decrease in inventories primarily due to the tight cash management as a result of high funding requirement for the construction of new production plants while the increase in trade payables was due to the increase in alumina price. Increase in trade receivables, prepayments and other receivables was mainly due to the increase in turnover in NCA.

For 2002, the MMR Group had a net cash inflow generated from operating activities of HK$35.2 million, primarily as a result of HK$50.5 million of operating profit before working capital changes and HK$42.2 million decrease in inventories and HK$20.2 million increase in trade payables, accrued expenses and bills payables but partially offset by a HK$57.8 million increase in trade receivables, prepayments and other receivables.

Cash flow from investing activities

The MMR Group's cash used in investing activities primarily consists of purchase of fixed assets and additions to construction in progress. For 2002, 2003 and 2004, the MMR Group's cash flow used in investing activities amounted to HK$58.0 million, HK$119.5 million and HK$48.0 million, respectively, which was mainly attributable to purchase of fixed assets and additions to construction in progress of HK$62.5 million, HK$115.5 million and HK$56.1 million, respectively.

Cash flow from financing activities

The MMR Group's cash outflow used in financing activities primarily consists of repayment of bank loans while cash inflow primarily consists of draw down of new bank loans and proceeds from government grant.

For 2004, the MMR Group used HK$39.7 million in financing which was mainly due to the repayment of bank loans of HK$30.4 million and decrease in amounts due to minority investors of HK$6.3 million.

For 2003, the MMR Group used HK$32.5 million in financing activities which was mainly due to the repayment of bank loans of HK$63.7 million which was offset by proceeds from new bank loans of HK$31.1 million.

For 2002, the MMR Group had a cash inflow of HK$62.2 million from financing activities which primarily consists of the net increase in bank loans of HK$47.6 million and proceeds from government grant of HK$28.3 million. The funding was primarily used to finance the modernisation and upgrade of a production plant.

Capital commitments

As at 30 June 2005, we had capital commitments of HK$48.0 million in respect of purchases of plant and machinery.

Indebtedness

Borrowings

As at 30 June 2005, we had outstanding bank borrowings of HK$959,862,000 (which comprised secured bank loans of HK$935,203,000 and unsecured bank loans of HK$24,659,000), advance from banks for bills discounted of HK$58,528,000 and bills payable of HK$215,333,000.

Securities and guarantees

As at 30 June 2005, our outstanding secured bank borrowings of HK$935,203,000 were secured by (a) certain property, plant and equipment, leasehold land and land use rights, construction in progress as well as bank deposits of us; (b) all the equity interests of Sino Mining Alumina, our subsidiary; (c) all the assets of Sino Mining Alumina; and (d) our upfront payment for alumina purchasing rights.

As at 30 June 2005, the Company provided a corporate guarantee to a financial institution in respect of banking facilities extended to an associated company amounting to HK$23,585,000 (2004: HK$23,585,000).

Contingent liabilities

As at 30 June 2005, save as disclosed in "Securities and guarantees" above, we also had contingent liabilities for unsettled tax payables in connection with certain properties in the PRC which may result in potential additional charges. No provision has been made by us since the amount of additional charges, if any, cannot be reliably determined. The Directors believe that the potential additional charges will not exceed HK$1,400,000 (2004: HK$1,300,000).

Quantitative and qualitative disclosures about market risk

We are exposed to market risks primarily relating to fluctuations in commodity prices, interest rates, exchange rates and counterparty performance. We currently hedge a portion of our exposure to these risks through certain derivative instruments.

Commodity risk

As the prices of substantially all of our alumina purchases and sales are determined by reference to aluminium prices, we are exposed to market fluctuation in the global and domestic price for aluminium. We manage our exposure to aluminium price risk through futures and options transactions conducted through global exchanges or in the over-the counter markets.

Our futures department prepares our hedging plan, which includes planned hedging volume and the instruments to be used with reference to our overall purchase and sales positions and general market conditions. We enter into hedging transactions in accordance with the hedging plan as approved by the risk management department and senior management. The risk management department checks the hedging transaction with the hedging plan on a daily basis. Weekly hedging position reports are sent to us by the brokers to allow us to monitor and reconcile positions and margins regularly. The risk management department provides weekly hedging position reports to the senior management.

We obtain credit lines for hedging business from brokers. Besides daily mark-to-market evaluation, the risk management department also conducts sensitivity analysis to monitor the risk exposure of hedging positions on a monthly basis.

Interest rate risk

Our exposure to interest rate risk relates primarily to our bank borrowings obtained to fund the upfront payment under the Alcoa Contract and our working capital requirements. Our borrowings consist of loans denominated in different currencies and are subject to fluctuations in the underlying interest rates to which they are linked. In particular, the loan funding the upfront payment under the Alcoa Contract is denominated in U.S. dollars and bears interest at a rate linked to the LIBOR rate. Most of our other loans are denominated in Renminbi and bear interest at rates linked to the rates determined by the People's Bank of China. We entered into interest rate swap contract with banks to fix the interest rate level of the loan funding the upfront payment.

Foreign exchange rate risk

Our revenue is primarily denominated in Renminbi and our purchases are primarily denominated in U.S. dollars. We also make repayments in U.S. dollars for principal and interest due under the loan related to the Alcoa Contract, the outstanding balance of which was RMB678.7 million as at 30 June 2005. As a result, any devaluation of the Renminbi against the U.S. dollar may have a material adverse effect on our results of operations. The official exchange rate for the conversion of Renminbi into U.S. dollars has generally been stable during the past 10 years. With effect from 21 July 2005, the Renminbi was no longer pegged to the U.S. dollar but instead to a basket of currencies. This revaluation resulted in the Renminbi appreciating against the U.S. dollar by approximately 2%. We cannot assure you that there will be no further changes in the PRC Government's currency policies or that any adverse change in the market conditions would not lead to a depreciation of the Renminbi.

In addition, the purchase prices we pay under the Alcoa Contract, although denominated in U.S. dollars, a portion of which is determined by reference to the cost of Alcoa refineries in Australia. Therefore, we are also exposed to the appreciation of Australian dollar against the U.S. dollar. We purchase Australian dollar forward contracts to hedge against the risk of rising supply price caused by appreciation of Australian dollar.

Typically, we purchase foreign-currency forward exchange contracts to hedge against the adverse effect that exchange rate fluctuations may have on our foreign-currency denominated purchase activities and debts.

Counterparty risk

We attempt to match our purchase and sales positions to minimise our exposure to commodity price and foreign exchange rate fluctuations and the effectiveness of this approach depends, in part, on the performance of our contract counterparties. Generally, we do not grant credit to our customers and generally require them to pay a certain amount of performance guarantees. There can be no assurance that our counterparties will fulfill their obligations under their contracts with us in a timely manner or at all. In the event that breaches of contracts by our counterparties create a material mismatch between our purchases and sales, or between the value of goods delivered and the amount of payments received, our results of operations and cash flow position could be adversely affected. Currently, we do not engage in any hedging transactions designed to protect against counterparty risk.

Critical accounting estimates and judgments

Our financial statements have been prepared in accordance with the new HKFRSs or HK GAAP as appropriate. The preparation of these financial statements requires management to make estimates and judgments that affect the reporting amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent assets and liabilities. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. We continually evaluate such estimates and judgments. Actual results may differ from these estimates under different assumptions or actual conditions. We believe that, in applying our significant accounting policies, the following may involve a higher degree of judgment or complexity.

Upfront payment for alumina purchasing rights

Upfront payment for alumina purchasing rights represent costs incurred to obtain the rights to purchase a pre-determined quantity of alumina from a third party over a period of 30 years pursuant to an alumina sourcing contract, i.e., the Alcoa Contract. The costs are amortised on a straight-line basis over the period of 30 years during which the Peak Strategic Group will derive economic benefits.

The amortisation period is the same as the contract period which will be highly probable for execution and, during this contract period, the Alcoa Contract enables the Peak Strategic Group to source alumina at prices which correlate to Alcoa's production costs as if the Peak Strategic Group were an alumina refiner owning a bauxite mine which gives the Peak Strategic Group competitive advantage. Since the MMR Group has the right to purchase alumina up to a fixed quantity of approximately 400,000 tonnes each year for the period from 1997 to 2027, such upfront payment is amortised on a straight-line basis.

We are of the view that the above amortisation policy is reasonable considering the said factors and circumstances.

Derivative financial instruments

The Peak Strategic Group has conducted hedging activities during 2002, 2003 and 2004 and will continue to do so after Completion.

The following is extracted from the accountants' report on the Peak Strategic Group as set out elsewhere herein, which sets forth the accounting policies on hedging activities applied by the Peak Strategic Group in preparation of its financial information:

"The Target Group[(1)] enters into various derivative contracts which include foreign exchange forward contracts, commodity futures contracts and options, and interest rate swaps. The accounting treatment for these derivative financial instruments is dependent upon whether the instruments are entered into for hedging or speculative purposes.

(1) The Peak Strategic Group is defined as the Target Group in the accountants' report on the Peak Strategic Group as set out elsewhere herein.

The derivative financial instruments are classified as hedging instruments and speculative instruments based on management's intention upon the inception of the transactions and the actual hedging results.

Where commodity futures contracts are used to hedge the fluctuations in the price of primary aluminium of future commitments or transactions in delivering primary aluminium, and where foreign forward contracts are used to hedge future commitments or transactions in foreign currencies, the realised gains and losses are matched to the hedged items and charged to profit and loss account.

Where these relate to interest rate movements, interest payable and receivable under such instruments is accrued and recorded as an adjustment to the interest income or expense related to the underlying exposure.

The unrealised gains and losses resulting from instruments closed prior to the recognition of the hedged items are deferred and recognised as deferred income or deferred losses in the balance sheet and transferred to the profit and loss account to match the gains and losses on the related hedged items.

Ineffective hedging and speculative instruments are recognised and re-measured at their fair values and any related gains and losses are recognised in the profit and loss account.

Premiums paid or received on options are included in deferred income and charged or credited to the profit and loss account upon the expiry of the options."

In the preparation of the financial statements of the Peak Strategic Group for 2002, 2003 and 2004, derivative financial instruments are separately classified as hedging or non-hedging contracts. Management has performed assessment on the effectiveness of the derivative financial instruments in order to determine whether they can be treated as hedging contracts for accounting purposes.

In carrying out the above assessments, major considerations include the matching of the derivative financial instruments with the quantity, amount and timing of the underlying future transactions. Management of the Peak Strategic Group would also assess the effectiveness based on the historical trend, agreed transaction dates (including shipment dates of alumina and interest payment dates) and our budget and estimation.

During 2002, 2003 and 2004, effective hedging gains/losses mainly relate to commodity futures contracts, foreign exchange forward contracts and certain interest rate swaps undertaken by the Peak Strategic Group. These are matched to the hedged items and are recorded in the cost of sales and finance costs accounts respectively. Ineffective hedging gains/losses mainly relate to commodity option contracts and certain interest rate swaps which are recognised and re-measured at their fair values and any related gains and losses are recognised in the profit and loss account.

The current accounting treatments on hedging activities applied by the Peak Strategic Group do not fully comply with the new Hong Kong Accounting Standards ("HKAS") 39, Financial Instruments; Recognition and Measurement' ("HKAS 39").

As at 31 December 2004, the total fair value of hedging derivative financial instruments not recognised in the accounts was RMB198,256,000 (loss). According to HKAS 39, such derivative financial instruments are required to be recognised at their fair value. If HKAS 39 had been adopted and fully complied with, the net assets and the owner's equity of the Peak Strategic Group as at 31 December 2004 would have been reduced by RMB198,256,000.

Provision for impairment in fixed assets

Fixed assets are assessed on every balance sheet date by comparing their net book value against the higher amount of their value in use and their net realisable value. If the net book value of a fixed asset is less than the higher amount of its value in use and its net realisable value, then impairment loss will be recognised to reduce the amount of the fixed asset on the balance sheet.

The determination of a fixed asset's value in use involves certain estimates and judgments on the part of the management in assessing the future cash flow or economic benefits to be generated from the fixed asset for the company. Further, there may not be an open market for a fixed asset and therefore management will have to exercise judgment as well as making assumptions in determining the net realisable value of such fixed asset.

In light of the possible variance in the estimates, assumptions and judgments made in assessing the amounts of the value in use and net realisable value of fixed assets, the impairment amount and hence the amount of fixed assets may differ from actual results.

Fixed assets represented a material item in the balance sheets of the MMR Group during 2002, 2003 and 2004 and as at 31 December 2004, fixed assets of the MMR Group amounted to HK$308,264,000.

Goodwill

Goodwill (in the sum of HK$940 million if based on the unaudited pro forma combined balance sheet included elsewhere herein and the actual amount of which can only be calculated upon Completion) will be recognised in the accounts after Completion.

The amount of goodwill is subject to an annual assessment to determine whether there has been any impairment thereto by comparing the carrying value of the goodwill against an amount representing the present value of the estimated future cash flow generated from the underlying assets to which the goodwill is related.

In performing the above impairment test, management will have to make certain estimates and judgments, which could differ from actual conditions, rendering variations in the amount of impairment and therefore the amount of the goodwill.

DIVIDEND POLICY

No dividends were declared or paid by us during 2002 to 2004.

Under the laws of Hong Kong pursuant to which we are incorporated, dividends may only be declared out of a company's accumulated realised profits so far as not previously utilised by distribution or capitalisation, less the company's accumulated realised losses, so far as not previously written off in a reduction or reorganisation of capital duly made. As at 31 December 2004, we had accumulated losses of HK$1,040.4 million. Accordingly, in order for us to declare and pay a dividend, it will be necessary for us to (a) earn profits in excess of such accumulated losses and/or (b) successfully implement a proposal to reduce our share premium account for the purpose of eliminating our accumulated losses. As at 31 December 2004, our share premium account stood at HK$1,194.6 million. The amount standing to the credit of our share premium account will be increased by HK$ immediately following the payment in of the share premium arising from the issue of the new Shares to be alloted and issued to Top Create Resources in connection with the Acquisition (the "Consideration Shares") and new Shares pursuant to this Offering.

We are undertaking a capital reduction proposal, which is subject to the approval of our shareholders at an extraordinary general meeting and consent of the Court in Hong Kong.

Subject to the availability of distributable profits, we intend to declare and pay dividends in the future. Future dividends, if any, will be declared or paid at the discretion of the Board and will depend upon, among other things, our operations, capital requirements and surplus, general financial condition, legal and contractual restrictions and such other factors as the Board may deem relevant.

INDUSTRY OVERVIEW

Certain information in the section below has been derived from various government and private publications. While reasonable care has been taken in the extraction, compilation and reproduction of such information, we, the Global Coordinator and their respective affiliates and advisers have not independently verified the information directly or indirectly derived from official government sources, and such information may not be consistent with other information compiled within or outside of China.

We are primarily involved in the sourcing of alumina from the international markets for domestic consumption in China. We are one of the major participants in the global aluminium market and was the largest supplier of overseas sourced alumina to the China market in 2004 according to the 國內外氧化鋁、電解鋁工業發展趨勢及市場諮詢報告 (Development tendency of and market consultation report on aluminium oxide and electrolytic aluminium industry inside and outside China) prepared by Beijing Antaike Information Development Co. Ltd., March 2005 (the "Antaike Report 2005"). Set forth below is an overview of the alumina and aluminium industry in China and alumina imports.

INTRODUCTION

Background

Aluminium is a lightweight, corrosion-resistant metal, an excellent heat and electricity conductor suitable for a wide range of applications. The predominant uses of aluminium are in the construction, power, transportation, packaging and home appliances industries. Aluminium demand has generally been linked to fluctuations in domestic and international economic conditions. The demand for aluminium is mainly driven by the demand for downstream processed aluminium products, which, in turn, generally increases with economic growth.

Bauxite is the main raw material used to produce alumina which in turn is the main raw material used to produce aluminium. The demand for alumina is primarily driven by the demand for aluminium, with approximately two tonnes of alumina required to produce one tonne of primary aluminium.

The PRC's position in the world market

According to the Antaike Report 2005, the PRC was the world's second-largest consumer of primary aluminium with approximately 20% of global consumption of primary aluminium in 2004. For primary aluminium production, the PRC was the largest producer in the world by volume producing approximately 22.3% of the world's supply of primary aluminium.

The PRC's per capita consumption of primary aluminium and its share of world consumption are expected to increase in future periods due to anticipated economic growth in China which, in turn, is expected to sustain domestic consumption of primary aluminium. Such expected increases in primary aluminium demand is expected to be met by increases in domestic production levels which typically drives the demand for alumina.

As the PRC's current domestic production of alumina is insufficient to meet domestic demand and certain constraints limit expansion of domestic production capacity, a substantial amount of alumina is being, and is expected to continue to be, sourced in the international markets to meet domestic demand.

ALUMINIUM PRODUCTION AND CONSUMPTION IN CHINA

Economic reforms and growth

Boosted by the comprehensive economic reforms initiated by the PRC Government since 1979, the PRC economy has grown rapidly. Such reforms shifted the focus of the PRC economy from a centrally planned, state-run economy to a more market-oriented economy. As a result of these reforms, the PRC's GDP increased at a compound annual growth rate of approximately 13.0% from 1993 to 2003 according to official government statistics. The PRC was one of the fastest-growing economies in the world during the same period.

Growth in aluminium consumption, production and market share

According to the CRU Aluminium Monthly, the PRC's rapid economic growth in recent years has been accompanied by growth in primary aluminium consumption at a compound annual growth rate of approximately 15.3% from 2000 to 2004. Growth in the PRC's primary aluminium production has been accompanied by a corresponding growth in consumption, with a compound annual growth rate of approximately 23.9% from 2000 to 2004. In 2004, the PRC's production of primary aluminium ranked number one worldwide with approximately 152 aluminium smelters with total annual primary aluminium production capacity of approximately 9.8 million tonnes as at 31 December 2004.

The following tables set forth the annual production and consumption of the top five primary aluminium producing and consuming countries and regions in the world, and the respective compound annual growth rates for such areas:

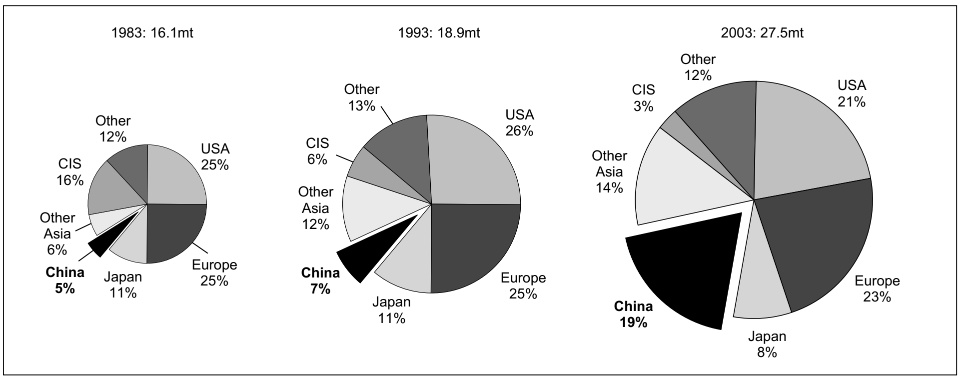
	Top five primary aluminium producing countries					Compound annual growth rate
	2000	2001	2002	2003	2004	
			(in thousands of tonnes)			
The PRC	2,794	3,431	4,398	5,497	6,587	23.9%
Commonwealth of Independent States	3,615	3,696	3,767	3,945	4,090	3.1
United States	3,668	2,637	2,705	2,704	2,519	(9.0)
Canada	2,373	2,585	2,708	2,781	2,594	2.3
Australasia	2,094	2,122	2,170	2,195	2,244	1.7%

Source: For 2000 to 2002, CRU Monitor Monthly, January 2003 and for 2003 and 2004, CRU Monitor Monthly, January 2005. CRU Monitor Monthly are reports published by CRU International Limited, part of the CRU Group, which is an independent business analysis and consultancy group focused on the mining, metals, power, cables, fertiliser and chemical sectors.

	Top five primary aluminium consuming countries/regions					Compound annual growth rate
	2000	2001	2002	2003	2004	
	(in thousands of tonnes)					
United States	6,265	5,590	5,730	5,959	6,436	0.7%
The PRC	3,375	3,640	4,167	5,134	5,968	15.3
Japan	2,225	2,014	2,009	2,023	2,094	(1.5)
Germany	1,632	1,580	1,690	1,915	2,011	5.4
Russia	748	786	990	1,000	1,030	8.3%

Source: Antaike Report 2005 produced by Beijing Antaike Information Development Co. Ltd.

The PRC's share of global consumption of primary aluminium has increased from approximately 5% in 1983 and approximately 7% in 1993, to approximately 19% in 2003 as indicated in the diagrams below:

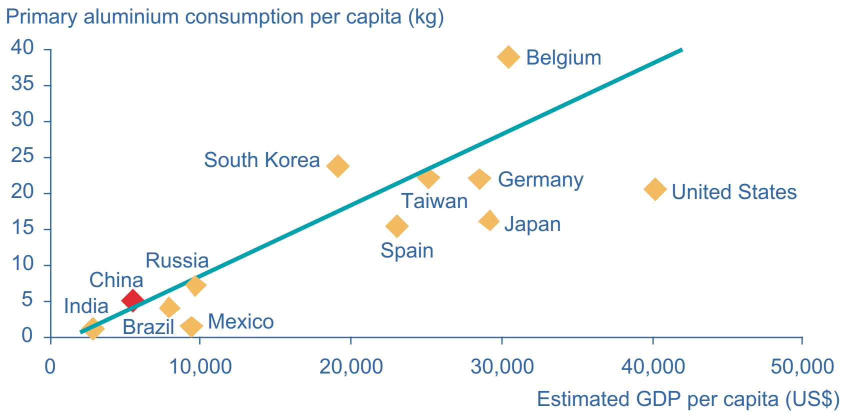


Source: Macquarie Research Report on Metals and Mining, March 2004, prepared by Macquarie Research Limited in association with Macquarie University, Sydney.

Increased consumption of primary aluminium was driven primarily by the growth of China's construction, transportation and power industries as well as the expanding home appliances sector.

Aluminium consumption per capita

The chart below sets forth the relationship between GDP per capita and the primary aluminium consumption per capita for certain countries in 2004:



Sources: For GDP per capita on a purchasing power parity basis, Central Intelligence Agency of the United States; for primary aluminium consumption, AME Mineral Economics - Aluminium 2005/06.

According to the Central Intelligence Agency website, estimated GDP per capita on a purchasing power parity basis for China in 2004 was US$5,600, substantially lower than the United States per capita GDP of US$40,100. The PRC's primary aluminium consumption of 5 kilograms per capita in 2004 was also substantially lower than that for the United States per capita consumption of 22 kilograms.

CHINA'S ALUMINA PRODUCTION, CONSUMPTION AND IMPORTS

Alumina production

Alumina is the principal raw material used to produce aluminium. Generally, approximately two tonnes of alumina are required to produce one tonne of primary aluminium. According to Antaike Report 2005, the PRC's alumina refineries produced approximately 7.04 million tonnes of alumina in 2004, making the PRC the world's second-largest alumina producer. The following table sets forth the annual production of the top five alumina producing countries.

	Top five alumina producing countries					**Compound annual growth rate**
	2000	**2001**	**2002**	**2003**	**2004**	
	(in thousands of tonnes)					
Australia	15,717	16,297	16,500	16,792	16,992	2.0%
The PRC	4,339	4,743	5,476	6,150	7,040	12.9
United States	4,251	4,240	4,420	4,849	5,642	7.3
Brazil	3,753	3,501	3,800	4,740	5,096	7.9
Jamaica	3,710	3,583	3,695	3,851	4,017	2.0%

Source: Antaike Report 2005, Beijing Antaike Information Development Co. Ltd.

In recent years, the PRC has experienced significant increases in industrial and consumer demand for electricity and, at times, such increased demand has exceeded the electricity supply generated by power companies. Domestic aluminium smelting companies consume substantial amounts of electricity for their smelting processes. Constant or prolonged power outages or shortages may disrupt aluminium smelters' operations and may have an adverse impact on our business due to the accompanying decrease in demand for alumina. Although many aluminium smelters operate independent electricity generation facilities, our business could be adversely affected by the failure of such facilities to function properly, limitations on the capacity of such independent generation or other events that force aluminium smelters to purchase electricity directly from the public power grids.

Need for alumina imports

Despite rapid growth in domestic alumina supply, domestic demand in the PRC for alumina has exceeded domestic production in recent years. As a result, alumina imports have, from 2000 to 2004, grown substantially in absolute terms and as a percentage of total supply to fill the domestic supply shortfall. The following table sets forth the consumption, production and imports of alumina in the PRC from 2000 to 2004:

	Consumption	**Production**	**Imports**	**Total supply**	**Imports as a percentage of total supply**
	(in thousands of tonnes, except percentages)				
2000	5,650	4,339	1,881	6,209	30.3%
2001	6,840	4,743	3,346	8,086	41.4
2002	8,370	5,476	4,570	9,670	47.3
2003	10,780	6,150	5,500	11,700	47.0
2004	13,073	7,040	5,850	12,890	45.4%

Source: Consumption and production figures for 2000 to 2002 from 國內外氧化鋁、電解鋁工業發展趨勢及市場諮詢報告(Development tendency of and market consultation report on aluminium oxide and electrolytic aluminium industry inside and outside the PRC) prepared by Beijing Antaike Information Development Co. Ltd., June 2003; figures for the PRC's consumption of alumina for 2003 and 2004 from China Aluminium Monthly, Issue 2 of 2005; figures for imports, total supply and imports as a percentage of total supply from China Aluminium Monthly, Issue 2 of 2005; figures for the PRC's production of alumina for 2003 and 2004 from Antaike Report 2005.

A substantial amount of alumina is expected to continue to be imported to meet domestic demand in the PRC.

PRICING FOR IMPORTED ALUMINA IN THE PRC

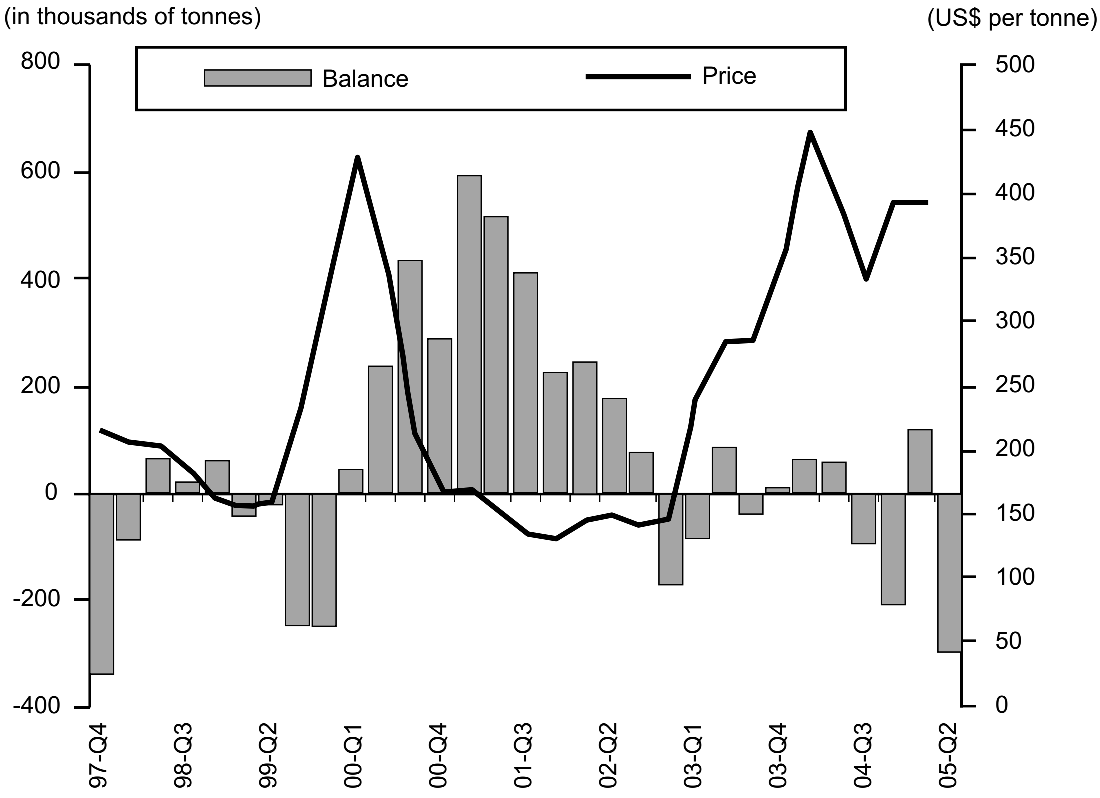
Introduction

The PRC Government does not regulate prices for alumina. Rather, the alumina prices for imported alumina into the PRC are based on international alumina prices.

International alumina prices

As stated in the Antaike Report 2005, international market prices for alumina have been volatile, affected primarily by demand and supply. The limited supply of alumina in international spot markets makes international alumina prices highly sensitive to unexpected events and speculative trading.

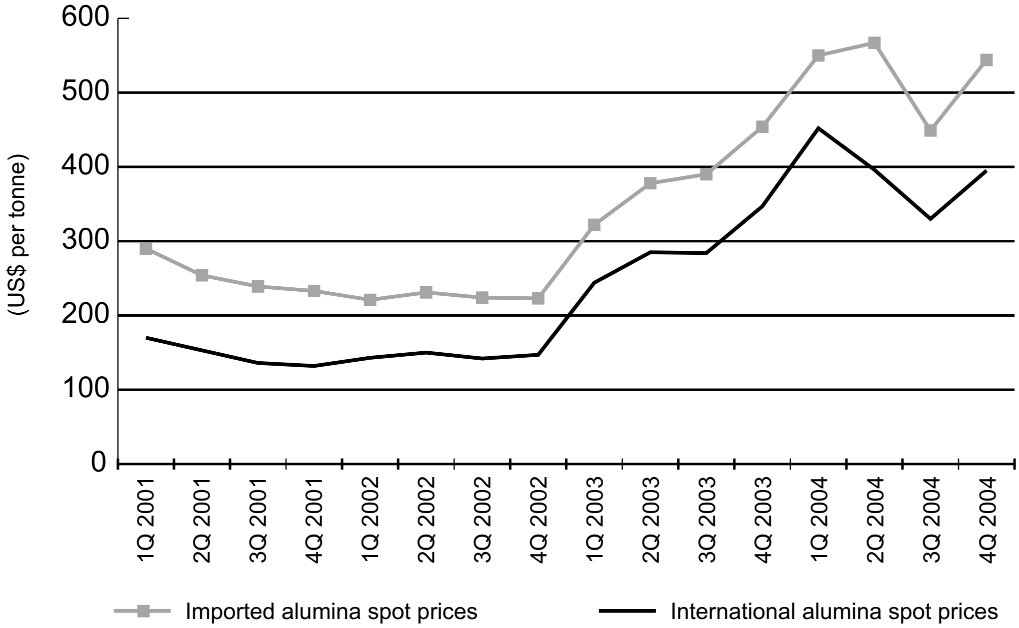
The following graph sets forth the price movements in the international market for alumina compared to movements in the supply and demand of alumina:



Source: CRU Monitor Monthly, July 2005.

Alumina import prices in the PRC

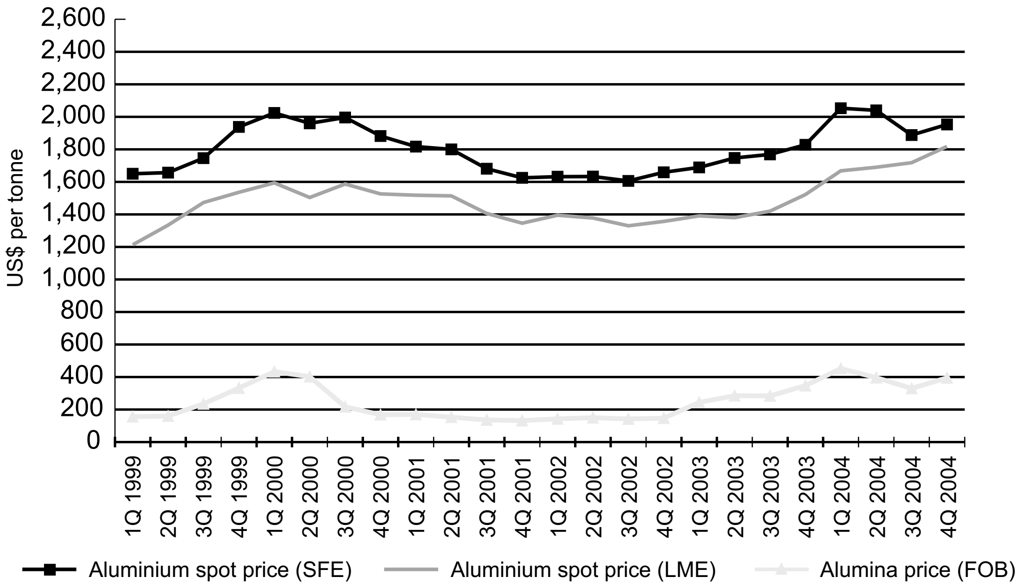
Prices for imported alumina into the PRC are primarily based on international alumina prices, including shipping costs, import tariffs, value-added tax, insurance costs and exchange rates. The following graph sets forth movements in the spot prices of imported alumina in the PRC, as compared with international alumina spot prices for the periods indicated.



Source: Spot prices of imported alumina have been prepared based on our own records, 2001 to 2004; international alumina spot prices from CRU Monitor Monthly, issues dated January 2003 and January 2005.

Linkage of alumina prices to aluminium prices

Alumina is not publicly traded on any recognised metals exchange and its price is usually referenced to the price of aluminium quoted on the London Metal Exchange ("LME") or SFE. The chart below illustrates the cyclical nature of alumina and aluminium spot prices between 1999 and 2004 and the linkage between alumina prices and aluminium prices. The reason why SFE prices are typically higher than LME prices is because SFE prices include shipping costs, import tariffs, value-added tax and demand and supply dynamics in the PRC and the LME prices do not.



Sources: The aluminium spot price (LME) information from 1999 to 2004 is from Bloomberg; 1999 to 2004; aluminium spot price (SFE) information from 1999 to 2004 is from the SFE website, 1999 to 2004; alumina price (FOB) information is from CRU Monitor Monthly, issues October 2001, January 2003 and January 2005.

GOVERNMENT INFLUENCE

The PRC Government exercises a substantial degree of influence over the aluminium industry in the PRC and shapes the structure of the industry through measures such as:

- controls over banking, credit and interest rates;
- approval of major capital expenditure projects;
- safety, environmental and quality standards;
- delivery, pricing and availability of electricity supplies;
- railway schedules, routing, availability and pricing;
- imposition of taxes and the granting of tax concessions; and
- import tariffs.

OUR BUSINESSES

Overview

We are the leading importer and supplier of imported alumina in the PRC. To a lesser extent, we engage in aluminium fabrication and the sourcing and trading of aluminium ingots. In addition, we maintain investments in various PRC-based industrial projects related to, among others, copper refinery and plica tubes production. In 2004, we imported approximately 1,894,200 tonnes of alumina from our overseas suppliers for our customers, representing approximately 32.4% of alumina imported into the PRC according to the Antaike Report 2005. In 2004, we generated revenues and net profit on an unaudited pro forma combined basis of HK$8,029.4 million and HK$490.7 million, respectively. The corresponding figures for the first six months of 2005 were HK$5,017.1 million and HK$431.9 million, respectively.

We purchase alumina through long-term sourcing contracts and spot trades with global overseas suppliers. Currently, Alcoa is our largest supplier of alumina, providing approximately 24.4% of our alumina imports for 2004 and 25.1% for the six months ended 30 June 2005. Unlike our other long-term sourcing contracts where price is determined with reference to the LME price of aluminium or a fixed price, our arrangement with Alcoa has been structured as a long-term production relationship with economic terms similar to those enjoyed by owners of bauxite deposits and processing facilities, thereby differentiating us from pure trading companies. We believe our performance record with overseas suppliers under long-term sourcing contract arrangements has encouraged global alumina refiners to continue to supply us, even during periods of increased global demand for limited resources.

We supply alumina to numerous aluminium smelters in the PRC. We maintain warehouse facilities at Lianyungang and arrange for port logistics and warehousing services for the discharge, storage and transport of alumina to our customers from Lianyungang, Bayuquan, Tianjin, Qingdao, Zhanjiang and Fangcheng. These logistics and warehousing services, combined with our financing capabilities, allow us to arrange turnkey solutions for our customers. In addition, these capabilities enable us to accept smaller orders from PRC aluminium smelters lacking adequate on-site storage facilities and to offer competitive rates resulting from our economies of scale. We believe our relationships with numerous aluminium smelters in the PRC, our long-standing relationships with global alumina refiners, our ability to provide and arrange for logistics and warehousing services to deliver alumina from strategically located ports along the PRC coastlines, secure and enhance our position as the dominant player in alumina import and supply in the PRC.

In addition, we also engage in other aluminium-related businesses, including the production of aluminium plates, strips, foils and extrusion products, and the sourcing, trading and sale of aluminium ingots. We have diversified our business through direct investments in several industrial joint ventures in the PRC for, among others, copper refinery and plica tubes production.

To support our operations, we engage in commodity price hedging in an attempt to reduce the impact of alumina price volatility. We believe effective risk management is fundamental to the success of our business and continue to evaluate a system of internal controls designed to regularly monitor our hedging positions. We do not hold or issue derivative instruments for speculative purposes.

Competitive strengths

We believe the following competitive strengths will enable us to achieve our goal of maintaining and expanding our position as the leading alumina importer and supplier in the PRC:

- Dominant importer of overseas alumina to the PRC market;
- Strong management experience and industry expertise;
- Established brand with long-standing customer relationships;
- Long-standing supplier relationships and solid industry reputation;
- Comprehensive logistics services and strategically located storage points in the PRC; and
- Long-term alumina sourcing arrangements.

Strategies

To achieve our goal of maintaining and expanding our position as the leading alumina importer and supplier in the PRC, we plan to implement the following strategies:

- Maintain and expand our leading position in the alumina business;
- Pursue selective acquisitions and investments for our alumina and aluminium-related business; and
- Diversify our product portfolio to offer other non-ferrous metals.

The Acquisition

On 30 December 2004, we agreed to acquire Peak Strategic Industries Limited, or Peak Strategic, which acquisition will be completed on the same date as this Offering. Our business following Completion will substantially be comprised of the alumina and aluminum-related businesses previously operated by the Peak Strategic Group, which recorded growth in turnover from RMB1,745.2 million in 2002 to RMB7,335.9 million in 2004 with an increase in net profit from RMB62.0 million to RMB396.0 million during the same period. The rest of our business, which consists of trading, aluminum fabrication and investments in PRC industry projects, are operated by the MMR Group, which recorded a turnover and net profit of HK$1,288.5 million and HK$217.7 million, respectively, for 2004.

We intend to integrate our business and the operations of the Peak Strategic Group following Completion according to an integration plan approved by our management. The integration plan will involve the creation of a new centralised management and resource planning structure, and a review and revision of our internal policies on management and control, including financial and accounting records and reports, overall planning, risk management and investment planning and control.

OUR COMPETITIVE STRENGTHS

We believe the following competitive strengths will enable us to achieve our goal of maintaining and expanding our position as the leading alumina importer and supplier in the PRC:

Dominant importer of overseas alumina to the PRC market

The PRC is the world's second-largest alumina consumer, and current demand for alumina in the PRC exceeds the production capacity of domestic alumina refineries. Due to such production shortfalls and the higher quality of imported alumina, many aluminium smelters in the PRC depend upon overseas-sourced alumina. We believe the anticipated economic growth in the PRC will sustain high levels of alumina and primary aluminium consumption in the PRC. Moreover, the PRC's accession to the WTO may result in further tariff reductions for imported alumina, thereby lowering its price relative to domestically produced alumina. Our dominant position as the largest supplier of imported alumina for the PRC market provides economies of scale and positions us to pursue market opportunities as the PRC alumina market expands.

Strong management experience and industry expertise

We believe our management experience, industry expertise and in-depth knowledge of the factors influencing alumina prices provide us with the ability to lower our exposure to alumina price volatility and represent a rare resource in the PRC. Given the absence of a public trading market for alumina, we believe our economies of scale provides rare insight into global and domestic alumina prices and market trends not available to smaller market participants. In addition, many of our employees trading futures contracts are former employees of CMN, which has a long operational experience in this area. This prior experience and training enables us to use long-term contracts, the futures markets and the physical market to control our exposure to commodity price volatility, manage our inventory levels and establish pricing for our customers with greater confidence.

Established brand with long-standing customer relationships

We have built solid relationships with many of the PRC's aluminium smelters and, since 2003, have entered into long-term sales contracts with some of our major customers. Our long-standing relationships with the PRC aluminium smelters provide us with a means to pursue more long-term sales contracts with our customers to enhance stability in our alumina sales and to reduce administrative resources devoted to contract negotiation to further reduce costs. They also provide us with the means to monitor our sales portfolio made by way of long and short terms as well as spots contracts to control our exposure to alumina and aluminium price volatility. We also believe the existence of numerous aluminium smelters in the PRC, our long-standing relationship with these smelters, combined with their need for reliable sources of supply, creates barriers to entry for potential competitors.

Long-standing supplier relationships and solid industry reputation

We maintain well-established relationships with the world's largest alumina refineries, including Alcoa, Alcan Inc., Companhia Vale do Rio Doce, BHP Billiton Limited, Glencore International AG and National Aluminium Company Limited. We believe these relationships enhance the stability of our alumina supplies, especially during periods of increasing global demand where reputation for consistent performance influences the sales decisions made by alumina refiners. Moreover, we believe these relationships enable us to negotiate long-term sourcing contracts to diversify our alumina suppliers.

Comprehensive logistics services and strategically located storage points in the PRC

We arrange turnkey solutions for customers for large and small orders, and those lacking on-site storage facilities by arranging value-added logistics including loading and unloading, packing and custom clearance as well as warehousing services to deliver alumina from six strategically located ports along the PRC coastline. We also assist our customers in making transportation arrangements for them to and in the PRC. Our presence at various port locations also increases our flexibility to adjust the routing of alumina shipments based upon traffic conditions and railway schedules and enhances our ability to respond to demand on a timely basis.

Long-term alumina sourcing arrangements

We maintain a long-term sourcing arrangement with Alcoa. This relationship has been structured as a long-term production relationship to provide a long-term alumina supply at prices near the production costs incurred by owners of the bauxite deposits and alumina refinery. We have also enjoyed continued and stable supply of alumina from Alcoa, even during periods of increased global demands for imported alumina.

OUR STRATEGIES

To achieve our goal of maintaining and expanding our position as the leading alumina importer and supplier in the PRC, we plan to implement the following strategies:

Maintain and expand our leading position in the alumina business

We intend to leverage our extensive customer network in the PRC to develop new markets for our products, both internationally and domestically and to pursue more long-term sales contracts with our customers. In addition, we seek to increase our long-term supply for alumina by forming strategic alliances with international and domestic alumina extraction companies and to enter into long-term sourcing contracts structured similarly to the Alcoa Contract. We intend to increase the portion of long-term supply in our alumina supply portfolio to 60 -70%. We believe our extensive management and industry expertise will enable us to balance the stability provided by long-term contractual arrangements with the flexibility provided by spot contracts. We seek to maintain at least 30% market share for alumina imported to the PRC.

Pursue selective acquisitions and investments for our alumina and aluminium-related business

We intend to pursue selective investments in capital-efficient assets and strategic stakes that enhance our position in the supply chain but expose us to limited downside risk. Currently, we hold options for a 51% equity interest in Sherwin Alumina L.P., or Sherwin, and a 33% equity interest in 廣西華銀鋁業有限公司 (Guangxi Huayin Aluminium Company Limited), or Guangxi Huayin, currently owned by CMN. These companies are engaged in alumina refining and the establishment of a bauxite extraction facility in the Guixi region of the PRC, respectively. We will also continue to build on and strengthen our aluminium fabrication operations and may also invest in aluminium smelters and aluminium fabrication businesses domestically and overseas to pursue more economies of scale and benefits in the vertical integration of our business.

Diversify our product portfolio to offer other non-ferrous metals

We intend to leverage our customer network, port logistics and warehousing capabilities to explore business opportunities and to expand into other non-ferrous metals markets. We intend to build on our existing operation platform for conducting bulk sourcing and distribution of alumina, and utilise our expertise and experience in the aluminium related business to diversify into producing, sourcing and distributing other non-ferrous metals. We believe that our experience with non-ferrous metals will assist in our diversification to the import and distribution of other non-ferrous metals.

We may diversify by pursuing selective investments in other non-ferrous metals operations. Although we have not identified any specific investment targets, we will consider suitable investment opportunities as they arise, including those involving other non-ferrous metals operations of China Minmetals.

OUR ALUMINA BUSINESS

Sourcing alumina

Sourcing and distributing alumina form our core business, contributing 75.0% and 68.2% of our turnover for 2004 and the six months ended 30 June 2005, respectively. We mainly import sandy alumina as we believe that sandy alumina is preferred by many PRC smelters who apply pre-bake technology. The sandy alumina is purchased primarily from Australia, the United States, India and Jamaica. Such countries represented approximately 64%, 12%, 9% and 7%, respectively, of the Peak Strategic Group's alumina imports for 2004 and 65%, 14%, 11% and 4%, respectively, for the six months ended 30 June 2005. We also source alumina from Brazil, Venezuela and Greece.

We source alumina pursuant to long-term sourcing contracts, short-term sourcing contracts and spot contracts. Alumina purchased under long-term sourcing contracts represented 56.0% of our alumina sales for 2004 and 49.8% for the six months ended 30 June 2005. Our principal long-term sourcing contract that is unique to us for its pricing terms is the Alcoa Contract, which has been structured as an investment in Alcoa's production assets. The Alcoa Contract contributed to 24.4% and 25.1% of the total alumina we sourced in 2004 and the six months ended 30 June 2005, respectively.

We intend to enter into more long-term sourcing contracts in an attempt to secure a stable supply of alumina and to provide the foundation for entering into additional long-term sales contracts with our customers that purchase the alumina supplied under these contracts. We also plan to enter into more long-term sourcing contracts to reduce costs related to negotiating new short-term sourcing contracts and to reduce our dependence on and exposure to the sold market.

Our alumina suppliers

Our principal alumina suppliers rank among the world's largest natural resources companies, including Alcoa, Alcan Inc., Companhia Vale do Rio Doce, BHP Billiton Limited, Glencore International AG and National Aluminium Company Limited.

Alumina purchased under the Alcoa Contract represents our largest source of alumina. It represented 37.7%, 22.5% and 24.5% of the total volume of alumina that the Peak Strategic Group sold for 2002, 2003 and 2004, respectively, and 22.5% for the six months ended 30 June 2005. The declining share of the Alcoa Contract as a percentage of our total alumina sold reflects the increasing volume of alumina purchased from other suppliers.

Our five largest suppliers accounted, in aggregate, for 51.8% of our alumina purchased in 2004 and 69.1% for the six months ended 30 June 2005. The five largest suppliers accounted for, in aggregate, 67.6%, 50.6% and 51.8% of the alumina that the Peak Strategic Group purchased in 2002, 2003 and 2004, respectively, and 69.1% for the six months ended 30 June 2005. The declining share of alumina supplied by the five largest suppliers reflects our increased volumes and fewer new long-term sourcing contracts being entered into due to the recent periods of high commodity prices.

Historically, the MMR Group sourced alumina from Pechiney Trading Company, its sole alumina supplier for 2002, 2003 and 2004. The Pechiney Contract expired on 31 December 2004 and was not renewed primarily due to a failure to agree on pricing terms.

With the exception of the Alcoa Contract, the purchase price under our long-term sourcing contracts is expressed either as a percentage of the LME price of aluminium or as a fixed price payable in U.S. dollars. Normally, we do not receive credit terms for settling our purchases, except for purchases under the Alcoa Contract, where we make payments on a quarterly basis.

The Alcoa Contract

The Alcoa Contract represents our core long-term sourcing contract for the following reasons:

- the Alcoa Contract is our largest source of alumina supply, representing 24.4% of our alumina purchased in 2004 and 25.1% for the six months ended 30 June 2005;
- its duration of 30 years and its limited termination provisions make it our longest and most stable alumina source; and
- its pricing terms enable us to purchase alumina at prices that correlate to Alcoa's production costs, providing pricing similar to owners of alumina refineries and bauxite mines.

The annual price for alumina purchased under the Alcoa Contract is determined by reference to a formula partially calculated in Australian dollars. In 1997, we made an upfront payment of US$240 million to Alcoa. If for any of the pre-determined reasons the contract is terminated before the expiry of its full term, Alcoa must pay us a sum. The upfront payment to Alcoa was funded by external bank loans and internal resources.

Import procedures

We make alumina purchases on a FOB or CIF basis. For purchases made on a FOB basis, we arrange for shipping primarily through 五礦國際貨運有限責任公司 (Minmetals Shipping & Forwarding Company Limited, or "Minmetals Shipping"), an indirect subsidiary of China Minmetals. We enter into shipment contracts for each alumina shipment using CMN as the contract party if we use the AIL granted to CMN under the dual-name AIL arrangement.

CMN is one of a limited number of corporations to which the PRC Government has granted the AIL to import alumina into PRC. Historically, when CMN was the holding company of our alumina importation and distribution activities, we imported alumina into the China market using CMN's AIL. As China Minmetals consolidated and transferred its alumina and aluminium-related operations then held by CMN to the Peak Strategic Group pursuant to the Reorganisation, and in anticipation of the Acquisition whereby the Peak Strategic Group will integrate into the MMR Group to form a distinct and separate platform from that of CMN under China Minmetals, we expect to conduct alumina importing on our own. However, despite our discussions with the PRC Government, we have not yet obtained any AIL in our sole name to import alumina. Instead, we include our name onto the AIL granted to CMN, and include CMN's name onto all shipment contracts we make for the alumina we import into the PRC. We have also obtained an unconditional and irrevocable undertaking from CMN on 24 June 2005 to permit this dual arrangement to continue. We intend to apply for AIL in our own name as soon as practicable.

We handle all customs clearance and import procedures, as well as alumina warehousing, at the port at Lianyungang. We also appoint various port logistics companies, primarily Minmetals Shipping, to provide port logistics services for importing our alumina, including to load and unload, pack and store our alumina at warehouse facilities at ports located at Lianyungang, Bayuqian, Tianjin, Qingdao, Zhanjiang and Fangcheng in the PRC. In addition to inspection by our staff or agents, all alumina is inspected upon arrival at the port of delivery by the

Administration for Entry-Exit Inspection and Quarantine of the PRC Government. The primary steps in our alumina sourcing activities include:

We enter into a sourcing contract with a supplier on a long-term, short-term or spot basis

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We place a delivery order for the shipment of alumina under the sourcing contract, enter into a shipment contract with the supplier for the shipment of alumina and make arrangements with shipping companies, including Minmetals Shipping[1]

↓

We issue or arrange for the issuance of letters of credit to the supplier for payment of the alumina ordered

↓

The supplier delivers the alumina and the bill of lading and other related documents to the delivery port as designated

↓

We appoint a port logistics company to handle the shipment at the delivery port

↓

We apply to the Ministry of Commerce, using the applicable AIL, in respect of the particular shipment under the related shipment contract[1]

↓

Alumina arriving at the delivery port is inspected by the State Administration for Entry-Exit Inspection and Quarantine to certify its quality and quantity

↓

The port logistic company handles the customs clearance for us, and we pay the related import tax and value-added tax for the alumina[1]

(1) For Renminbi-denominated sales, where we use the AIL of CMN, the shipping contract bears the name of CMN. We attend to customs clearance for the imported alumina and pay the related import tax and value-added tax. In cases of U.S. dollar-denominated sales where the customers import alumina using their own AIL or tolling book, the shipping contract will bear the name of our customer, and our customer will attend to customs clearance using its AIL and bears the related import tax and value-added tax.

Sales and supply of alumina

In 2004, we maintained customer relationships with about half of the 152 aluminium smelters in the PRC. We sold 1,889,100 tonnes of alumina in 2004, representing approximately 32.4% of all alumina imported into China for the period and was the largest supplier of imported alumina in the China market in 2004.

For 2004 and the six months ended 30 June 2005, spot contracts and short-term sales contracts represented, in the aggregate, 49.6% and 46.0%, respectively, of the 1,889,100 tonnes and 1,010,100 tonnes, respectively, of alumina sold by us, and the balance of 50.4% and 44.0%, respectively, was attributable to long-term sales contracts. We intend to enter into more long-term sales contracts.

Our five largest customers accounted, in aggregate, for 19.4% of our turnover in 2004 and 22.5% of our turnover for the six months ended 30 June 2005 while our largest customer represented 5.6% and 7.1% of our turnover for the same periods respectively. The five largest customers accounted, in aggregate, for 34.8%, 30.7% and 22.6% of the turnover of the Peak Strategic Group in 2002, 2003 and 2004, respectively, and 25.9% for the six months ended 30 June 2005.

We host an annual sales conference for our customers in the fourth quarter of each year to determine each customer's requirements for the following year. Based upon our anticipated supply of imported alumina for the coming year, we allocate alumina to aluminium smelters with whom we have had long-standing relationships and those with good credit and strong industry reputations. After completing this process, if we have alumina remaining, we will consider selling to other aluminium smelters. Historically, the majority of our sales have been made pursuant to letters of intent entered into at these annual conferences.

Since 2003, we have placed increasing reliance on regular communication and meetings with our customers, rather than relying solely on the annual sales conferences to secure sales contracts from our customers. In addition, we have increased our reliance on long-term sales contracts. Under such contracts, sales volume and shipping schedules are fixed, and the price is linked to the three-month primary aluminium prices quoted on the LME or the SFE. Settlement for sales is normally required one to four weeks prior to delivery. We do not offer credit terms to our customers.

For 2004 and the six months ended 30 June 2005, 85.7% and 91.5%, respectively, of our alumina sales were denominated in Renminbi with the balance denominated in U.S. dollars. Customers arranging for payment to be made in U.S. dollars use L/Cs. Typically, such customers are aluminium smelters that prefer to use U.S. dollars trade finance rather than paying cash at the time of shipment prior to receipt of the alumina and use their own AIL or tolling book to import the alumina sourced by us.

We deliver alumina from the coastal warehouse facilities at six ports strategically located along the PRC coast: Lianyungang, Bayuquan, Tianjin, Qingdao, Zhanjiang and Fangcheng. For most of our sales, our customers take delivery of alumina from the storage points at the coastal ports and bear the risk and cost of transportation from such facilities to their location. We will assist them to arrange transportation through our own staff and through the port logistic companies as required. Our customers take delivery of the alumina they purchase from these ports via the national railway system at prices fixed by the Ministry of Railways or, to a lesser extent, by road.

Our supply activities include the following primary steps:

Port logistics companies unload, pack and store alumina in warehouses for delivery to our customers

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We assist our customers to make transportation arrangements

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We instruct the port logistics companies to load alumina onto truck carts arranged by or for our customers in preparation for delivery

↓

Customers take delivery of alumina via the national railway system and road network at their own cost and risk

ALUMINIUM-RELATED BUSINESSES

Aluminium fabrication

We also engage in the production and sale of aluminium plates, strips and foils, which represented 13.2% and 12.4% of our turnover for 2004 and the six months ended 30 June 2005, respectively. We also design, produce and sell aluminium extrusion products to meet customer specifications. For 2004 and for the six months ended 30 June 2005, we sold, in the aggregate, 50,000 tonnes and 29,000 tonnes of aluminium strips, plates and foils, and extrusion products, respectively. We conduct our aluminium fabrication through our 51%-owned subsidiary, NCA.

We source aluminium ingots from smelters and agents in the PRC, including the Peak Strategic Group for production of aluminum plates, strips and foils of different sizes and thicknesses. We have two production lines in our factory in Zhuozhou for aluminium cold rolling and extrusion production. Our cold rolling production line consists of casting mill, nonreversible cold rolling mill, nonreversible aluminium foil rolling mills and hydrophilic aluminium fin stock production line, whereas our extrusion production line mainly consists of two extrusion machines, a production line for oxidizing and an assembling line for curtainwall, door and window production. As at 30 June 2005, we employed approximately a total of 1,774 technicians, workers and other staff in our business of aluminium fabrication and the relevant research and development. Our annual production capacity of aluminium plates, strips and foils in aggregate is approximately 68,000 tonnes. We principally provide our products to the packaging, transportation, home appliances and publishing sectors in the PRC.

Trading aluminium ingots

We source, trade and sell aluminium ingots from third-party aluminium smelters in the PRC. Sales of aluminium ingots contributed 10.8% and 18.5% of our turnover for 2004 and the six months ended 30 June 2005, respectively. In addition, we have historically engaged in tolling operations for overseas customers. Our tolling activities involved engaging PRC aluminium smelters to process our alumina into ingots for export in return for a tolling fee paid by our overseas customers. We have not carried out any tolling operations in 2005 and now only trade aluminium ingots that we source from third-party aluminium smelters to our major customers in the PRC, Japan and Korea.

Others

We provide trade finance services, such as obtaining L/Cs from banks for third parties importing alumina for their own use, and receive commission income for such services. We also provide port logistics services to our customers for a service agency fee. These services contributed less than 1% of our total turnover for 2004 and the six months ended 30 June 2005.

OTHER INVESTMENT OPERATIONS

Since 1991, we have diversified our business through direct investments in several industrial joint ventures in the PRC. Our industrial investments include companies engaged in copper refinery and plica tubes production. As at 30 June 2005, we had investments in five main operating companies:

- 51% interest in YOPT, which engages in the production and sale of flexible metal conduits;
- 25% interest in 常州金源銅業有限公司 (Changzhou Jinyuan Copper Company Limited), which engages in the production and sale of copper rods in the PRC and abroad;
- 20% investment in 青島美特容器有限公司 (Qingdao M.C. Packaging Limited), which engages in the manufacture and sale of aluminium cans in the PRC;
- 42% interest in 煙台鵬暉銅業有限公司 (Yantai Penghui Copper Industry Company Limited), which engages in the production and sale of copper cathodes in the PRC and abroad; and
- 30% interest in 葫蘆島東方銅業有限公司 (Huludao Orienmet Copper Company Limited), which engages in the production and sale of copper blisters in the PRC.

RISK MANAGEMENT

Hedging

Given our market exposure to alumina and aluminium price volatility, we engage in commodity price hedging and have adopted internal control systems, including internal hedging policies and guidelines, to regularly evaluate and monitor our aggregate hedging positions. We do not enter into, and are prohibited by our internal guidelines from entering into, aluminium futures contracts or any other derivative financial instruments for speculative purposes. We hedge against the risk of rising aluminium prices to limit our exposures in selling alumina and aluminium ingots pursuant to long-term sales contracts at a fixed price purchased with reference to the LME price. We also hedge against the risk of falling alumina prices when we sell alumina and aluminium ingots marked against the LME price with alumina and aluminium ingots we source at a fixed price.

We also hedge against interest rate risk to reduce our exposure to volatility in our financing cost, and the currency risk associated with the Australian dollar appreciation against the U.S. dollar. These hedging activities are intended to reduce our exposure to risks associated with the mismatch between our purchase price under the Alcoa Contract and our selling price.

We conduct our hedging activities pursuant to an annual hedging plan prepared by our futures department with reference to our cost structure, market conditions and projections based on input from our various operational departments. These hedging plans are also produced based on risk exposure and hedging levels set under our internal hedging policies and are reviewed and approved by our Board prior to implementation. As at 30 June 2005, we employed six staff for our hedging activities. Such employees conduct our hedging activities by entering into futures contracts, interest rate swaps and forward rate agreements. They also conduct risk assessment and provide status reports to ensure proper and timely management review and control of our hedging activities.

Futures department. The futures department prepares the initial drafts of the annual hedging plan in accordance with our general hedging policies with input from other operational departments. The hedging plan is then discussed by various departments before being presented to the Board for approval and adoption. Upon receiving Board approval, the hedging plan will be filed with the risk management department. The futures department is responsible for placing orders with futures brokers upon instructions from the aluminium trading department. In the event that a tracking order does not comply with the hedging plan, the order will be rejected. In addition, our futures department confirms transactions, conducts market analysis and prepares daily reports.

Risk management department. The risk management department reviews and approves specific hedging plans, inspects transaction records, monitors the conduct of traders, assesses risk, takes risk control measures and issues status reports to management and the Board. These status reports ensure that transactions undertaken comply with the annual hedging plan and are not entered into for speculative purposes. In addition, the risk management department is responsible for account opening, file management, settlement, revising and confirming transaction records, allocating funds and preparing and submitting daily reports regarding the status of outstanding positions.

Finance department. The finance department handles payment formalities, checks account balances with futures brokers and undertakes other back-office financial management.

Inventory management

A significant portion of our imported alumina passes through port logistics companies. As such, we have adopted an inventory management policy to monitor our inventory and to ensure that proper record-keeping practices are followed internally. We maintain inventory records based on the shipment order we make and match such records with the reports that the port logistics companies provide after unloading each shipment.

We maintain a prescribed level of stock for our aluminium fabrication operations based on historic demand by our customers in an effort to meet customer demand on a timely basis. Through our inventory control system, our production system is informed whenever the stock level for certain aluminium products drops below acceptable levels.

COMPETITION

In 2004, consumption of alumina in the PRC totalled approximately 13,073,000 tonnes, approximately 53.9% of which was supplied by domestic alumina producers and approximately 44.7% of which was supplied by importers sourcing alumina from overseas markets.

In the PRC market, our major competitor is Chalco, the largest alumina producer in the PRC, which produced and imported 7,260,000 tonnes of alumina in 2004, representing approximately 55.5% of the total alumina consumption in the PRC. We imported approximately 1,894,200 tonnes of alumina in 2004, representing approximately 14.5% of the total alumina consumption of in the PRC. Our other competitors, although much smaller in size include 北京鑫恒鋁業有限公司 (Beijing Xinheng Aluminium Corporation), 雲南鋁業股份有限公司 (Yunnan Aluminium Co. Ltd), 焦作萬方鋁業股份有限公司 (JiaoZuo WanFang Aluminium Manufacturing Co. Ltd) and 武漢鴻駿經貿有限公司 (Wuhan Hongjum Economic and Trade Limited), all of which are domestic operators. In the international market, we are not aware of any overseas suppliers directly involved in Renminbi-denominated alumina trading in the PRC. However, competition from these overseas alumina suppliers may intensify as the PRC alumina and aluminum market opens to foreign operators as a result of China's accession to the WTO in 2001.

According to existing PRC law, any entities may apply to be registered as an alumina importer. We believe there remains a high entry barrier mainly due to PRC Government's policies to grant AILs to a limited number of entitles. We believe the large number of widely distributed aluminium smelters in the PRC presents a significant entry barrier for new competitors. We also believe our strategically located distribution network along the coast provides a strong competitive edge in maintaining and improving our market share in the PRC.

Aluminium fabrication operations form a smaller portion of our operations, but competition for this market is heavy and has increased significantly in recent periods. Profit margins for some products, including light gauge aluminium foil, aluminium foil for beer mark and aluminium for decoration, have been under pressure. Decreasing production costs for many of our rivals, has enabled such competitors to lower their prices. Although we believe our new cold milling facility will enhance our product quality and production capacity, we need to actively pursue possible adjustment to our product mix to cope with incoming market competition.

EMPLOYEES

As at 30 June 2005, we had 2,509 employees assigned to the following functional groups:

	The Peak Strategic Group	**The MMR Group**	**Total**
Alumina and aluminium trading business	31	3	34
Logistics services	7	–	7
Futures, finance and risk management	6	51	57
Sales, marketing and purchases for aluminium fabrication	–	159	159
Technicians/workers and others in aluminium fabrication production and R&D	–	1,774	1,774
Senior management	–	15	15
Personnel and administration	–	209	209
Sales, purchases and production in other investment	–	254	254
Total number of employees	44	2,465	2,509

Following Completion, we intend to integrate the management and overall planning function of the Peak Strategic Group and the MMR Group to form a new centralised management and planning centre, including new departments for risk control, legal affairs, futures and hedging according to our needs.

Employee benefits

We provide employee benefits, including a retirement benefit plan, housing fund and medical insurance scheme for our PRC-based staff. We also provide a retirement benefit plan for our foreign employees in Australia involved in SMI's operation, under which we contribute 9% of each foreign employee's salary to such plan every month. For all eligible Hong Kong employees, we provide retirement benefits under a mandatory provident fund in accordance with the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) and provide various insurance options for our employees in Hong Kong.

The Peak Strategic Group

Retirement benefits plan. In accordance with applicable PRC regulations, the Peak Strategic Group participates in retirement benefit plans organised by provincial and municipal governments. Under such plans, the Peak Strategic Group and its employees are each required to contribute a certain amount to the plan at a specified rate. The Peak Strategic Group has no other material obligations for the payment of retirement benefit associated with such plans other than the required contributions.

Housing fund plan. Under the housing fund plan, the Peak Strategic Group and its employees in the PRC are each required to contribute a certain amount every month to such plan. According to PRC regulations implemented by the Beijing municipal government, the applicable contribution rate for the Peak Strategic Group is 10%.

Medical insurance. The Peak Strategic Group provides medical insurance for its employees in accordance with relevant provincial and municipal regulations. The required contributions are shared by the Peak Strategic Group and its employees. Our monthly contribution is a percentage of the aggregate amount of average monthly salaries of the employees in the preceding year. Such percentage ranges, from city to city, from 3% to 10%, depending on the location of the employee and the applicable provincial an d municipal regulations for basic medical insurance plans. Each employee's monthly contribution also varies from a fixed amount of RMB3 to 3% of average monthly salary.

MMR

Under the mandatory provident fund, MMR and its employees make monthly contributions at the rate of 5% of an employee's salary. Contributions of both the Company and its Hong Kong subsidiaries and their respective employees are subject to a maximum of HK$1,000 per month and thereafter contributions are voluntary and without limitation.

MMR has purchased group life and health insurance for the Directors and its managerial and general staff. It also maintains an employees' compensation insurance policy for the benefit of its employees as required under the Employees' Compensation Ordinance (Cap. 282, the laws of Hong Kong) as well as a directors' and officers' liability insurance policy in respect of claims made against any director or officer of the MMR Group for certain wrongful acts connected with employment. MMR also provides vocational training opportunities for its employees in accordance with different requirements of their work.

MMR has adopted two share option schemes. The share option scheme adopted by MMR in 1994 has expired and no further options can be granted thereunder. All Directors (including the independent non-executive Directors) and employees of the MMR Group are entitled to participate in the share option scheme adopted by the Company at the Company's annual general meeting held on 28 May 2004.

NCA

NCA withholds various proportions of the salary incomes for various insurance premiums, including 2% for unemployment insurance, 20% for pension insurance, 8% for housing allowance, 6.5% for medical insurance, 1.5% for the employee education fund and 14% for fringe benefit charges.

YOPT

YOPT withholds various proportions of the salary incomes for various insurance premiums, including 2% for unemployment insurance, 25.5% for pension insurance, 12% for housing allowance, 1% for birth insurance, 1.1% for employment insurance, 6.5% for medical insurance, 4% for supplemental medical insurance and 1.5% for the employee education fund.

Currently, we do not intend to integrate the various employees' benefit schemes in the Peak Strategic Group and the MMR Group.

INSURANCE

Apart from the insurance policies taken out in respect of our employees, we have also obtained insurance in connection with alumina sourced on both a FOB and a CFR basis in the ordinary course of our business.

RESEARCH AND DEVELOPMENT

Our research and development activities relate to our aluminium fabrication operations. Our research and development centre comprises a research institute, a testing room and control station and approximately 350 technicians working on research and development. Such activities are intended to enhance product quality and expand our product variety as well as to improve our production technology.

ENVIRONMENTAL COMPLIANCE

We must comply with the environmental protection laws, regulations and administrative rules promulgated by the PRC Government, including provisions for the prevention of pollution, the treatment of wastes and the creation of waste discharge standards. We recognise the importance of environmental protection and have implemented various measures to ensure compliance with relevant laws and regulations.

Our aluminium fabrication production plants and flexible metal conduits production have conducted all necessary procedures for commencing production, which include conducting an environmental impact study, obtaining approvals from the environmental protection authorities and other government authorities and conducting a trial run of the production facilities. In addition, we have implemented measures to reduce the emission of wastes and to comply with relevant laws and regulations.

PROPERTIES

We do not possess good title to a number of our staff quarters and community facilities in the PRC. In addition, issues exist that are related to the title of certain properties in the PRC occupied by YOPT and two of our associated companies, as production facilities and storage. Apart from the issue concerning the title of the property occupied by YOPT for its production workshop and storage, we believe the potential impact of such title issues is immaterial because the staff may be relocated if necessary, the respective owners of the properties occupied by the relevant associated companies are also the largest shareholders of such companies and we have made a full provision on our investments in the relevant associated companies.

Some of our properties in the PRC are allocated land. The property interest relating to the allocated land totalled HK$67.2 million, or 63% of the net book value of the MMR Group's total property interests, and 16% of the net asset value of the MMR Group as at 31 December 2004.

OUR HISTORY AND ACQUISITION OF THE PEAK STRATEGIC GROUP

HISTORY AND DEVELOPMENT

The Company was incorporated in Hong Kong on 29 July 1988 as a subsidiary of 中國有色金屬工業總公司(China National Non-ferrous Metals Industry Corporation or "CNNC"). Its Shares have been listed on the main board of the Hong Kong Stock Exchange since 15 December 1994.

We are principally engaged in the sourcing of alumina from the international market for our customers in the PRC. Our origins in the aluminium business can be traced back to the 1950s when we first supplied imported aluminium ingots to aluminium fabricators in China. As a result of the development and growth of the aluminium smelting industry in the PRC, we started to develop and became more actively involved in the sourcing and distribution of alumina in the 1980s. In 1996, we signed the Alcoa Contract, our most important alumina sourcing contract. Before we conducted the Reorganisation in preparation for the Acquisition, all our alumina and aluminium related operations under the Peak Strategic Group were operated and/or held under CMN.

In the past, the MMR Group sourced and traded in non-ferrous metals and ores including copper cathodes and blister, tungsten, tin, antimony, lead, zinc, nickel, alumina, copper concentrate and zinc concentrate and since 2003, the MMR Group has been engaged in the sourcing and trading in alumina and copper concentrate only. In 1990, we began to make direct investments in industrial operations in the PRC. Due to the unsatisfactory performance of some of these investments, and the cyclical fluctuations in demand of non-ferrous metals, the MMR Group began to suffer and continuously operated at a loss for each of the five years ended 31 December 2002. The MMR Group defaulted payment for some of its bank loans between 1998 and 2002 so that a creditors' steering committee was formed to recover the defaulted payments and trading operation was temporarily suspended in 2002. In view of the uncertainty on whether the MMR Group can continue as a going concern, our auditors stated that they were unable to form an opinion as to whether or not the Company's accounts gave a true and fair view of the state of affairs of the MMR Group for 2001 and 2002.

On 16 October 2003, we announced the Restructuring Proposal whereby Coppermine Resources Limited ("Coppermine") acquired the inter-company debts and bank debts from the Company's creditors in the aggregate principal amount of HK$418.0 million at a purchase price of HK$0.25 per HK$1.00 and subscribed for new Shares at a subscription price of HK$0.88 per Share by setting off the entire subscription price with the debts they acquired. As a result of the Restructuring Proposal, China Minmetals became, through Coppermine, the ultimate controlling shareholder of the Company. The MMR Group also eliminated a debt of HK$466.7 million, restoring itself to a positive net asset value position.

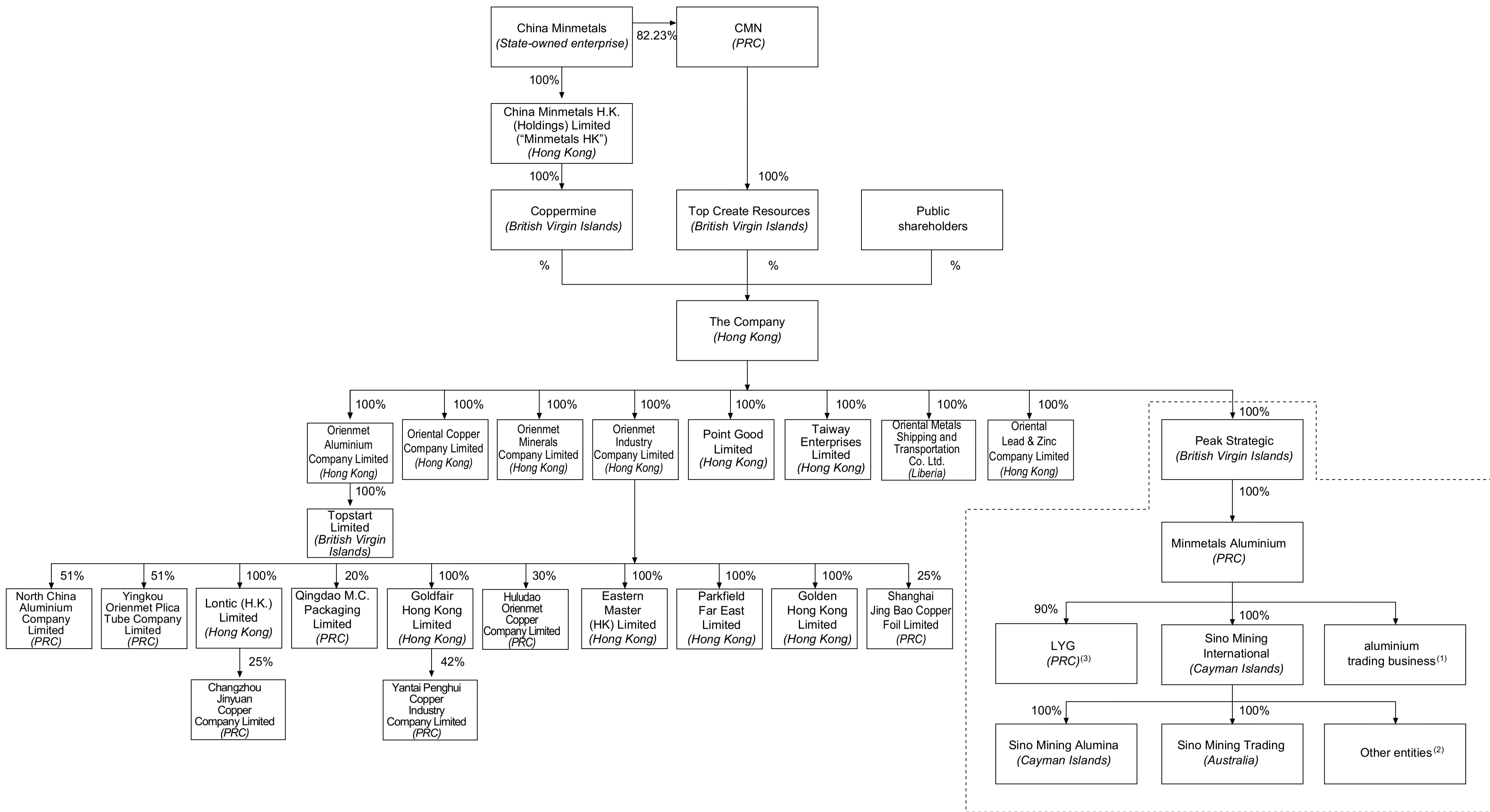
China Minmetals is a large conglomerate with a history of more than 50 years and is one of the major importers and exporters of steel, non-ferrous metals and mineral products, including alumina, in the PRC. To rationalise the competing business of the MMR Group and China Minmetals in alumina and aluminium related operations, and further to strengthen our aluminium related operations, China Minmetals carried out the Reorganisation and consolidated almost all of its alumina and aluminium operations then held under CMN to form the Peak Strategic Group. On 30 December 2004, CMN entered into the Acquisition Agreement to sell the Peak Strategic Group to the Company. It is the intention of China Minmetals that, by conducting this Acquisition, China Minmetals can consolidate its alumina and aluminium operations into us as its one single platform and its alumina and aluminium related flagship company.

THE ACQUISITION

Pursuant to the Acquisition, the MMR Group will acquire the entire interest of China Minmetals in Peak Strategic for a consideration of HK$2,886 million. The consideration will be satisfied by the allotment and issue of 1,009,090,909 Consideration Shares in the Company to Top Create Resources, a wholly owned subsidiary of CMN and a subsidiary of China Minmetals. Completion of the Acquisition is conditional upon the fulfillment of a number of conditions on or before 31 December 2005, or such later date as may be agreed among the parties to the Acquisition Agreement. As at the date of this Offering Circular, all these conditions, including the condition on shareholders' approval on the Acquisition Agreement, have already been fulfilled except for the condition that the Offering becomes unconditional in all respects. We intend to complete the Acquisition on the same date as we complete this Offering.

The chart below sets forth the simplified shareholding and our corporate structure immediately after Completion.

Immediately after Completion and this Offering



(1) This represents the alumina and aluminium ingot trading business of CMN transferred to Minmetals Aluminium pursuant to the Reorganisation and no separate legal entity has been established.

(2) Such other entities relate to a 100% interest in Sino Mining Australia Pty Ltd and a 40% interest in Sino Nickel Pty Ltd. The remaining 60% interest in Sino Nickel Pty Ltd is held by Jinchuan Group Ltd, an independent third party. The principal business of Sino Mining Australia Pty Ltd is to provide administrative support services to the Sino Mining Group. Sino Nickel Pty Ltd is primarily involved in sourcing mineral resources, especially nickel and copper, from Australia for exportation to the China market.

(3) The remaining 10% interest is held by an independent third party.

denotes the Peak Strategic Group

Integration of business

Following Completion, we intend to integrate the management and overall planning functions of our different operations under the Peak Strategic Group and the MMR Group. We also intend to review and revise our internal management and control policies, including policies related to financial and accounting records and reports, overall planning, risk management and investment planning. We intend to implement this integration plan in stages to facilitate an orderly transition in the integration of the two operations under Peak Strategic Group and the MMR Group with least interruption to our normal operations.

UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE PEAK STRATEGIC GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2005

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2005 (Unaudited)	**2004 (Unaudited)**
	Note	*RMB'000*	*RMB'000*
Sales	*6*	4,624,064	3,648,685
Cost of goods sold	*15*	(4,114,650)	(3,231,251)
Gross profit		509,414	417,434
Other revenue		5,512	3,045
Selling and marketing costs	*15*	(45,915)	(40,933)
Administrative expenses	*15*	(14,517)	(15,814)
Other operating income	*16*	28,408	–
Other operating expenses	*17*	(184)	(1,408)
Operating profit		482,718	362,324
Finance costs	*18*	(8,859)	(39,632)
Share of results of associated company		4,511	–
Profit before income tax		478,370	322,692
Income tax expense	*19*	(113,878)	(80,452)
Profit for the period		364,492	242,240
Attributable to:			
Equity holders/owners of the Company		364,270	222,380
Minority interest		222	19,860
		364,492	242,240

During the period, none of the legal entities now comprising the Peak Strategic Group had declared/paid dividends to their shareholders/investors except for the payment of a dividend of RMB607,000 by Minmetals Non-ferrous Lianyungang Company Limited, a subsidiary, to its minority investor.

CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
		30 June 2005 (Unaudited)	**31 December 2004** (Restated)
	Note	*RMB'000*	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	1,360	1,559
Upfront payment for alumina purchasing rights	*7*	1,456,515	1,489,637
Intangible assets	*7*	7,253	7,253
Interest in associated company		8,459	4,089
Available-for-sale financial assets	*8*	183,415	–
Investment securities		–	32,196
Long-term receivables	*9*	3,772	7,863
Derivative financial instruments	*10*	7,110	–
		1,667,884	1,542,597
Current assets			
Inventories		428,982	697,113
Trade and other receivables	*9*	151,741	502,379
Bill receivables		640	22,548
Deferred losses		–	12,282
Derivative financial instruments	*10*	5,206	–
Pledged bank deposits		37,244	37,245
Cash and bank balances		840,299	176,061
		1,464,112	1,447,628
Total assets		3,131,996	2,990,225
EQUITY			
Capital and reserves attributable to the equity holders/owners		1,355,194	751,708
Minority interest		429	814
Total equity		1,355,623	752,522
LIABILITIES			
Non-current liabilities			
Borrowings	*14*	629,014	653,844
Deferred income		–	8,442
Derivative financial instruments	*10*	42,525	6,665
		671,539	668,951
Current liabilities			
Trade and other payables	*13*	703,651	793,153
Bill payables		204,757	189,267
Current income tax liabilities		82,325	839
Borrowings	*14*	72,880	578,949
Deferred income		931	2,351
Derivative financial instruments	*10*	40,290	4,193
		1,104,834	1,568,752
Total liabilities		1,776,373	2,237,703
Total equity and liabilities		3,131,996	2,990,225
Net current assets/(liabilities)		359,278	(121,124)
Total assets less current liabilities		2,027,162	1,421,473

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June	
	2005 (Unaudited)	2004 (Unaudited)
	RMB'000	*RMB'000*
Net cash generated from operating activities	1,236,286	173,530
Net cash used in investing activities	–	(474,888)
Net cash (used in)/generated from financing activities	(570,162)	365,109
Net increase in cash and cash equivalents	666,124	63,751
Cash and cash equivalents at 1 January	176,061	164,000
Exchange losses on cash and cash equivalents	(1,886)	(890)
Cash and cash equivalents at 30 June	840,299	226,861
Analysis of balances of cash and cash equivalents		
Cash and bank balances	840,299	226,861

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited				
	Attributable to equity holders/owners of the Company			Minority Interest	Total
	Owners' fund/ share capital	Other reserves	Retained earnings		
	(Note 11)	*(Note 12)*			
Balance at 1 January 2004, as previously reported as equity	782,137	(594,623)	236,953	–	424,467
Balance at 1 January 2004, as previously separately reported as minority interest	–	–	–	447,595	447,595
Balance at 1 January 2004, as restated	782,137	(594,623)	236,953	447,595	872,062
Funding from owner	277,988	–	–	–	277,988
Currency translation differences	–	(949)	–	–	(949)
Profit for the period	–	–	222,380	19,860	242,240
Acquisition of minority interest by the Peak Strategic Group	–	–	–	(466,896)	(466,896)
Balance at 30 June 2004	1,060,125	(595,572)	459,333	559	924,445
Balance at 1 January 2005, as previously reported as equity	139,712	(20,397)	632,393	–	751,708
Balance at 1 January 2005, as previously separately reported as minority interest	–	–	–	814	814
Opening adjustment for the adoption of Hong Kong Accounting Standards 39 *(note 3(a))*	–	169,908	(198,252)	–	(28,344)
Balance at 1 January 2005, as restated	139,712	149,511	434,141	814	724,178
Fair value gains/(losses), net of tax:					
Available-for-sale financial assets	–	(18,689)	–	–	(18,689)
Currency translation differences	–	(1,284)	–	–	(1,284)
Net income recognised directly in equity	–	(19,973)	–	–	(19,973)
Profit for the period	–	–	364,270	222	364,492
Total recognised income for the six months ended 30 June 2005	–	(19,973)	364,270	222	344,519
Funding from owner	920,288	(1,702)	(631,053)	–	287,533
Payment of dividend to a minority shareholder	–	–	–	(607)	(607)
Balance at 30 June 2005	1,060,000	127,836	167,358	429	1,355,623

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. Group reorganisation and basis of preparation

Peak Strategic Industries Limited ("Peak Strategic" or "the Company") was incorporated in the British Virgin Islands (the "BVI") on 12 December 2003 with limited liabilities and is a wholly owned subsidiary of Top Create Resources Limited ("Top Create Resources"), which was also incorporated in the BVI with limited liabilities.

China Minmetals Non-ferrous Metals Co., Ltd ("CMN") is a joint stock company with limited liability and incorporated in the People's Republic of China (the "PRC"). Prior to the completion of the reorganization discussed below, CMN had one trading department (the "Aluminium Trading Department") which was principally engaged in the trading of alumina and other aluminium products. CMN owned a 90% equity interest in Minmetals Non-ferrous Lianyungang Company Limited ("LYG"), a company established in the PRC, and a 51% equity interest in Sino Mining International Ltd ("SMI"), a company incorporated in the Cayman Islands, and its subsidiaries.

SIM was originally owned as to 51% by CMN and 49% by China Minmetals Corporation ("China Minmetals"), a PRC state-owned enterprise and the holding company of CMN. On 30 December 2003, China Minmetals entered into a transfer agreement with CMN to transfer its remaining 49% interest in SMI to CMN for a consideration of approximately RMB474,738,000, satisfied by cash. The completion of the transfer took place on 31 March 2004. Since then, SMI has become a wholly owned subsidiary of CMN.

On 22 October 2004, Minmetals Aluminium Company Limited ("Minmetals Aluminium") was established under PRC company law with a registered capital of RMB1,060 million; 95% of which was contributed by CMN by transferring all its interests in SMI and LYG and by the injection of RMB21.8 million cash into Minmetals Aluminium whilst the remaining 5% was contributed by China Minmetals in cash. Minmetals Aluminium, SMI and LYG are hereinafter collectively referred to as the "Relevant Entities".

On 16 February 2005, CMN entered into a non-transferred interest transfer agreement with Minmetals Aluminium by which CMN assigned to Minmetals Aluminum all its interests under all existing alumina and aluminium related contracts save for certain contracts subject to the agreement relating to non-transferred contracts. Following the assignment, all of the alumina and aluminium trading business previously undertaken by the Aluminium Trading Department (other than certain non-transferred contracts referred to above) were transferred to Minmetals Aluminium (the "Aluminium Trading Business").

In furtherance of the reorganisation, Peak Strategic and Top Create Resources were incorporated on 12 December 2003 and 22 January 2004, respectively in the BVI, each with an authorised capital of US$50,000 divided into 50,000 shares of US$1 each. Prior to the share transfers discussed below, Peak Strategic was wholly owned by Top Create Resources holding one share of US$1 and Top Create was owned as to 95% by CMN and 5% by China Minmetals Corporation ("China Minmetals"), a state-owned company and the 80% equity owner of CMN, respectively.

On 6 December 2004, China Minmetals and CMN entered into an agreement with Peak Strategic and Top Create Resources to transfer all of their respective interests in Minmetals Aluminium to Peak Strategic for an aggregate consideration of RMB1,060 million. The consideration was satisfied on 20 December 2004 by way of an allotment and issue by Peak Strategic to Top Create Resources (as directed by CMN and China Minmetals) of one share of US$1 in capital of Peak Strategic credited as fully paid up. Top Create Resources in turn allotted and issued 5 shares of US$1 each in its capital to China Minmetals and 95 shares with the same par value to CMN as considerations for China Minmetals and CMN procuring Peak Strategic to allot and issue the aforesaid one share to Top Create Resources. China Minmetals and CMN subsequently entered into another agreement whereby China Minmetals transferred all its equity interests in Top Create Resources to CMN such that Top Create Resources was wholly owned by CMN. Upon completion of the above share transfers which have been approved by the relevant government authorities on 21 June 2005, Minmetals Aluminum became a wholly owned foreign enterprise and a wholly owned subsidiary of Peak Strategic, which, in return, became a wholly owned subsidiary of both Top Create Resources and CMN.

On 30 December 2004, CMN entered into an agreement with Oriental Metals (Holdings) Company Limited ("OMCL") and Top Create Resources for the acquisition of Peak Strategic by OMCL (the "Acquisition"). The consideration for the Acquisition of HK$2,886 million will be satisfied in full by the allotment and issue of 1,009,090,909 new shares to Top Create Resources by OMCL.

The Acquisition is subject to the approvals from the shareholders of both parties and the relevant authorities.

The directors of Peak Strategic are of opinion that, after the completion of the above reorganisation, Peak Strategic will conduct its business in the same pattern and size as the Aluminum Trading Business before the reorganisation.

Basis of preparation

The condensed consolidated financial information (the "Financial Information") is prepared applying merger accounting in accordance with Statement of Standard Accounting Practice 27, Accounting for Group Reconstructions. In applying merger accounting, the Financial Information presents the consolidated results, the consolidated financial position and the consolidated cash flows of Peak Strategic and its subsidiaries (the "Peak Strategic Group") as if it had been in existence throughout the period presented and as if the Aluminum Trading Business had been transferred to the Peak Strategic Group at the beginning of the period.

Other businesses and subsidiaries of CMN (mainly engaged in the trading of copper, nickel, zinc and other non-ferrous metals) are not included in the Financial Information because (i) such businesses have been mainly managed by management teams different from that of the Aluminum Trading Business; (ii) such businesses are dissimilar from the Aluminum Trading Business in terms of business risks and rewards, customer bases and content; and (iii) such businesses have limited shared facilities and few inter or intra company transactions with the Aluminum Trading Business.

Historically, as the Aluminum Trading Department was a department of CMN, it did not prepare department-alone audited accounts. Its operating results and assets and liabilities are included in the Financial Information on the following bases:

(a) Assets and liabilities that are directly related to the Aluminum Trading Business and can be identified are included in the combined balance sheet. Except for value-added tax refund arising from aluminium ingots exportation which has been recognised as an asset, taxation arising from domestic operation is treated as if it bad been paid through CMN head office account and, therefore, is dealt with in the owner's equity.

(b) All revenues and related costs, expenses and charges directly generated or incurred by the Aluminium Trading Department are included in the combined profit and loss account. For those expenses for which a specific identification method was not practical, the allocation of costs from CMN to the Aluminium Trading Department was mainly based on the percentages best reflected the usage of the corporate resources by the Aluminum Trading Business. Such overheads and other general expenses allocated by CMN mainly included staff costs, information processing expenses, legal and professional fees and office expenses.

(c) No cash and bank balances have been allocated to the Aluminium Trading Department as there is no fair basis to allocated the cash and bank balances to each individual department.

(d) As the current group structure was not in place in 2004 and the Aluminium Trading Department was only one of the departments of CMN, owner's equity is shown in lieu of shareholders' equity in the comparative figures

The directors are of the opinion that the above bases are reasonable and fair to present the results of operations, financial position and cash flows of the Aluminium Trading Department.

All intercompany transactions and balances have been eliminated upon combination.

The English names of some of the companies referred to in the Financial Information represent unofficial translation of their registered Chinese names by management and these English names have not been legally adopted by these entities.

2. Accounting policies

This financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This financial information should be read in conjunction with the Accountants' Report set out in the Shareholders' Circular and reproduced in F-2 to F-33 of this Offering Circular.

The accounting policies used in the preparation of this financial information are consistent with those used in the Accountants' Report for the three years ended 31 December 2004 except that the Peak Strategic Group has changed certain of its accounting policies following its adoption of new / revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information (September 2005). The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Peak Strategic Group's accounting policies and the effect of adopting these new policies are set out in note 3 below.

3. Changes in accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Peak Strategic Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HK(SIC)-Int 15	Operating Leases-Incentives
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 17, 21, 23, 24, 27, 28 and HK(SIC)-Int 15 did not result in substantial changes to the Peak Strategic Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

– HKASs 2, 7, 8, 10, 16, 17, 23, 27, 28 and HK(SIC)-Int 15 had no material effect on the Peak Strategic Group's policies.

– HKAS 21 had no material effect on the Peak Strategic Group's policy. The functional currency of each entity now comprising the Peak Strategic Group has been re-evaluated based on the guidance to the revised standard. All the entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related party disclosures.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

– Amortised on a straight line basis over a period of 20 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Peak Strategic Group ceased amortisation of goodwill from 1 January 2005;

– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

– From the year ending 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

The Peak Strategic Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Peak Strategic Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Peak Strategic Group applied the previous SSAP 24 "Accounting for investments in securities" to investment securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005.

– HK(SIC)-Int 15 – does not require the recognition of incentives for leases beginning before 1 January 2005.

– HKFRS 3 – prospectively after the adoption date.

(i) The adoption of HKFRS 3 and HKAS 38 resulted in:

	For the six months ended 30 June 2005
	RMB'000
Decrease in administrative expenses	392

(ii) The adoption of HKAS 39 resulted in an increase in opening other reserves and a decrease in retained earnings at 1 January 2005 by approximately RMB169,908,000 and RMB198,252,000 respectively. The details of the adjustments to the balance sheet at 30 June 2005 and profit and loss for the six months ended 30 June 2005 are as follows:

	As at 30 June 2005
	RMB'000
Increase in available-for-sale financial assets	151,219
Decrease in investment securities	32,196
Increase in derivative financial instruments (assets)	12,316
Increase in derivative financial instruments (liabilities)	73,600
Decrease in deferred losses	11,339
Decrease in deferred income	9,303
Decrease in retained earnings	67,051

	For the six months ended 30 June 2005
	RMB'000
Decrease in fair value reserve (available-for-sale financial assets)	18,689
Decrease in cost of sales	82,408
Decrease in other operating expenses	1,490
Increase in other operating income	28,408
Decrease in finance costs	18,895

No early adoption of the new Interpretation HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" that has been issued but are not yet effective and applicable to the Peak Strategic Group. The adoption of such Interpretation will not result in substantial changes to the Peak Strategic Group's accounting policies.

(b) New accounting policies

The accounting policies used for the financial information for the six months ended 30 June 2005 are the same as those set out in note 2 to the Accountants' Report dated 30 June 2005 except for the following:

3.1 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Peak Strategic Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in RMB Yuan, which is Peak Strategic's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation difference on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

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

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

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

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

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

3.2 Property, plant and equipment

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each balance sheet date.

3.3 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Peak Strategic Group's share of the net identifiable assets of the acquired subsidiary/ associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3.4 Impairment of assets

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

3.5 Investments

From 1 January 2004 to 31 December 2004:

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to the fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

From 1 January 2005 onwards:

The Peak Strategic Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directory to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 3.7).

(c) *Held-to-maturity investments*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Peak Strategic Group's management has the positive intention and ability to hold to maturity. During the period, the Peak Strategic Group did not hold any investments in this category.

(d) *Available-for-sale financial assets*

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

Purchases and sales of investments are recognised on trade-date – the date on which the Peak Strategic Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Peak Strategic Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Peak Strategic Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Peak Strategic Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the profit and loss account – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

3.6 Inventories

Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials.

3.7 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Peak Strategic Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

3.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Peak Strategic Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.9 Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Peak Strategic Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

4. Derivative financial instruments and fair value estimation

4.1 Accounting for derivative financial instruments and hedging activities

From 1 January 2004 to 31 December 2004:

The derivative financial instruments are classified as hedging instruments and speculative instruments based on management's intention upon the inception of the transactions and the actual hedging results.

Where commodity futures contracts are used to hedge the fluctuations in the price of primary aluminium of future commitments or transactions in delivering alumina, and where foreign forward contracts are used to hedge future commitments or transactions in foreign currencies, the realised gains and losses are matched to the hedged items and charged to profit and loss account.

Where these relate to interest rate movements, interest payable and receivable under such instruments is accrued and recorded as an adjustment to the interest income or expense related to the underlying exposure.

The unrealised gains and losses resulting from instruments closed prior to the recognition of the hedged items are deferred and recognised as deferred income or deferred losses in the balance sheet and transferred to the profit and loss account to match the gains and losses on the related hedged items.

Ineffective hedging and speculative instruments are recognised and re-measured at their fair values and any related gains and losses are recognised in the profit and loss account.

Premiums paid or received on options are included in deferred income/losses and charged or credited to the profit and loss account upon the expiry of the options.

From 1 January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivatives is designated as a hedging instrument, and if so, the nature of the item being hedged. The Peak Strategic Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) and; (2) hedges of highly probable forecast transactions (cash flow hedges).

To be qualified as hedging instruments, it requires the Peak Strategic Group to document at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Peak Strategic Group is also required to document its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 10.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

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

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

(c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

4.2 Fair value estimation

The fair value of financial instruments traded in active markets (such as publicly traded derivatives including commodity futures, and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Peak Strategic Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Peak Strategic Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Black-Scholes module is used in determining the faire value of options.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Peak Strategic Group for similar financial instruments.

5. Critical accounting estimates

The Peak Strategic Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

5.1 Upfront payment for alumina purchasing rights

Upfront payment for alumina purchasing rights represent costs incurred to obtain the rights to purchase pre-determined quantities of alumina from a third party over a period of 30 years pursuant to an alumina sourcing contract ("the Alcoa Contract"). The costs are amortised on a straight-line basis over the period of 30 years during which the Peak Strategic Group will derive economic benefits.

The amortisation period is the same as the contract period which will be highly probable for execution and, during this contract period, the Alcoa Contract enables the Peak Strategic Group to source alumina at prices which correlate to Alcoa's production costs as if the Peak Strategic Group were an alumina refiner owning a bauxite mine which gives the Peak Strategic Group competitive advantage. Since the Peak Strategic Group has the right to purchase alumina up to a fixed quantity of approximately 400,000 tonnes each year for the period from 1997 to 2027, such upfront payment is amortised on a straight-line basis.

The directors are of the view that the above amortisation policy is reasonable considering the said factors and circumstances.

5.2 Derivative financial instruments

In the preparation of the Financial Information, derivative financial instruments are separately classified as hedging or non-hedging contracts. Management has performed assessment on the effectiveness of the derivative financial instruments in order to determine whether they can be treated as hedging contracts for accounting purposes.

In carrying out the above assessments, major considerations include the matching of the derivative financial instruments with the quantity, the amount and timing of the underlying future transactions. Management of the Peak Strategic Group would also assess the effectiveness based on the historical trend, agreed transaction date (including shipment dates of alumina and interest payment dates) and the Peak Strategic Group's budget and estimation.

6. Segment information

The primary reporting format of the Peak Strategic Group is business segment, and the second one is geographical segment.

The Peak Strategic Group is principally engaged in one business segment only i.e. the trading of alumina and other aluminium products, and the majority of customers are located in the PRC.

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Analysis of sales by category		
Sales of alumina and others – domestic sales	3,635,224	3,267,311
Sales of aluminum ingots – overseas sales (East Asia)	983,918	374,269
Commission income	4,535	6,585
Logistics agency fees	387	520
	4,624,064	3,648,685

The assets and capital expenditures analysed by geographical location are as follows:

	As at	
	30 June 2005 (Unaudited)	**31 December 2004**
	RMB'000	*RMB'000*
Total assets		
PRC	915,539	1,002,753
Australia	2,207,998	1,983,383
Associate	8,459	4,089
	3,131,996	2,990,225

Total assets are allocated based on where the assets are located.

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Capital expenditures		
PRC	227	209
Australia	–	314
	227	523

Capital expenditures are allocated based on where the assets are located.

7. Capital expenditure

	Property, plant & equipment (Unaudited)	Upfront payment for alumina purchasing rights (Unaudited)	Intangible assets-goodwill (Unaudited)
	RMB'000	*RMB'000*	*RMB'000*
Opening net book amount as at 1 January 2005	1,559	1,489,637	7,253
Additions	227	–	–
Exchange differences	11	–	–
Disposals	(150)	–	–
Depreciation/amortisation charge	(287)	(33,122)	–
Closing net book amount as at 30 June 2005	1,360	1,456,515	7,253
Opening net book amount as at 1 January 2004	1,261	1,555,920	–
Acquisition of additional interest in a subsidiary	–	–	7,842
Other additions	523	–	–
Exchange differences	(50)	–	–
Disposals	(8)	–	–
Depreciation/amortisation charge	(293)	(33,141)	(196)
Closing net book amount as at 30 June 2004	1,433	1,522,779	7,646
Additions	353	–	–
Exchange differences	283	–	–
Disposals	(224)	–	–
Depreciation/amortisation charge	(286)	(33,142)	(393)
Closing net book amount as at 31 December 2004	1,559	1,489,637	7,253

8. Available-for-sale financial assets

	(Unaudited)
	RMB'000
As at 1 January 2005 (restated)	202,104
Revaluation deficit transfer to equity *(Note 12)*	(18,689)
As at 30 June 2005	183,415

There were no disposals or impairment provisions on available-for-sale financial assets in 2005.

Available-for-sale financial assets include the following:

	As at 30 June 2005 (Unaudited)
	RMB'000
Listed securities:	
– Equity securities – Australia	183,415

9. Trade and other receivables

	As at	
	30 June 2005 (Unaudited)	**31 December 2004**
	RMB'000	*RMB'000*
Trade receivables	3,089	69,891
Less: provision for impairment of receivables	(6)	(1,209)
Trade receivables – net	3,083	68,682
Other receivables	46,443	83,587
Prepayments	194	191,460
Receivables from related parties *(Note 21)*	105,793	166,513
	155,513	510,242
Less non-current portion: other receivables	(3,772)	(7,863)
Current portion	151,741	502,379

All non-current receivables are due within five years from the balance sheet date.

The carrying amounts of trade and other receivables approximate their fair value.

(a) The majority of the Peak Strategic Group's sales are on the term of delivery upon payment from customer. The remaining amounts are mostly covered by letters of credit. At 30 June 2005, the ageing analysis of the trade receivables was as follows:

	As at	
	30 June 2005 (Unaudited)	**31 December 2004**
	RMB'000	*RMB'000*
0 to 180 days	3,084	68,664
1 year to 2 years	–	19
2 years to 3 years	–	5
Over 3 years	5	1,203
	3,089	69,891

There is no concentration of credit risk with respect to trade receivables.

10. Derivative financial instruments

	As at 30 June 2005	
	Assets (Unaudited)	**Liabilities** (Unaudited)
	RMB'000	*RMB'000*
Not qualified for hedge accounting		
Aluminium futures	–	26,121
Interest-rate swaps	–	55,204
Forward foreign exchange contracts	12,316	–
Options	–	1,490
Total	12,316	82,815
Less non-current portion:		
Aluminium futures	–	6,795
Interest-rate swaps	–	35,506
Forward foreign exchange contracts	7,110	–
Options	–	224
	7,110	42,525
Current portion		
Aluminium futures	–	19,326
Interest-rate swaps	–	19,698
Forward foreign exchange contracts	5,206	–
Options	–	1,266
	5,206	40,290

Interest-rate swaps

The total notional principal amount of the outstanding interest-rate swap contracts at 30 June 2005 were approximately RMB703,502,500 (equivalent USD85,000,000) (31 December 2004: RMB753,161,500 (equivalent USD91,000,000).

At 30 June 2005, the fixed interest rates was 8.3% (31 December 2004: 7.6%) and the main floating rates is LIBOR.

At 31 December 2004, the fair value of futures, interest-rate swaps, forward foreign exchange, and option contracts were RMB146,428,000 (loss), RMB77,236,000 (of which RMB5,768,000 not qualified for hedging accounting) (loss), RMB19,640,000 (gain) and RMB5,766,000 (loss), respectively.

11. Owners fund/share capital

As at 1 January 2004, 30 June 2004 and 1 January 2005, the balance represented the combined amounts of share capital of Peak Strategic Industries Ltd and the funds provided to Aluminium Trading Department (see note 1). As at 30 June 2005, the balance represented the share capital of Peak Strategic Industries Ltd, issued and fully paid (see note 1).

12. Other reserves

	Merger reserve	Statutory reserve	Available-for-sale investments	Translation	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2004	(596,779)	402	–	1,754	(594,623)
Currency translation differences					
– Group	–	–	–	(949)	(949)
Balance at 30 June 2004	(596,779)	402	–	805	(595,572)
Movement of merger reserve	573,669	–	–	–	573,669
Appropriation to statutory reserves	–	562	–	–	562
Currency translation differences					
– Group	–	–	–	944	944
Balance at 31 December 2004	(23,110)	964	–	1,749	(20,397)
Balance at 1 January 2005, as per above	(23,110)	964	–	1,749	(20,397)
Opening adjustment for the adoption of HKAS 39	–	–	169,908	–	169,908
Balance at 1 January 2005, as restated	(23,110)	964	169,908	1,749	149,511
Fair value change of available-for-sale investments	–	–	(18,689)	–	(18,689)
Currency translation differences					
– Group	–	–	–	(1,143)	(1,143)
– Associates	–	–	–	(141)	(141)
– Funding from owner	–	–	–	(1,702)	(1,702)
Balance at 30 June 2005	(23,110)	964	151,219	(1,237)	127,836

13. Trade and other payables

	As at	
	30 June 2005 (Unaudited)	**31 December 2004**
	RMB'000	*RMB'000*
Trade payables	299,103	122,641
Advance from customers	136,568	347,997
Other payables	89,282	73,104
Amounts due to related parties *(Note 21)*	151,639	219,661
Value-added tax and other taxes	20,045	–
Accrued expenses	7,014	29,750
	703,651	793,153

At 30 June 2005, the ageing analysis of the trade payables was as follows:

	As at	
	30 June 2005 (Unaudited)	31 December 2004
	RMB'000	*RMB'000*
0 – 90 days	299,103	122,641

14. Borrowings

	As at	
	30 June 2005 (Unaudited)	31 December 2004
	RMB'000	*RMB'000*
Non-current		
Secured bank loan	629,014	653,844
Current		
Unsecured bank borrowings	23,221	501,150
Loans from CMN	–	28,140
Current portion of secured long-term bank loan	49,659	49,659
	72,880	578,949
Total borrowings	701,894	1,232,793

The secured bank loan is secured by: (i) all the equity interests of Sino Mining Alumina Ltd ("SMAL"), a subsidiary of the Peak Strategic Group; (ii) all the assets of SMAL; (iii) the Peak Strategic Group's upfront payment for alumina purchasing rights *(note 7)*; and (iv) certain bank deposits of the Peak Strategic Group.

The contractual reprising dates of the Peak Strategic Group's borrowings are less than six months. The exposure of the Peak Strategic Group's borrowings to interest-rate changes are as follows:

At 31 December 2004	
Total borrowings	1,232,793
Effect of interest-rate swaps *(Note 10)*	(703,503)
	529,290
At 30 June 2005	
Total borrowings	701,894
Effect of interest-rate swaps *(Note 10)*	(678,673)
	23,221

The maturity of non-current bank borrowings is as follows:

	As at	
	30 June 2005 (Unaudited)	31 December 2004
	RMB'000	*RMB'000*
Between 1 and 2 years	49,659	49,659
Between 2 and 5 years	579,355	604,185
	629,014	653,844

The carrying amounts of borrowings approximate their fair value.

15. Expenses by nature

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	For the six months ended	
	30 June 2005 (Unaudited)	30 June 2004 (Unaudited)
	RMB'000	*RMB'000*
Depreciation, amortisation and impairment expenses	33,409	33,630
Employee benefit expenses	9,359	12,257
Port expenses and inspection fee	42,408	35,040
Cost of goods sold	4,114,650	3,231,251
Operating lease rentals in respect of land and buildings	1,159	1,911

16. Other operating income

	For the six months ended	
	30 June 2005 (Unaudited)	30 June 2004 (Unaudited)
	RMB'000	*RMB'000*
Gain on derivatives not qualified for hedge accounting	28,408	–

17. Other operating expenses

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Loss on derivatives not qualified for hedge accounting	–	1,408
Sundries	184	–
	184	1,408

18. Finance costs

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Interest expense:		
– bank loans	31,181	44,424
Net foreign exchange transaction gains/(loss)	120	180
Fair value gains on financial instruments:		
– interest-rate swaps: not qualified for hedge accounting	(26,022)	(5,521)
Other finance costs	3,580	549
	8,859	39,632

19. Income tax expense

The provision of PRC current income taxes for the subsidiaries in the PRC is calculated based on the statutory income tax rate of 33% of the assessable income of the subsidiaries.

The provision for overseas income tax is calculated based on the statutory tax rate of the country of operation of each overseas entity.

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Current income tax		
– PRC income taxes	111,851	119,524
– Overseas taxation	2,027	1,920
Under-provision of taxation in prior year		
– overseas taxation	–	853
Deferred income tax	–	(41,845)
	113,878	80,452

Share of associates' taxation for the six months ended 30 June 2005 of RMB1,933,000 (2004: Nil) is included in the profit and loss account as share of results of associated company.

20. Commitments

Operating lease commitments

The future aggregate minimum lease rental expenses in respect of land and buildings under non-cancellable operating leases are payable as follows:

	As at	
	30 June 2005 (Unaudited)	**31 December 2004**
	RMB'000	*RMB'000*
Within one year	1,691	1,817
After one year but within five years	6,116	6,514
	7,807	8,331

21. Related party transactions

China Minmetals, ultimate holding company of the Company, is a state-controlled enterprise directly controlled by the PRC Government. The PRC Government is the Company's ultimate controlling party. State-controlled enterprises and their subsidiaries, in addition to China Minmetals group companies, directly or indirectly controlled by the PRC Government are also related parties of the Peak Strategic Group. Neither China Minmetals nor the PRC Government publishes financial statements available for public use.

The PRC Government controls substantial number of entities in the PRC. For the purpose of related party transactions disclosure, the Peak Strategic Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to determine whether they are state-controlled enterprises.

The Peak Strategic Group has extensive transactions with other group members of China Minmetals. Because of the relationship, it is possible that the terms of the transactions between the Peak Strategic Group and other members of China Minmetals group are not the same as those that would result from transactions with other related parties or wholly unrelated parties.

The following transactions were carried out with related parties:

(a) Sales of goods and services

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Sales of goods:		
– Other PRC state – controlled entities	1,893,286	1,587,014

Goods are sold on the basis of the price lists in force with non-related parties.

(b) Purchases of goods and services

During the period, the following related party transactions were carried out in the normal course of the Peak Strategic Group's business.

	For the six months ended	
	30 June 2005 (Unaudited)	**30 June 2004** (Unaudited)
	RMB'000	*RMB'000*
Acquisition of additional interests in a subsidiary from China Minmetals	–	474,738
Purchase commission fees to fellow subsidiaries *(Note a)*	1,170	1,096
Purchase and sale commission fees to CMN *(Note a)*	1,092	–
Logistics service charges by fellow subsidiaries		
– Minmetals International Transportation Company Limited *(Note b)*	101,002	61,100
– Minmetals International Incorporation Tianjin Company *(Note a)*	988	572
– Minmetals International Incorporation Shandong Company *(Note a)*	359	230
	102,349	61,902
Rental expenses to China Minmetals *(Note a)*	146	146
Composite service expenses paid to China Minmetals *(note c)*	181	93
Telecommunication expenses to CMN *(Note c)*	35	26

Notes:

(a) In the opinion of the directors, these related party transactions were carried out in the ordinary of course of business at terms mutually agreed by the Peak Strategic Group and the related parties.

(b) The prices of the transactions were determined based on costs incurred plus a fixed margin percentage.

(c) The expenses were determined based on the actual costs incurred.

(c) Key management compensation

	For the six months ended 30 June 2005 (Unaudited)	For the six months ended 30 June 2004 (Unaudited)
	RMB'000	*RMB'000*
Salaries and other short-term employee benefits	5,345	5,536

(d) Loans from related parties

	For the six months ended 30 June 2005 (Unaudited)	For the six months ended 30 June 2004 (Unaudited)
	RMB'000	*RMB'000*
CMN		
– Principal repayment to CMN	28,140	–
– Interest expense paid to CMN	–	9,619
PRC state – controlled banks		
– Principal repayment	190,360	282,020
– Proceeds from new loans	–	369,141
– Interest expense paid	35,683	44,424

(e) Period-end balances

	As at 30 June 2005 (Unaudited)	As at 31 December 2004
	RMB'000	*RMB'000*
Receivables from related parties *(Note 9)*:		
– CMN	105,793	64,503
– Fellow subsidiaries	–	102,010
	105,793	166,513
Payables to related parties *(Note 13)*:		
– CMN	24,467	2,969
– Fellow subsidiaries	127,172	216,692
	151,639	219,661
Advances from		
– Other PRC state-controlled entities	78,288	236,199
Loans from		
– CMN	–	28,140
– PRC state-controlled bank	678,673	869,033
Deposits with PRC state-controlled banks	369,489	41,118

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE MMR GROUP AND THE PEAK STRATEGIC GROUP ("THE ENLARGED GROUP")

I. UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS OF THE ENLARGED GROUP

(A) UNAUDITED PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

		Pro forma adjustments			
	The MMR Group	**The Peak Strategic Group**	**Other adjustments**		**Pro forma Enlarged Group**
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Turnover	1,288,485	6,905,650	(164,778)	*(c)*	8,029,357
Cost of sales	(1,095,538)	(6,155,192)	111,993	*(b), (c)*	(7,138,737)
Gross profit	192,947	750,458	(52,785)		890,620
Other revenues	5,539	6,653	–		12,192
Selling expenses	(41,779)	(77,162)	–		(118,941)
Administrative expenses	(66,429)	(43,032)	–		(109,461)
Reversal of consolidated losses upon deconsolidation of subsidiaries	97,350	–	–		97,350
Other income/(expenses), net	64,611	(5,443)	–		59,168
Amortisation of goodwill from the acquisition	–	(554)	(47,000)	*(d)*	(47,554)
Operating profit	252,239	630,920	(99,785)		783,374
Finance costs	(16,403)	(65,822)	–		(82,225)
Share of profits less losses of associated companies	10,272	1,503	–		11,775
Profit before income tax	246,108	566,601	(99,785)		712,924
Income tax expense	(11,688)	(174,888)	–		(186,576)
Profit for the year	234,420	391,713	(99,785)		526,348
Attributable to:					
Equity holders of the Company	217,726	372,777	(99,785)		490,718
Minority interest	16,694	18,936	–		35,630
	234,420	391,713	(99,785)		526,348

(B) UNAUDITED PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2005

		Pro forma adjustments			
	The MMR Group	The Peak Strategic Group	Other adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Turnover	664,215	4,352,880	–		5,017,095
Cost of sales	(596,314)	(3,873,341)	(11,345)	*(b)*	(4,481,000)
Gross profit	67,901	479,539	(11,345)		536,095
Other revenues	4,396	5,189	–		9,585
Selling expenses	(23,055)	(43,222)	–		(66,277)
Administrative expenses	(22,841)	(13,666)	–		(36,507)
Other income/(expenses), net	81,618	26,568	–		108,186
Operating profit	108,019	454,408	(11,345)		551,082
Finance costs	(8,701)	(8,339)	–		(17,040)
Share of profits less losses of associated companies	7,787	4,246	–		12,033
Profit before income tax	107,105	450,315	(11,345)		546,075
Income tax credit/(expense)	1,078	(107,199)	–		(106,121)
Profit for the period	108,183	343,116	(11,345)		439,954
Attributable to:					
Equity holders of the Company	100,345	342,907	(11,345)		431,907
Minority interest	7,838	209	–		8,047
	108,183	343,116	(11,345)		439,954

(C) UNAUDITED PRO FORMA COMBINED BALANCE SHEET

As at 30 June 2005

		Pro forma adjustments			
	The MMR Group	The Peak Strategic Group	Other adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Non-current assets					
Property, plant and equipment	470,921	1,279	–		472,200
Investment properties	15,286	–	–		15,286
Leasehold land and land use rights	9,567	–	–		9,567
Construction in progress	34,118	–	–		34,118
Upfront payment for alumina purchasing rights	–	1,369,291	510,509	*a(ii)*	1,879,800
Deferred income tax assets	13,294	–	–		13,294
Interests in associated companies	57,101	7,952	–		65,053
Available-for-sale financial assets	–	172,431	–		172,431
Goodwill	–	6,819	939,997	*a(iii)*	946,816
Long-term receivables	4,717	3,546	–		8,263
Derivative financial instruments	–	6,684	–		6,684
	605,004	1,568,002	1,450,506		3,623,512
Current assets					
Inventories	215,740	403,292	–		619,032
Trade receivables, prepayments and other receivables	219,235	142,655	–		361,890
Bills receivables	–	602	–		602
Derivative financial instruments	–	4,894	–		4,894
Bill discounted to banks or endorsed to suppliers	328,268	–	–		328,268
Pledged bank deposits	20,782	35,014	–		55,796
Cash and cash equivalents	259,857	789,977	–		1,049,834
	1,043,882	1,376,434	–		2,420,316
Total assets	1,648,886	2,944,436	1,450,506		6,043,828
Equity and reserves attributable to the Company's equity holders	522,350	1,274,039	1,450,506		3,246,895
Minority interest	186,142	403	–		186,545
Total equity	708,492	1,274,442	1,450,506		3,433,440
Non-current liabilities					
Deferred income	27,758	–	–		27,758
Derivative financial instruments	–	39,978	–		39,978
Bank loans	94,340	591,345	–		685,685
	122,098	631,323	–		753,421
Current liabilities					
Trade payables and accrued charges	249,381	661,513	–		910,894
Bills payable	22,838	192,495	–		215,333
Trade payables under endorsed bills	269,740	–	–		269,740
Advances from banks for bills discounted	58,528	–	–		58,528
Income tax liabilities	12,148	77,395	–		89,543
Deferred income	–	875	–		875
Derivative financial instruments	–	37,877	–		37,877
Bank loans	205,661	68,516	–		274,177
	818,296	1,038,671	–		1,856,967
Total liabilities	940,394	1,669,994	–		2,610,388
Total equity and liabilities	1,648,886	2,944,436	1,450,506		6,043,828
Net current assets	225,586	337,763	–		563,349
Total assets less current liabilities	830,590	1,905,765	1,450,506		4,186,861

(D) UNAUDITED PRO FORMA CONDENSED COMBINED CASH FLOW STATEMENT

For the year ended 31 December 2004

	The MMR Group	Pro forma adjustments: The Peak Strategic Group	Pro forma adjustments: Other adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Net cash generated from operating activities	122,998	337,514	–		460,512
Net cash used in investing activities	(47,981)	(443,949)	–		(491,930)
Net cash (used in)/generated from financing activities	(39,660)	118,172	267,962	*(e)*	346,474
Net increase in cash and cash equivalents	35,357	11,737	267,962		315,056
Cash and cash equivalents at 1 January	140,879	153,889	–		294,768
Effect of foreign exchange rate changes	–	(108)	–		(108)
Cash and cash equivalents at 31 December	176,236	165,518	267,962		609,716
Analysis of balances of cash and cash equivalents					
Cash and cash equivalents	176,236	165,518	267,962	*(e)*	609,716

(E) UNAUDITED PRO FORMA CONDENSED COMBINED CASH FLOW STATEMENT

For the six months ended 30 June 2005

		Pro forma adjustments			
	The MMR Group	The Peak Strategic Group	Other adjustments		Pro forma Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*	*Note*	*HK$'000*
Net cash generated from operating activities	137,173	1,164,111	–		1,301,284
Net cash used in investing activities	(31,466)	–	–		(31,466)
Net cash used in financing activities	(22,086)	(536,876)	–		(558,962)
Net increase in cash and cash equivalents	83,621	627,235	–		710,856
Cash and cash equivalents at 1 January	176,236	165,518	–		341,754
Effect of foreign exchange rate changes	–	(2,776)	–		(2,776)
Cash and cash equivalents at 30 June	259,857	789,977	–		1,049,834
Analysis of balances of cash and cash equivalents					
Cash and cash equivalents	259,857	789,977	–		1,049,834

(F) NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. Introduction

It was announced by the Company's directors on 30 December 2004 that the Company has entered into an acquisition agreement with China Minmetals Non-ferrous Metals Company Limited and Top Create Resources Limited (the "Vendor") for the acquisition of the entire issued share capital of Peak Strategic Industries Limited ("Peak Strategic") at a consideration of HK$2,886 million (the "Acquisition"). The consideration will be satisfied by the allotment and issue of 1,009,090,909 shares of the Company.

The unaudited pro forma combined profit and loss accounts and the unaudited pro forma condensed combined cash flow statements for the year ended 31 December 2004 and the six months ended 30 June 2005 and the unaudited pro forma combined balance sheet as at 30 June 2005 of the Enlarged Group are prepared based on the consolidated accounts of the Company and its subsidiaries (the "MMR Group") and the consolidated accounts of Peak Strategic and its subsidiaries (the "Peak Strategic Group"), after making certain pro forma adjustments as set out in note 2 below. For the purpose of the unaudited pro forma financial information, the consolidated balance sheet of the Peak Strategic Group as at 30 June 2005 is translated from Chinese Renminbi to Hong Kong dollars at the exchange rate ruling at 30 June 2005 at HK$1=RMB1.0637 whilst the consolidated profit and loss accounts and the condensed consolidated cash flow statements of the Peak Strategic Group are translated at the average rates for the year ended 31 December 2004 and the six months ended 30 June 2005 at HK$1=RMB1.0623.

The unaudited pro forma combined profit and loss accounts and the unaudited pro forma condensed combined cash flow statements for the year ended 31 December 2004 and the six months ended 30 June 2005 of the Enlarged Group are prepared for illustrative purpose as if the Acquisition had been completed on 1 January 2004.

The unaudited pro forma combined balance sheet as at 30 June 2005 of the Enlarged Group is prepared for illustrative purpose as if the Acquisition had been completed on 30 June 2005.

The unaudited pro forma financial information has been prepared to provide the information on the Enlarged Group as a result of the completion of the Acquisition ("Completion"). As it has been prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at 30 June 2005 and at any future dates. Also, it may not give a true picture of the results and the cash flows of the Enlarged Group for the year ended 31 December 2004, the six months ended 30 June 2005 and for any future financial periods.

2. Pro forma adjustments

(a) Under Hong Kong Financial Reporting Standards ("HKFRS"), the MMR Group will apply the purchase method to account for the acquisition of the Peak Strategic Group in the combined accounts of the Enlarged Group. In applying the purchase method, the identifiable assets, liabilities and contingent liabilities of the Peak Strategic Group will be recorded on the balance sheet of the Enlarged Group at their fair values at the date of Completion. The excess of the cost of acquisition over the fair value of the MMR Group's share of the identifiable net assets acquired will be recorded as goodwill. If the cost of Acquisition is less than the fair value of the net assets of the Peak Strategic Group acquired, the difference will be recognised directly in the profit and loss account.

For the purpose of preparing the unaudited pro forma combined balance sheet of the Enlarged Group after Completion, the net fair value of the identifiable assets, liabilities and contingent liabilities of the Peak Strategic Group as at 30 June 2005 and the fair value of the consideration shares based on the closing market price of the Company's shares as at 30 August 2005 (the latest practicable date for determining the fair value of the consideration shares) are applied in the calculation of the estimated goodwill arising from the Acquisition. Since the fair values of the assets, liabilities and contingent liabilities of the Peak Strategic Group and the fair value of the consideration shares at the date of the Acquisition may be substantially different from their fair values used in the preparation of the unaudited pro forma combined balance sheet presented above, the actual goodwill arising from the Acquisition may be different from the estimated goodwill shown in the unaudited pro forma combined balance sheet.

The adjustments reflect the following

(i) the issuance of the 1,009,090,909 consideration shares of the Company of HK$2.7 each decided on the aforesaid basis, to the Vendor upon Completion;

(ii) the fair value adjustments on the assets of the Peak Strategic Group (these include an upward fair value adjustment in respect of the upfront payment for alumina purchasing rights of approximately HK$510,509,000 which was primarily resulted from the increase in market price of alumina as compared to the market price at contract date of the Alcoa contract); and

(iii) goodwill arising from the acquisition of the Peak Strategic Group by the Company.

(b) The adjustments reflect the additional amortisation arising from the fair value adjustment of the upfront payment for alumina purchasing rights of the Peak Strategic Group.

(c) The adjustments reflect the elimination of inter-company transactions and unrealised profit on inventories at year end between the MMR Group and the Peak Strategic Group through a third party trading company.

(d) The amount represents amortisation of goodwill in accordance with Hong Kong Statement of Standard Accounting Practice No. 30 "Business Combinations" issued by the Hong Kong Institute of Certified Public Accountants.

Such goodwill is amortised using the straight-line method over its estimated useful life of 20 years.

The Peak Strategic Group and the MMR Group adopted the HKFRS from 1 January 2005. Under the HKFRS, amortisation is no longer charged, but goodwill will be tested annually for impairment, as well as when there are indications of impairment.

(e) The adjustment reflects net cash balance receivable from CMN upon the incorporation and transfer of the aluminium trading business to Minmetals Aluminium Company Limited.

The pro forma adjustment (b) will have continuing profit and loss effect on the Enlarged Group, while the pro forma adjustments (c) and (d) will not have such effect.

II. UNAUDITED PRO FORMA COMBINED NET TANGIBLE ASSETS STATEMENT

The following is the unaudited pro forma combined net tangible assets statement of the Enlarged Group as at 30 June 2005 which is based on the unaudited pro forma combined balance sheet as at 30 June 2005 as set out in section I(C):

The statement is prepared for illustrative purpose only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group at any future date.

Unaudited pro forma combined net assets of the Enlarged Group as at 30 June 2005	**Less: Goodwill of the Peak Strategic Group**	**Less: Estimated goodwill arising from the Acquisition**	**Unaudited pro forma combined net tangible assets of the Enlarged Group as at 30 June 2005**	**Unaudited pro forma combined net tangible assets per share of the Enlarged Group as at 30 June 2005**
HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$*
(Note1 and 3)	*(Note1)*	*(Note1)*		*(Note2)*
3,246,895	(6,819)	(939,997)	2,300,079	1.42

Notes:

1. The balance is extracted from "Unaudited pro forma combined balance sheet".

2. The number of shares used for the calculation of this figure is 1,616,440,521 shares, comprising the existing shares of the Company of 607,349,612 as at 30 June 2005 and the consideration shares of 1,009,090,909 new ordinary shares to be allocated and issued by the Company to satisfy the consideration for the Acquisition.

3. The net assets value of the Enlarged Group is equal to the Enlarged Group's "Equity and reserves attributable to the Company's equity holders".

III. LETTER ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the Company's auditors, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this preliminary offering circular. As there is no specific guidance on the reporting on pro forma financial information under the Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants, this report is prepared with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

16 September 2005

The Directors
Minmetals Resources Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Minmetals Resources Limited (formerly known as Oriental Metals (Holdings) Company Limited) (the "Company") and its subsidiaries (collectively the "MMR Group") and Peak Strategic Industries Limited and its subsidiaries (hereinafter referred to as the "Enlarged Group"), set out on pages F-118 to F-124 under the headings of "Unaudited Pro Forma Combined Financial Statements of the Enlarged Group" and "Unaudited Pro Forma Combined Net Tangible Assets Statement" to the Company's preliminary offering circular dated 16 September 2005, in connection with the international offering of shares of Minmetals Resources Limited. The unaudited pro forma financial information has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed acquisition of the entire issued share capital of Peak Strategic Industries Limited by the Company might have affected the relevant financial information of the Enlarged Group for the year ended 31 December 2004 and as at 30 June 2005, and for the period then ended.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 and paragraph 13 of Appendix 1B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 "Reporting on pro forma financial information pursuant to the Listing Rules" issued by the Auditing Practices Board in the United Kingdom, where applicable. Our work, which involved no independent examination of any underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company.

Our work does not constitute an audit or review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information has been prepared on the basis set out on pages F-118 to F-124 for illustrative purposes only and, because of its nature, it may not be indicative of:

(a) the financial position of the Enlarged Group at any future date; or

(b) the results and cash flows of the Enlarged Group for any future periods.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the MMR Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29 of the Listing Rules.

Yours faithfully,
PricewaterhouseCoopers
Certified Public Accountants
Hong Kong