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Extract of Certain Corporate and Financial Information of CITIC Resources Holdings Limited

RISK FACTORS

Prospective investors should carefully consider the following, in addition to the other information contained in this offering circular, before making any investment decision relating to the Notes.

Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries

The risk factors set forth hereunder are based on the assumption that we will complete the Proposed Acquisition on or before December 31, 2007. Failure to do so will result in the Notes being automatically redeemed at 100.0% of their principal amount plus certain other amounts, if any. See "Description of the Notes—Mandatory Acquisition Redemption".

Completion of the Proposed Acquisition is subject to regulatory approvals from the Kazakhstan government authorities and approval by our independent shareholders.

In accordance with Article 14 of the Law on The Subsurface and Subsurface Use, or the Subsurface Law, as amended in January 2007, the prior consent of the Ministry of Energy and Mineral Resources, or MEMR, the competent authority appointed by the Kazakhstan government in the exercise of the rights associated with the conclusion and implementation of subsurface contracts, is required for certain transfers of shares of companies holding Kazakhstan mineral rights directly or indirectly. In addition, in accordance with Article 71 of the Subsurface Law, the Kazakhstan government has a pre-emptive right to buy shares being transferred in certain companies holding Kazakhstan mineral rights directly or indirectly on terms no less favorable than other purchasers. Furthermore, in accordance with the listing rules of the Hong Kong Stock Exchange, the Proposed Acquisition as a very substantial acquisition and connected transaction is subject to approval by a majority of the shareholders of CITIC Resources that are not related to CITIC Group, or our independent shareholders. If we are unable to obtain the prior consent or a waiver of such a pre-emptive right from the Kazakhstan government authorities or the approval of our independent shareholders, we will not be able to consummate the Proposed Acquisition. Although the Kazakhstan government has previously approved the acquisition of the Kazakhstan Subsidiaries by CITIC Group, there can be no assurance that it will approve the Proposed Acquisition or will provide its approval prior to December 31, 2007. If the Proposed Acquisition is not completed on or prior to December 31, 2007, the Notes will be automatically redeemed in full at 100.0% of their principal amount plus certain other amounts, if any. See "Description of the Notes—Mandatory Acquisition Redemption".

If for any reason we fail to receive dividends from the Kazakhstan Subsidiaries, we may be unable to pay the principal, interest and other amounts due on the Notes.

We will rely on dividends received from the Kazakhstan Subsidiaries to fund our obligations under the Notes. If for any of the reasons set forth herein we do not receive these dividends, or the revenues from the Kazakhstan Subsidiaries are reduced due to any of the regulatory, managerial or operational risks set forth below, we may be unable to pay the principal, interest and other amounts due on the Notes. As a result, we may default under the Notes, in which case you may not receive principal, interest and other amounts due to you under the Notes, and may lose all or a portion of your investment therein.

The Kazakhstan Subsidiaries are subject to significant risks due to the complicated nature of their operations and remote location, including operation and maintenance risk and technology risk.

The operations of the Kazakhstan Subsidiaries involve many risks that could affect production, including the risk of the breakdown, failure or underperformance of equipment or processes, problems in the application of production and processing technology, drilling techniques, storage and transportation technology or other technological processes, events such as explosions, well blow-outs, seismic events, spills, fires or hazardous materials releases, and other events beyond their control. The facilities in Kazakhstan and the transportation

routes they use, including the KazTransOil, or KTO, pipelines in Kazakhstan and pipelines in foreign countries, are exposed to risks associated with acts of terrorism or political violence, and the Kazakhstan Subsidiaries or their transportation systems could be the target of an attack.

Because of the remote nature of their operations, the Kazakhstan Subsidiaries may not have ready access to equipment or facilities adequate to address unforeseen operational issues, and delays may occur in accessing needed materials or supplies. Operational difficulties associated with the remote location of the Karazhanbas oilfield are aggravated by the poor quality of road access to the site. In addition, events, accidents, equipment breakdown or failures affecting certain key parts of the facilities, such as the interface between the field gathering system and processing facilities, or the injection point to the KTO pipeline, might substantially curtail or shut-in production. The occurrence of any of these events could significantly decrease revenues and/or significantly increase costs for the Kazakhstan Subsidiaries, and therefore impair our ability to make payments on the Notes.

Certain of the Kazakhstan Subsidiaries' equipment was introduced to the Karazhanbas oilfield during the Soviet era and may not function as efficiently as other equipment installed in the oilfield in the last decade. As such, the equipment may be less reliable, have greater levels of restricted environmental emissions or pose other operational risks not associated with newer field equipment. In the event of a total or partial loss or other accident or casualty event, it may not be possible to replace certain items of equipment, such as drilling rigs, workover rigs, oil heaters and oil processing tanks, promptly because of their large and project-specific character. The Kazakhstan Subsidiaries' remote location, the size and expense associated with some of their equipment and the extended period needed to manufacture replacement units could give rise to significant delays in replacement.

In addition, because of the Kazakhstan Subsidiaries' remote location, the Kazakhstan Subsidiaries are dependent on a number of suppliers and contractors who provide essential services ranging from drilling to canteen and meal services, and would not be able to operate without those key suppliers and contractors. As a result, failure of these key suppliers and contractors to provide their services to the Kazakhstan Subsidiaries, for whatever reason, could impede our operations in Kazakhstan. Realization of any of the foregoing risks could reduce our revenues and dividends from the Kazakhstan Subsidiaries, thereby materially adversely affecting our ability to service our obligations under the Notes.

The Proposed Acquisition presents significant management challenges.

We may not be successful in integrating the operations of the Kazakhstan Subsidiaries with our existing operations, internal control systems and management structure. Moreover, the Proposed Acquisition may consume significant management time and other resources, which may result in an interruption to our overall business operations. Assuming control of the operations of the Kazakhstan Subsidiaries presents significant management challenges, including, among others, whether our newly-introduced management team can work effectively with the legacy management team in Kazakhstan, whether our new management team, our development plans and our corporate culture are compatible with the operations and employees in Kazakhstan, whether our operating policies and procedures are readily adaptable to the existing operations in the Karazhanbas oilfield and whether our assessment of the Karazhanbas oilfield has provided us with an accurate understanding of its reserves, geology, production capacity and historical legal and regulatory liabilities. The foregoing factors may prevent us from realizing our development plans for the Karazhanbas oilfield or maintaining historical levels of production, or may result in unforeseen liabilities, any of which could reduce our revenues and dividends from the Kazakhstan Subsidiaries, thereby materially adversely affecting our ability to service our obligations under the Notes.

We may not be able to effectively manage our enlarged oil business.

The Proposed Acquisition will significantly enlarge our existing oil business. The increased scale of operation will present our management with challenges in all aspects of our operations. Operation on an increased scale requires management and employees throughout our organization to closely coordinate among

one another in order to effectively manage our business. The management team we recently established to manage our oil business needs to integrate with other aspects of our senior management. Our legal, finance and accounting departments will be required to understand and service these new businesses while managing the risks associated with them. If we are unable to efficiently manage any aspect of our oil business on an ongoing basis following the Proposed Acquisition, our ability to capitalize on the synergies arising from the Proposed Acquisition and the value of our investment therein could be materially adversely affected.

We may not be able to successfully implement our long-term oilfield development plan in the Karazhanbas oilfield.

We intend to implement a long-term oilfield development plan to improve recovery rates and increase oil production volume in the Karazhanbas oilfield. The success of this plan will depend on government approval of our annual work program and effective introduction of improved production technologies, among other factors. Our annual work program is required to be submitted to the Kazakhstan government at the end of each year to seek approval for, among others things, exploration, development and production of the Karazhanbas oilfield in the coming year. In conjunction with the Proposed Acquisition, we plan to revise the current annual work program for the Karazhanbas oilfield to improve recovery rates and increase production volume through application of thermal oil recovery technologies such as cyclic steam stimulation, or CSS, and steam flooding. Also, transportation quotas are obtained from the Kazakhstan government on a monthly basis to determine the maximum amount of oil that can be transported through the pipelines of KTO. If we are unable to maintain a good relationship with the Kazakhstan government authorities, we may have difficulty in obtaining approval for our annual work program or the transportation quotas required for the production, transportation and sale of our oil. If this occurs, we may not be able to implement our oilfield development plan on a long-term basis.

We will progressively employ CSS and steam flooding technologies throughout the Karazhanbas oilfield to improve recovery rates and to increase production volume. This is in addition to cold heavy oil production with sand, or CHOPS, and water flooding, the technologies currently employed in the exploration and development in the Karazhanbas oilfield. Our redevelopment plan will also involve reduction of well spacing, rearranging the steam and water injection wells from a parallel formation along the line of oil producing wells to scattered formations surrounding individual oil producing wells, and significantly expanding our storage, water, gas, electrical and other support facilities to process, store and transport greater volumes of oil.

Further, if the KMG Option is exercised, we will jointly operate the Kazakhstan Subsidiaries with KMG. In particular, the approval of such major items as annual work programs, annual budgets and capital expenditure plans will require unanimous approval of the board of directors of the Kazakhstan Subsidiaries. If we were not able reach a consensus with KMG on such matters critical to the success of implementation of the oilfield development plan, we may not be able to achieve our business objectives going forward. See "—If the KMG Option is exercised, we will face management challenges associated with joint operation of the Kazakhstan Subsidiaries with KMG".

As a result of these factors, the success of the implementation of the oilfield development plan is subject to a number of factors beyond our control, including, among others, whether we will be able to obtain the necessary government approvals for the plan, whether we will be able to reach a consensus with KMG on the oilfield development plan if the KMG Option is exercised, whether our management and employees are able to successfully deploy thermal oil recovery technologies including CSS and steam flooding technologies in the oilfield, whether new or reactivated wells will be productive, whether we can retain contractors to install the new supporting facilities for our increased production and whether we are able to overcome the regulatory, technological and supporting facilities challenges associated with the plan. Accordingly, there is no assurance that we will be able to improve the recovery rates or increase oil production volume in the Karazhanbas oilfield following the Proposed Acquisition. Failure of our development plan could result in significant capital expenditures not being met by corresponding increases in oil production or revenues, thus reducing or eliminating our revenues and dividends from the Kazakhstan Subsidiaries.

If we are unable to obtain Kazakhstan government approval for our planned increased production in 2007, our financial condition and results of operations in 2007 may be materially adversely affected.

The annual work program for the Karazhanbas oilfield, including the production volume projected for the following year, is subject to approval by the Kazakhstan government on an annual basis. As a result of the drilling plan and the application of thermal recovery technologies including CSS and steam flooding technologies in the oilfield, we expect the production volume in 2007 to increase compared to the oilfield development plan for 2007 previously approved by the Kazakhstan government. If we are unable to obtain Kazakhstan government approval for such increased production or if there is a delay in obtaining the approval, we may not receive transportation quotas from KTO for, and therefore would not be able to sell, our oil. If this occurs, our financial condition and results of operations could be materially adversely affected.

We are required to supply a certain amount of our production to domestic refineries at below market prices.

Kazakhstan oil producers are required to supply a certain amount of their production to domestic refineries at prices that are substantially lower than the prices that may be charged for export sales. For the years ended December 31, 2004, 2005 and 2006, KBM's domestic sales accounted for 9.2%, 12.8% and 11.1% of its production volumes, respectively. During the same periods, the average prices for such domestic sales were US$14.4, US$19.1 and US$22.9 per barrel compared to average prices for export sales of US$32.7, US$49.3 and US$58.0 per barrel, representing discounts of 56.0%, 61.3% and 60.5%. We expect KBM will continue to be required to provide similar levels of our oil production to domestic refineries at rates significantly below the prevailing export prices. Any expectations as to our future revenues should take this implicit obligation into account. Furthermore, the percentage of our production we are required to supply to domestic refineries or the discount to market prices may further increase. We will be forced to make such increased sales at such rates, which could have a material and adverse effect on our revenues and dividends from the Kazakhstan Subsidiaries.

KBM relies on pipelines and other transportation facilities owned or operated by third parties to transport its oil.

Oil produced from the Karazhanbas oilfield is transported through pipelines, railroads and vessels owned or operated by third parties beyond our control, including KTO. Further, KBM has no alternative to the KTO pipelines for the initial transportation of oil from the Karazhanbas oilfield before exporting its oil out of Kazakhstan. KBM has no control over the operation of such third parties, including the repair and maintenance schedules of relevant pipelines and other transportation facilities. In addition, such operators are subject to risks beyond their own control, such as adverse weather conditions, fire, natural disasters, or other force majeure events. Upon occurrence of any event beyond KBM's or a third party operators' control, KBM may experience disruption of transportation of its oil resulting in delays in deliveries. For example, in the summer of 2006, maintenance of pipelines traveling through Eastern Europe caused delays in transportation of oil produced in the Caspian Sea region.

Furthermore, Kazakhstan has no direct access to the open sea. As a result, KBM relies on pipeline operators in foreign countries for its export sales. See "—KBM may not be able to obtain transportation quotas necessary for its export sales". Transportation of oil produced in the Karazhanbas oilfield and exported outside Kazakhstan through Russia has traditionally been transported through pipelines operated by Transneft, the state-owned pipeline operator in Russia. There are alternative pipelines in other foreign countries that have the potential to allow KBM to access different markets. For example, the recently completed Baku-Tbilisi-Ceyhan pipeline, which runs from the port of Baku on the Caspian Sea in Azerbaijan through Tbilisi in Georgia to the port of Ceyhan in Turkey, provides oil producers in Kazakhstan access to countries surrounding the Black Sea and the Mediterranean Sea. Further, the pipeline under development connecting western Kazakhstan and the PRC provides oil producers in western Kazakhstan, including KBM, with access to the PRC market. However, transportation of oil produced by KBM through Transneft pipelines and potentially through alternative pipelines in other foreign countries is and will be subject to risks relating to gaining access to and disruption of these

pipelines. If these pipelines suffer any disruption or do not have sufficient capacity to transport increased volumes of oil, the amount of oil KBM is able to export may be limited. Any restrictions on, or termination of, access to the pipeline facilities caused by any serious pipeline, rail or port malfunctions, political events or force majeure circumstances could result in a suspension of KBM's deliveries and cause severe disruption to its production and sales. Further, transportation of oil produced in the Karazhanbas oilfield through pipelines owned or operated by third parties is subject to payment of tariffs. Any significant increase in the tariffs imposed on the transportation of oil through the pipelines operated by KTO, Transneft or other third parties could adversely affect our financial condition and results of operations.

KBM may not be able to obtain transportation quotas necessary for its export sales.

Historically, the vast majority of the oil production from the Karazhanbas oilfield has been distributed through export sales. Since Kazakhstan has no direct access to the open sea, export sales must be transmitted through pipelines, by railroads and by sea across national borders to ports with such access. Export sales by oil producers in Kazakhstan are therefore dependent upon intergovernmental agreements on the establishment of transportation quotas through pipelines of relevant countries. As oil production by oil producers in Kazakhstan increases, competition to obtain transportation quotas may become more intense. This may in turn affect the quotas which are allocated to KBM. The transportation quotas KBM is able to obtain on a monthly basis directly affect the amount of its export sales. Since January 2001, allocation of the transportation quotas through the KTO pipelines has been controlled by the MEMR. As a result, KBM is expected to submit its monthly sales plan to the MEMR to apply for transportation quotas for its export sales. Therefore, the volume of oil that KBM will be able to export will be dependent upon the quotas it is able to obtain from the MEMR. As a result, there is no assurance that KBM will be able to export all of the oil it produces.

The prices KBM is able to charge for oil production from the Karazhanbas oilfield are affected by a number of factors beyond its control.

The prices KBM is able to charge for oil produced in the Karazhanbas oilfield are affected by a number of factors beyond its control, including prevailing market prices for oil in regions to which the oil is distributed, the quality of the oil, the quality and availability of oil blended with KBM's in the pipelines and transportation costs, including tariffs payable to pipeline operators as well as costs for shipping and rail transport. Prevailing market prices are a function of general market conditions affected by demand in markets to which the oil is distributed, alternative supplies available from competing oil producers and the impact of weather conditions on oil production and transportation.

The quality of oil delivered to the ultimate customers is affected by the blend with oil from other producers transported via the same pipeline. The prices KBM is able to charge for its oil are adjusted by reference to the grade of the ultimate blended oil. As a result, the prices KBM is able to charge will be dependent upon the grade of its own oil, the grade of the oil produced by other companies with which KBM's oil is blended and the grade of the ultimate blended oil.

Transportation costs for KBM's oil are set by the operators of the pipelines, ports, railroads and vessels which transport the oil to its customers. All of KBM's oil from the Karazhanbas oilfield travels through the KTO pipeline, and KBM does not have viable alternative routes to transport KBM's oil within Kazakhstan. KBM is therefore exposed to the transportation pricing decisions of KTO. KBM's oil also travels through pipelines in foreign countries, namely through Transneft pipelines in Russia and other foreign countries to which Transneft pipelines extend. Further, the longer the travel distance, the more transportation costs KBM will incur. For example, the price terms obtained for oil distributed to countries surrounding the Black Sea or in Eastern Europe have historically been better than those obtained for oil distributed further away to countries surrounding the Mediterranean Sea. As a result, if KTO significantly increases transportation costs in the future or if KBM's oil has to travel longer distances to reach end customers as KBM further expands the geographic coverage of its target markets, its revenue may be reduced.

Further, the Kazakhstan and Russian governments may consider the implementation of a quality bank system whereby the oil comprising blends of oils produced by different oil producers and transported through the same pipeline must reach a certain grade. The average quality of oil produced in the Karazhanbas oilfield for the year ended December 31, 2006 was typically 19 degree API. It is uncertain what grade of oil would be required by the Kazakhstan or the Russian governments to permit entry into their pipeline systems upon implementation of a quality bank system. Under a quality bank system, the heavier oil produced in the Karazhanbas oilfield would likely need to be blended with lighter oils to reach the appropriate grade prior to entering the pipelines. The prices KBM receives for its oil would therefore be based on the grade of oil it provides to the pipelines, and this may result in it receiving lower prices per barrel of oil than the prices per barrel of oil it is able to command under the current system.

KBM currently sells its oil to a limited number of distributors.

Historically, export sales of oil produced in the Karazhanbas oilfield have been made mainly to two distributors/customers, Euro-Asian Oil AG, or Euro-Asian, and Glencore International AG, or Glencore. Although KBM may work with other distributors if they provide preferable pricing, transport and blending partners, there is, however, no assurance that it will be able to find such distributors to reduce its degree of reliance on Euro-Asian and Glencore. Currently, KBM relies exclusively on these two distributors for the export sales of its oil production. If any one of them unilaterally changes the pricing terms, reduces the volume of oil purchased or ceases to do business with KBM for any reason and if KBM is unable to find alternative distributors at comparable or more favorable price terms, our revenues and dividends from the Kazakhstan Subsidiaries could be materially reduced, thereby materially adversely affecting our ability to service our obligations under the Notes.

As a condition to the release of the net proceeds of this offering to us from the Escrow Account, KBM and the Guarantor are required to terminate, or amend to prohibit any sales of oil to Iran under, the Euro-Asian Contract. In order to accomplish this, KBM or the Guarantor may need to renegotiate or terminate the Euro-Asian Contract, which could possibly serve as a basis for a claim of breach of contract, or force KBM to contract with another distributor on terms less favorable than the terms of the Euro-Asian Contract. In either instance, there could be a material adverse effect on KBM's and our revenues and results of operations.

KBM is subject to transportation risks that may not be fully covered by our insurance policies.

KBM's oil is transported through pipelines, by railroads and by sea. The transportation of oil involves risks of combustion, corrosion and environmental damage in uncontrolled or catastrophic circumstances. Under the contracts entered into with Euro-Asian and Glencore, respectively, oil is sold by KBM either on a "free-on-board", or FOB, basis for delivery for loading at ports on the Caspian Sea, Baltic Sea and Black Sea, or on a "delivered-at-frontier", or DAF, basis for delivery at the delivery point for the Druzhba pipeline. In the case of both Euro-Asian and Glencore, title to the oil and all risks attached thereto pass from KBM to Euro-Asian or Glencore, as the case may be, at the time of loading for FOB deliveries and on signing of the delivery acceptance notice at the border pumping stations for DAF deliveries. In most cases, KBM's oil is distributed on an FOB basis, whereby title and all risks pass, in the case of Euro-Asian, at the port of Aktau on the Caspian Sea and, in the case of Glencore, at the ports of Odessa on the Black Sea or Primorsk on the Baltic Sea. We may not be able to obtain insurance at a reasonable cost or at all to cover these events. In addition, transportation by sea exposes KBM to perils particular to maritime operations, including capsizing, grounding, collision and loss or damage from severe weather or storms. Due to the potentially destructive and dangerous nature of the cargo, any such event could cause catastrophic consequences, including fire, explosion, severe pollution and environmental damages. The occurrence of such an accident or natural disaster could cause significant property damage, disruption to KBM's operations, personal injuries and defaults under its obligations to deliver oil to its distributors/customers on time.

Failure to meet any increased requirements for natural gas, electricity and other inputs necessary for thermal recovery methods could limit our ability to increase oil production.

The application of thermal recovery methods such as CSS and steam flooding technologies is power intensive. Therefore, we anticipate our requirements for natural gas, electricity and other inputs will significantly increase as we gradually implement such new technologies to improve recovery rates and increase production volume, and as we install new facilities to process the increased volume of oil produced. Currently, natural gas required for production in the Karazhanbas oilfield is supplied by third parties and natural gas prices increased significantly in 2006. See "—KBM is experiencing rising input prices, and it may not be successful in its attempt to utilize gas and water from the oilfield in its production process". In addition, the Karazhanbas oilfield is serviced by one power substation and two 110 kilovolt power lines connecting with the Aktau power grid operated by the Mangistau Region Power Distribution Company. There is no practical alternative to such power grid, other than back-up diesel generators of the type currently employed in the Karazhanbas oilfield. Although KBM believes that current electricity supplies are sufficient to meet its production requirements in the short term and there have not been significant outages in the past, KBM intends to install a new power line connecting to the power grid in Aktau and two new power substations in the medium to long term in anticipation of increased requirements for electricity. Nonetheless, service interruptions at the power plant, failure of the Aktau grid, inability to install further substations and power lines to meet our requirements or the failure of our substations and power lines could materially limit the current oil production at KBM and prevent planned increases in production, and could materially reduce our revenues and dividends from the Kazakhstan Subsidiaries.

KBM is experiencing rising input prices, and it may not be successful in its attempt to utilize gas and water from the oilfield in its production process.

The oil production process requires the input of natural gas, water, chemicals and electricity. In 2006, KBM's expenditure on natural gas increased substantially to US$8.1 million from US$3.3 million in 2005 due primarily to increases in natural gas prices in 2006. In 2006, KBM's expenditure on water also increased to US$3.4 million from US$2.8 million in 2005 due primarily to increases in water prices, and we expect the cost of water to continue to increase in 2007. KBM is attempting to reduce its natural gas cost by capturing and storing natural gas output incidental to its oil production for use in its production process. KBM also plans to reduce water cost by using local underground water instead of commercially-obtained water during its production process. There can be no assurance that it will be successful in these efforts, or that these measures will result in actual cost savings. If KBM is unable to realize these cost savings, we expect the input costs of KBM's production process to continue to be subject to price increases in the future. Furthermore, unforeseen difficulties with the use in KBM's production process of natural gas and water produced in the Karazhanbas oilfield may damage our equipment or slow down its production process. For example, KBM will need to maintain the natural gas used in its facilities at the appropriate pressure and temperature to operate its equipment, and must clean the local underground water so as to avoid mineral accumulation in its equipment. Failure to manage these resources properly could lead to the interruption of KBM's operations and the deterioration of its equipment.

If the KMG Option is exercised, we will face management challenges associated with joint operation of the Kazakhstan Subsidiaries with KMG.

If the KMG Option under the Heads of Agreement is exercised, KMG will hold an effective 50.0% voting interest in each of the Kazakhstan Subsidiaries. As a result, we will operate the Karazhanbas oilfield in Kazakhstan with KMG jointly as to 50.0% each (exclusive of certain non-voting shares of KBM) in accordance with a shareholders' agreement to be entered into between the parties, or the Shareholders' Agreement, or, if no such agreement is entered into, with the Heads of Agreement. In particular, the Heads of Agreement provides for joint control and representation on the board of directors of the Kazakhstan Subsidiaries. During the five years following the exercise of the KMG Option, the chief executive officer and technical director would be appointed by us. During the same period, KMG would appoint the deputy chief executive officer and chief financial officer. During the five years starting from the sixth year following the exercise of the KMG Option, the chief executive

officer and technical director would be appointed by KMG. During the same period, we would appoint the deputy chief executive officer and chief financial officer. During the term of joint operation, each of KMG and us would appoint one marketing and commercial director. In addition, certain decisions critical to the operation of the Kazakhstan Subsidiaries would require unanimous approval by the board or the shareholders. For example, the Heads of Agreement requires unanimous approval by the board of directors be obtained for such matters as setting the annual work program, approval of capital expenditures, entry into certain long-term material contracts and amendment of the dividend policy. The Heads of Agreement also requires unanimous approval by the shareholders to be obtained for such matters as entry into new businesses, or substantial expansion of business by any of the Kazakhstan Subsidiaries outside its scope as approved in accordance with the annual work program. See "The Proposed Acquisition—The KMG Option".

Joint operation of the Kazakhstan Subsidiaries with KMG, in particular, the day-to-day management of the Karazhanbas oilfield, will require cooperation of the relevant appointees representing KMG and us on an ongoing basis. We have no prior operating experience with KMG. There is no assurance that we will be able to smoothly and successfully operate the Kazakhstan Subsidiaries jointly with KMG if the KMG Option is exercised. If in the future we are unable to agree with KMG on certain decisions critical to the operation of the Kazakhstan Subsidiaries, such as the appropriate development plans or capital expenditures for the Karazhanbas oilfield, or our appointees fail to effectively cooperate in managing the operations of the Kazakhstan Subsidiaries, our future revenues and results of operations could be materially adversely affected. Further, because starting from the sixth year following the exercise of the KMG Option, KMG will appoint the chief executive officer of the Kazakhstan Subsidiaries, this may potentially lessen the degree of our control over the day-to-day operation of the Karazhanbas oilfield. With this lessening of control, we may not be able to operate the Karazhanbas oilfield in accordance with our long-term plan and our ability to generate cash flow to service our payment obligations under the Notes may be materially adversely affected.

The Sale and Purchase Agreement and the Arrangement Agreement provide us limited recourse.

We entered into the Sale and Purchase Agreement to conditionally acquire the entire issued share capital of Renowned Nation Limited and thereby 50.0% of CITIC Group's indirect voting interest in the Kazakhstan Subsidiaries. The Sale and Purchase Agreement contains certain representations and warranties given by CITIC Group in respect of Renowned Nation Limited and its subsidiaries, including the Kazakhstan Subsidiaries. With the exception of certain representations and warranties which will survive the completion of the Sale and Purchase Agreement, or the Surviving Warranties, most of the representations and warranties given by CITIC Group under the Sale and Purchase Agreement in respect of the transferred issued share capital of Renowned Nation Limited and its indirect voting interest in the Kazakhstan Subsidiaries will lapse at the completion of the Sale and Purchase Agreement. In other words, other than matters covered by the Surviving Warranties, we have no remedy against CITIC Group in the event of breach of representations and warranties under the Sale and Purchase Agreement and we are deemed to have waived our rights and remedies to claim for any such breach. Further, the representations and warranties are given on the basis that they are true, accurate and not misleading at the date of the Sale and Purchase Agreement and at the date of the completion of the Sale and Purchase Agreement, being a business day nominated by us that is no more than three months after all the conditions under the Sale and Purchase Agreement are satisfied or waived, or such other business day as CITIC Group and we may agree in writing that is no later than December 31, 2007. As a result, other than limited matters covered by the Surviving Warranties, we will have limited recourse against CITIC Group in the event of any breach of representations and warranties under the Sale and Purchase Agreement.

Fluctuations in the exchange rates of the U.S. dollar in relation to the Kazakhstan Tenge may materially adversely affect KBM's financial condition and results of operations.

Export sales of oil by KBM are denominated in U.S. dollars, while its domestic sales of oil are denominated in Kazakhstan Tenge. KBM's operating expenses are primarily denominated in Kazakhstan Tenge. Therefore, KBM is exposed to the risk of fluctuations in the exchange rates of the U.S. dollar in relation to the Kazakhstan

Tenge. Between the introduction of the Tenge in 1993 as the national currency of Kazakhstan and 2002, the value of the Tenge against the U.S. dollar decreased. From 2003, the value of the Tenge against the U.S. dollar has generally increased, ranging from 144.2 Tenge = US$1 at December 31, 2003 to 127.0 Tenge = US$1 at December 31, 2006. There is no certainty as to whether the Kazakhstan Tenge will continue to appreciate in value in relation to the U.S. dollar. If the Tenge continues to appreciate in value in relation to the U.S. dollar, KBM will spend a greater portion of its U.S. dollar-denominated income to settle its Tenge-denominated operating expenses.

The Karazhanbas oilfield has at times suffered from poor oilfield development; significant capital expenditures planned for the oilfield may not yield the anticipated increases in oil production and will increase our operating costs.

During the Soviet and post-Soviet eras, the Karazhanbas oilfield at times suffered from poor oilfield development strategies as well as lack of capital investment to maintain production. Experimental lifting technologies implemented during the Soviet and post-Soviet era may have reduced proven reserves, while excessive water flooding of wells and lack of capital expenditure have reduced production in some wells and led to other wells becoming inactive. We plan significant investment to reactivate wells and improve production in all of the Karazhanbas wells. However, our well reactivation plan and production improvement technologies may not yield the anticipated increases in oil production. Significant capital expenditures to increase production may also result in our realizing lower margins per barrel of oil produced than those historically experienced by the Kazakhstan Subsidiaries.

The Karazhanbas oilfield typically experiences production slowdowns during the winter season as water contained in the oil wells freezes, significantly slowing or halting lifting. Oil also freezes at a temperature of -26 degrees Celsius, and this temperature can be reached within the Karazhanbas wells during the winter season. While we can continue to lift oil during periods of severely cold weather, we do so at a decreased rate and increased cost as we take measures to heat the well with steam, and further heat lifted oil so that it may travel through our pipelines. As a result, the Kazakhstan Subsidiaries' revenues have historically been adversely affected during the winter season. Our revenues from the Kazakhstan Subsidiaries may in the future decline, and our operating costs increase, during the winter season.

Failure to successfully recruit and retain professionals could materially adversely affect our future operations in Kazakhstan.

The Kazakhstan Subsidiaries face strong competition for competent oil industry professionals due to the lack of employees with a high level of engineering, accounting, legal and operating skills in Kazakhstan, the rapid increase in demand for services accompanying the growth in the domestic oil and gas business, and the relatively remote location of the Karazhanbas oilfield compared to other Kazakhstan businesses with which the Kazakhstan Subsidiaries compete for employees. Although the Kazakhstan Subsidiaries believe that they offer their professional employees, such as engineers, accountants, legal and marketing personnel, compensation competitive with other oil and gas employers, the Kazakhstan Subsidiaries have experienced turnover of their professional employees. This is especially true at the junior level, where employees tend to migrate to other oil and gas producers for more attractive career advancement prospects. If we are unable to improve retention of professionals at the Kazakhstan Subsidiaries, we may not have sufficient professionals on our staff to operate the oilfield at our planned increased level of production, may not be able to properly manage our financial and other internal records, and may not otherwise have the staff on hand to manage the legal and operational aspects of our business. This in turn could diminish oil production, result in the failure to maintain accurate books and records and lead to unforeseen or avoidable losses and liabilities.

The Kazakhstan Subsidiaries are exposed to a variety of political and country risks, including the risk of adverse sovereign action by the Kazakhstan government, which could adversely affect their businesses.

Since its independence in 1991, Kazakhstan has encountered challenges commonly faced by members of the commonwealth of independent states of the former Soviet Union, or the Commonwealth of Independent States, including instituting political systems and developing a rule of law. The oil and gas industry is critical to Kazakhstan's economy and its future prospects. Therefore, the oil and gas industry has been and is expected to continue to be the focus of continuing political and social attention and debate. Similar to circumstances existing in other developing countries, oil and gas producers in Kazakhstan are exposed to the risks of expropriation or nationalization without prompt, effective and adequate compensation, breach or abrogation of oil and gas project agreements, denial of required permits and approvals, increases in royalty rates and taxes, foreign exchange controls and restrictions, wars, changes of government, political violence and civil unrest, corruption, uncertainties in relation to enforcement and interpretation of law, and an unpredictable judicial system. Any of the foregoing risks could result in a material adverse effect on the business, financial condition and results of operations of the Kazakhstan Subsidiaries.

Kazakhstan continues to undergo substantial economic and social changes, creating uncertainties for our future operations in Kazakhstan.

Kazakhstan continues to undergo substantial economic and social changes. As an emerging market, Kazakhstan does not possess a well-developed economic, social, business and regulatory framework that would generally exist in a more mature market economy. Furthermore, the Kazakhstan government has not yet fully implemented the reforms necessary to create banking, judicial, taxation and regulatory systems that usually exist in more developed markets. As a result, our future operations in Kazakhstan involve risks not typically associated with similar operations in more developed markets. Although the rate of inflation has stabilized in Kazakhstan in recent years, certain risks persist in the current environment resulting in, among other things, a currency that is not freely convertible outside the country, various currency controls, undeveloped debt and equity markets characterized by low liquidity levels, and a society that has only recently been changed to a market-oriented economy after being a centrally-planned socialist economy for many years as part of the former Soviet Union. We could be affected, for the foreseeable future, by these risks and their consequences. We are unable to estimate what changes may occur in the fundamental business infrastructure in which the Kazakhstan Subsidiaries operate or the resulting effect of any such changes on our future financial position or results of operations.

Since its independence from the Soviet Union in December 1991, Kazakhstan has been undergoing a rapid and uneven economic and social transition to a market-oriented economy. In addition, instability in other countries, such as Russia, has affected the economic conditions in Kazakhstan in the past, and may materially affect them in the future. There is no assurance that the economic and social policies of the Kazakhstan government will be successful in improving economic and social conditions or that the transition to a market-oriented economy will be accomplished. Adverse economic or social conditions in Kazakhstan could have a material adverse effect on our future operations in Kazakhstan after completion of the Proposed Acquisition.

A downgrade of the credit ratings of Kazakhstan or companies with operations in Kazakhstan could materially adversely affect the market price of the Notes.

On September 19, 2002, Kazakhstan was rated by an international credit rating agency as Baa3 and became the first country in the Commonwealth of Independent States to reach an investment grade status. Factors considered in establishing a sovereign rating include the economic and social condition of the country, and its legal and political systems. Companies operating in Kazakhstan contribute to the national economy and therefore could have an impact on the sovereign rating of Kazakhstan. Moreover, the market price of the Notes listed on the SGX-ST could be affected by the sovereign rating of Kazakhstan and companies with operations in Kazakhstan. There is no assurance that Kazakhstan will be able to maintain or improve its sovereign rating. In the event of a downgrade of the sovereign ratings of Kazakhstan or companies with operations in Kazakhstan, the market price of the Notes could be materially adversely affected.

The operations of the Kazakhstan Subsidiaries are dependent upon the maintenance of current, valid and effective licenses and agreements.

The Kazakhstan Subsidiaries rely on current, valid and effective licenses and agreements for their ongoing operation. Their exploration and production licenses and the hydrocarbon contract entered into between KBM and MEMR on May 23, 1997, or the Hydrocarbon Contract, and other agreements may be susceptible to revision or cancellation, and legal remedies may be uncertain, delayed or unavailable. In addition, it is often difficult to determine from governmental records whether statutory and corporate actions have been properly completed by the parties or applicable regulatory agencies. In some cases, failure to properly complete the actions may call into question the validity of the entity or the actions taken. Examples include corporate registration or amendments, capital contributions, transfers of assets or issuances or transfers of capital stock. Maintenance of current, valid and effective licenses and hydrocarbon contracts requires careful monitoring of performance of the terms of the licenses and hydrocarbon contracts, and monitoring of the evolution of Kazakhstan laws and licensing practices. The uncertainties, inconsistencies and contradictions in Kazakhstan laws and regulations and their interpretation and application could have a material adverse effect on keeping relevant licenses and agreements current, valid and effective. If the necessary licenses and agreements were found to be outdated, invalid, ineffective or revoked, the Kazakhstan Subsidiaries would not be able to continue their operations, which could result in our default under the Notes.

We may be subject to substantial environmental liabilities.

Extensive national, regional and local environmental laws and regulations affect nearly all aspects of our proposed operations in Kazakhstan. These laws and regulations set standards regulating various aspects of health and environmental protection, provide for user fees, penalties and other liabilities for the violation of those standards and establish, in some circumstances, obligations to remediate current and former facilities and off-site locations.

If we complete the Proposed Acquisition, we may be subject to risks associated with significant liability for discharges into the environment or environmental damage caused by non-compliance with environmental laws or regulations. That liability could have a material adverse effect on our results of operations. Moreover, we cannot predict what environmental legislation or regulations will be enacted in the future or how existing or future laws or regulations will be administered or enforced. In the future, compliance with more stringent laws or regulations, or the introduction of more vigorous enforcement policies by any regulatory agency, could require material expenditure for the installation and operation of systems and equipment for remedial measures, any or all of which could have a material adverse effect on our results of operations.

KBM and its predecessors have operated in Kazakhstan for many years, during which time certain environmental problems have developed. Common to other oil producers in Kazakhstan, the Kazakhstan Subsidiaries have been liable for payment of fines and penalties resulting from occasional violations of environmental protection laws and regulations. Environmental regulations are currently in a state of transition in Kazakhstan and we are assessing, and will continue to assess, the obligations and liabilities that will be imposed on KBM by such regulations. As such obligations and liabilities are determined, we will either provide for these over the estimated remaining lives of the relevant oil properties or recognize them immediately, depending on their nature. The outcome of environmental liabilities under current or any future environmental legislation cannot reasonably be estimated at present and could be material.

For example, in late 2006, new regulations on natural gas flaring aimed at mitigating environmental impact became effective in Kazakhstan. The regulations stipulate the payment of fines for flaring gas in excess of permitted limits and ultimately prohibit natural gas flaring. Although KBM is in the process of installing gas compression and dehydration facilities to reduce natural gas flaring to a permitted level during the transition phase of the new regulations and to ultimately eliminate natural gas flaring, there is no assurance that KBM will be successful in such efforts. If this is the case, KBM could be subject to fines or required to curtail its production in which case the business, financial condition and results of operations of the Kazakhstan Subsidiaries could be materially adversely affected.

Changes in Kazakhstan's laws and regulations and the interpretation thereof may adversely affect the Kazakhstan Subsidiaries' businesses.

Kazakhstan laws and regulations generally provide protection for investors against expropriation without proper compensation for losses incurred, retroactive application of new laws except in limited circumstances where a law, when adopted, specifically provides that the new law has retroactive force and the imposition of environmental liabilities resulting from conditions and activities existing prior to investment. Given Kazakhstan's short legislative, judicial and administrative history, we cannot predict how the legislative protections will be applied and whether future changes in the political environment in Kazakhstan will have an impact on Kazakhstan's laws and regulations or the interpretation thereof, or the effect of such changes on the Kazakhstan Subsidiaries' businesses, results of operations and financial condition. Kazakhstan's foreign investment, petroleum, subsoil use, licensing, corporate income tax, customs, currency, banking, antimonopoly, and national security laws and legislation are still developing and uncertain. Legislation in respect of some or all of these or other areas could be passed. Currently, the regulatory system contains many inconsistencies and contradictions. Many of the laws are structured to provide substantial administrative discretion in their application and enforcement. In addition, the laws are subject to changing and different interpretations. As a result of these factors, even the Kazakhstan Subsidiaries' best efforts to comply with applicable law may not always result in compliance and non-compliance may have consequences disproportionate to the violation.

The Kazakhstan Subsidiaries are in the process of improving their management information systems.

The Kazakhstan Subsidiaries recognize the need to improve their management information systems on an ongoing basis, in particular to integrate the systems used for financial accounting, which they believe is necessary for their businesses to be operated effectively and independently. For example, KBM is in the process of improving its management information system in relation to inventory control such that it integrates with the system used for financial accounting to address the mismatches of the level of inventory recorded in these two systems. It is not possible to quantify the impact, or guarantee the completion date of improvement or integration of the relevant systems. Failure to improve or to fully integrate these systems could result in preparation of inaccurate management and financial information critical for the business operations of the Kazakhstan Subsidiaries. In addition, the Kazakhstan Subsidiaries are currently assessing their internal audit function and, if necessary, the Kazakhstan Subsidiaries may incur additional expenditure to bring the internal audit function to an appropriate level. The Kazakhstan Subsidiaries also lack a disaster recovery system but are currently drawing up a plan to remedy this and expect an adequate system to be in place in the near future. Damage to the Kazakhstan Subsidiaries' headquarters could lead to a total loss of systems and data. Any failures in the Kazakhstan Subsidiaries' information technology systems, either directly or as a result of security breaches, could have an adverse effect on the Kazakhstan Subsidiaries' business, prospects, financial condition or results of operations.

The Kazakhstan Subsidiaries are subject to an uncertain tax environment which may lead to disputes with taxation authorities.

The Kazakhstan Subsidiaries are subject to local and national tax regimes in Kazakhstan. The local and national tax environment in Kazakhstan changes frequently and the rules implementing those changes are usually not established on a timely basis. Non-compliance with Kazakhstan tax laws and regulations can lead to the imposition of substantial penalties and interest. While certain of the Kazakhstan Subsidiaries' tax obligations are clearly established pursuant to tax stabilization clauses in the hydrocarbon contract, some obligations are linked to the tax regulations. Future tax investigations or inquiries could raise issues or could result in assessments to which the Kazakhstan Subsidiaries believe they are not subject or with which the Kazakhstan Subsidiaries believe they have complied.

The Kazakhstan Subsidiaries are subject to periodic audits, reviews and inspections by different national and local government regulators in Kazakhstan. These include tax audits every three years. In December 2005, the Inter-regional Tax Committee of Kazakhstan, after completing its tax audit from 2002 to 2004, filed a claim

against KBM and TMS seeking additional tax accruals, penalties and fines in an aggregate amount of approximately US$91.2 million arising from impermissible deduction of losses incurred from hedging transactions, impermissible deduction of management fee expenses and impermissible application of the preferential withholding tax rate on dividend distributions to Nations Energy Company Ltd., or Nations, now known as CCPL, pursuant to the avoidance of double taxation treaty between Canada and Kazakhstan. KBM and TMS denied these claims and, with the exception of two small amounts, KBM and TMS successfully defended the claims in July 2006 and the Collegium of Astana City Court denied the appeal by the Inter-regional Tax Committee in November 2006. There is no assurance, however, that similar tax claims against the Kazakhstan Subsidiaries will not recur as a result of periodical tax audits or, if they were to recur, that the Kazakhstan Subsidiaries would be successful in defending the claims.

The current penalties and interest related to reported or investigated violations of Kazakhstan law, decrees and related regulations are severe. Penalties can include fines equal to 50.0% of the amount at issue. Under the current tax code, interest on unpaid taxes is compounded daily on a 365-day basis at an annual rate equal to 2.5 times the refinancing rate set by the National Bank of Kazakhstan. Accordingly, based on the current refinancing rate of 9.0% per annum, interest on unpaid taxes is assessable at a rate of 0.06% compounded daily. As a result, penalties can amount to significant percentages of any unreported and unpaid taxes.

U.S. persons, including U.S. underwriters and U.S. investors in the Notes, are exposed to risks associated with directly or indirectly doing business in countries subject to sanctions by the United States.

U.S. Persons are required to comply with U.S. sanctions measures administered by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") pursuant to the U.S. Economic Sanctions Laws. The U.S. Economic Sanctions Laws generally prohibit U.S. incorporated entities, U.S. citizens, U.S. permanent residents and entities and individuals located in the United States (collectively, "Subject Persons") from engaging in commercial, financial or trade transactions with Iran, Cuba, Sudan, Syria and Burma ("Targeted Countries"), or from facilitating the transactions of third-country nationals with Targeted Countries that U.S. Persons could not engage in directly. This may include the financing of trade and investment transactions involving Targeted Countries through the purchase of securities of companies engaged in such trade transactions. Non-compliance with U.S. sanctions measures administered by OFAC may lead to criminal and civil penalties.

While neither the Issuer, the Guarantor nor KBM has business operations, subsidiaries or affiliated entities in any Targeted Countries, KBM has in the second half of 2006 and the first quarter of 2007 sold a substantial portion of its oil production to distributors which in turn have sold this oil to Iranian companies. In addition, other Guarantor subsidiaries have historically sold minimal amounts of other products through distributors to Iran. The Issuer and the Guarantor have covenanted not to sell oil, or permit the sale of oil by any subsidiary of the Guarantor (including, without limitation, KBM after completion of the Proposed Acquisition), or by any customer or distributor with whom the Guarantor or any of its subsidiaries (including, without limitation, KBM after completion of the Proposed Acquisition) has a contractual relationship, to Iran after the date of closing the Proposed Acquisition and to ensure that the conduct of their business does not, and the use of proceeds from this offering will not, result in the violation of the U.S. Economic Sanctions Laws by a Subject Person. If KBM, the Guarantor, or their respective subsidiaries or contracted customers or distributors continue to directly or indirectly sell oil from the Karazhanbas oilfield, or other products and services, to Iran or to other Targeted Countries, Subject Persons who purchase the Notes may be subject to criminal and civil penalties.

For the purpose of the preceding paragraphs, the term "U.S. Economic Sanctions Laws" includes all U.S. sanctions administered by OFAC, including but not limited to U.S. regulations codified in Chapter V of title 31, U.S. Code of Federal Regulations, all U.S. Executive orders, proclamations, and regulations issued under the authority of the Trading with the Enemy Act, the International Emergency Economic Powers Act, the International Security and Development Cooperation Act, the Antiterrorism and Effective Death Penalty Act, the Cuban Liberty and Democratic Solidarity (Libertad) Act and the United Nations Participation Act, the aforementioned statutes themselves and all orders, licenses or rules issued under the authority of any of the foregoing.

The Kazakhstan Subsidiaries' insurance coverage may not be adequate for covering losses arising from potential operational hazards and unforeseen interruptions.

The Kazakhstan Subsidiaries believe the level of their insurance is appropriate based on the cost of covering the risks associated with their business and industry practice. The Kazakhstan Subsidiaries' insurance currently includes, among others items, employer's liability, third party liability, physical damage of property, business interruption, physical damage to drilling rigs, automobile liability and directors' and officers' liability insurance. However, the Kazakhstan Subsidiaries do not carry any key-man, terrorism or sabotage insurance. The Kazakhstan Subsidiaries can give no assurance that the proceeds of insurance applicable to covered risks will be adequate to cover increased expenses relating to these losses or liabilities. Accordingly, the Kazakhstan Subsidiaries may suffer material losses from uninsurable or uninsured risks.

KBM is involved in several legal proceedings, the outcome of which may materially adversely affect our operation after completion of the Proposed Acquisition.

KBM is named as one of the defendants in several legal proceedings filed by Thomas de Shazo, or de Shazo, in several jurisdictions, on different grounds and at different times. See "The Proposed Acquisition—Legal Proceedings". The remedies sought by de Shazo in these proceedings primarily include monetary damages. Although Ecolo Investments Ltd., or Ecolo, undertook to indemnify CITIC Group, CCEL and CCPL, formerly known as Nations, against losses which may arise from claims filed by de Shazo pursuant to an indemnity agreement dated October 25, 2006, the ability of the indemnifier to perform its obligations under the indemnity may not be sufficient to cover the losses if KBM is required to pay a substantial amount of damages. The legal proceedings filed by de Shazo and other parties in several jurisdictions are pending and the plaintiffs may seek additional remedies such as granting of shares in KBM. In the event that the courts were to render a judgment granting any plaintiff shares in KBM, the relevant plaintiff would become a shareholder of KBM. If this occurs, such issue of shares to a third party would result in our being required to offer to redeem the Notes. Further, even if not all of the Notes were redeemed, following such issue of shares, we would be required to jointly operate KBM with such additional shareholder and we could face challenges associated with joint operation of a subsidiary with third parties. For example, if we are not able to come to an agreement among a majority of KBM shareholders on the long-term development plan for the Karazhanbas oilfield, we may not be able to achieve our business objectives to increase production.

Risks Relating to Our Historical Business

We have a limited operating history in the natural resources and in the import and export trading of commodities industries and, in particular, the oil industry, and there can be no assurance that we will be able to operate successfully or efficiently.

We have a limited operating history in the natural resources and commodities import and export industries. Prior to 2004, we were primarily engaged in the manufacture and sale of plywood. Beginning from the first quarter of 2004, we became a natural resources provider by acquiring business interests in aluminum smelting, coal mining, and engaging in import and export trading of commodities. We commenced manganese mining and processing in March 2006. In particular, we have limited operating history in the oil business. We made our first investment in the oil and gas sector in 2004 by acquiring a 40.0% participating interest in the Kongnan Block within the Dagang oilfield in the PRC, which we subsequently converted into common shares in, and a loan due from, Ivanhoe in February 2006. We made this investment without active involvement in the day-to-day operation of the oilfield. We did not become actively involved in the operation, development, exploration and production of an oilfield until November 2006, when we acquired the Oil Interest in Indonesia. Further, we expect the scale of our oil business to significantly increase after the completion of the Proposed Acquisition. See "The Proposed Acquisition".

As a relatively new entrant to the natural resources and commodities industries and, in particular, the oil industry, we are subject to the risks and uncertainties that a company may face during its initial development stage. Some of these risks and uncertainties relate to our ability to successfully transition to a new industry, integrate acquired businesses, manage our significantly increased scale of operation, identify new business opportunities, attract and retain customers on a cost-effective basis, expand and enhance our product and service offerings, raise additional capital and respond to competitive market conditions. In addition, achieving the integration of various business segments in our relatively new, and expanding, oil business will present challenges to management with respect to the integration of operations and personnel and the implementation of an effective management information system. We may not be able to address these risks and successfully overcome these challenges adequately, and there can be no assurance that we will be able to diversify our business portfolio, implement our business strategy or operate successfully or efficiently.

Our operating results have varied significantly in the past, and may vary significantly in the future, due to a number of factors, many of which are beyond our control. Prior to 2003, we incurred losses and we have only been profitable since 2004 following our business reorganization. There can be no assurance that our profitability will be sustained. Our profitability is generally subject to the prices of commodities and natural resources, which tend to be highly volatile and cyclical. In addition, our results of operations have fluctuated, and are expected to continue to fluctuate due to acquisitions of additional businesses and further investments. As a result, we believe that year-to-year comparisons of our past operating results may not be indicative of our future performance. Furthermore, failure on our part to meet market or analyst expectations of our future financial performance could result in a downgrade in the rating of the Notes.

Failure to successfully carry out acquisitions under our current growth strategy could materially adversely affect our results of operations, financial condition and business prospects.

An important element of our current growth strategy is the Proposed Acquisition and other acquisitions of, investments in, or entering into joint venture arrangements with, businesses in our target natural resources sectors. For further details regarding risks relating to the Proposed Acquisition and operation of the Kazakhstan Subsidiaries, see "—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries". Consequently, our growth will, to a great extent, depend on our ability to identify attractive acquisition and investment opportunities or joint venture candidates, obtain required approvals from relevant regulatory authorities, complete acquisitions, investment or joint venture transactions on satisfactory terms and integrate the acquired businesses or joint ventures into our existing operations. There is no assurance that we can successfully identify attractive acquisition, investment or joint venture targets.

Natural resources companies are highly regulated in many countries, and there may be significant regulatory hurdles to overcome to complete acquisitions or investments. For example, in January 2005, the Guarantor entered into an agreement with a subsidiary of Chevron Corporation to establish a wholly foreign owned enterprise to operate Caltex branded petroleum/gasoline stations in southern China. Although the transaction had been expected to be completed in the first half of 2005, the requisite government approvals remained outstanding on June 7, 2006, the deadline by which the approvals had to be obtained under the agreement. As a result, the agreement lapsed and the transaction did not close. There is no assurance that the requisite approvals will be obtained in respect of any other transactions that we may wish to enter into in the future, including the Proposed Acquisition.

In addition to potential regulatory hurdles, an acquisition, investment or joint venture transaction may be delayed or terminated because of failure to agree upon final terms with the counterparty or joint venture partner, failure to obtain necessary board or shareholder approvals, failure to secure necessary financing, adverse market conditions or unexpected financial or other problems in the counterparty's or joint venture partner's business. Furthermore, in part due to the increasing global demand for energy and other natural resources, the competition for attractive acquisition targets in these sectors has been, and is expected to remain, intense in both the PRC and the rest of the world.

There are also numerous risks associated with business combinations, investments and joint ventures, and we may not be able to successfully integrate the acquired businesses or generate the anticipated synergies or strategic benefits. In particular, we have had only a limited track record in carrying out acquisition, investment and joint venture transactions since we started to implement this strategy in early 2004, and the acquisition, investment and joint venture transactions engaged in so far are relatively small in terms of scale as compared to the Proposed Acquisition. Therefore, we do not have substantial experience in integrating large-scale acquisition, investment or joint venture projects. Failure to successfully carry out our acquisition strategy in the future could materially adversely affect our results of operations, financial condition and business prospects.

Our profits may be adversely affected by exchange rate fluctuations.

The value of our assets, our earnings and cash flows are influenced by a variety of currencies due to the geographic diversity of our business interests. Fluctuations in the exchange rate of those currencies may have a significant impact on our financial results. The Hong Kong dollar is the currency in which the Guarantor reports its financial results. However, currently the U.S. dollar is the currency in which the majority of our sales are generally denominated. In addition, operating costs are influenced by the currencies of the jurisdictions in which our operations, joint ventures and other business interests are located, and currently most of our operating costs are denominated in Australian dollars, Renminbi, U.S. dollars and Indonesian rupiah. We expect that a significant portion of our operating costs will be denominated in the Kazakhstan Tenge after completion of the Proposed Acquisition. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—Fluctuations in the exchange rates of the U.S. dollar in relation to the Kazakhstan Tenge may materially adversely affect KBM's financial condition and results of operations". As a result, in any particular year, fluctuations in the exchange rates of the local currencies of the relevant countries in which we operate, in particular, the Australian dollar and Indonesian rupiah, and prospectively, the Kazakhstan Tenge, may have a significant impact on our results of operations or financial condition.

An economic slowdown in the PRC may adversely affect our financial condition and results of operations, as well as our future prospects.

The PRC is an important market for us. We currently derive, and expect to continue to derive, a significant portion of our revenue from sales of natural resources and the import and export of commodities to or from customers in the PRC, either directly or indirectly through our subsidiaries, investments and joint ventures. Accordingly, our financial condition and results of operations are to a large extent dependent on the economic conditions in the PRC. Over the last ten years, as a result of the PRC's rapid economic growth, the PRC has become a significant source of global demand for natural resources and commodities. The PRC's GDP has grown at a compound annual growth rate of 13.1% from 1998 to 2006, based on data published by the National Bureau of Statistics of China. There can be no assurance that such growth can be sustained in the future. A slowdown in the economic growth of the PRC may significantly reduce the demand for natural resources and commodities, and materially adversely affect our results of operations.

We are exposed to market and credit risks from our hedging activities, and the use of hedging instruments could result in financial losses that adversely affect our results of operations, liquidity and financial condition.

We enter into derivative transactions to hedge against our exposure to adverse changes in aluminum prices, interest rates and foreign exchange rates. We also expect to enter into derivative transactions to hedge against our exposure to adverse changes in oil prices following the Proposed Acquisition. The use of derivative instruments to hedge against downward changes in oil prices could, in the event of a rise in oil prices, limit our potential gains from oil sales. In addition, the derivative transactions we enter into may not be sufficient to cover our financial losses if our production volume exceeds the extent of our hedging transactions.

Further, our use of these derivatives, in general, results in us being subject to market and credit risks, including counterparty credit risks, the risk of earning lesser income and the risk of incurring financial losses, if

foreign exchange rates move contrary to expectations or if our risk management procedures prove to be inadequate. These risks could result in credit or derivative-related charges and losses independent of the relative strength of our business, which could adversely affect our results of operations, liquidity and financial condition.

In addition, whether a derivative qualifies for hedge accounting under HKFRS depends upon it meeting specific criteria used to determine whether hedge accounting is and will remain appropriate for the term of the derivative. Economic hedges will not necessarily qualify for hedge accounting treatment. As a result, the accounting treatment for hedging activities may increase the volatility in our operating results in any given period.

Disputes among joint venture partners over joint venture obligations could significantly affect the financial condition and results of operations of our businesses, and we may not be able to effectively control or influence the decision-making process of a joint venture or an entity in which we hold a minority interest.

A significant portion of our business, including our aluminum, coal, manganese and oil businesses, is conducted through joint ventures and cooperation agreements. Cooperation among the joint venture and other partners on existing and future decisions is an important factor for the sound operation and financial success of such businesses. Although we may influence material decisions of our joint ventures through our representatives to the extent we are able to do so, we are generally not able to fully control the decision-making process of these joint ventures without involving the other joint venture partners. Disputes among joint venture partners could significantly affect the financial condition and results of operations of these businesses.

Furthermore, from time to time, we may hold a minority participating interest in joint ventures or a minority interest in other business entities. To the extent we hold such minority interests, we may not be able to effectively control or influence the management of such joint ventures' or entities' business operations and affairs. As a result, we may face numerous business and other risks that are beyond our control, which may significantly affect the financial condition and results of operations of these businesses and, in turn, our returns from these investments.

Our operations are vulnerable to significant operating hazards, natural disasters and other circumstances that are beyond our control and for which we have limited insurance.

Substantially all of our revenue is derived from operations in aluminum smelting, coal mining, import and export trading of commodities, manganese mining and processing and oil exploration, development and production businesses. Transportation disruptions, power shortages, weather and natural disasters such as cyclones and flooding, unexpected maintenance problems, collapse of or damage to wells and pit walls, unexpected geological variations and industrial accidents are some of the factors that may significantly disrupt the operations of these businesses. In particular, we expect our exposure to adverse weather conditions to increase after completion of the Proposed Acquisition. See "—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—The Karazhanbas oilfield has at times suffered from poor oilfield development; significant capital expenditures planned for the oilfield may not yield the anticipated increases in oil production and will increase our operating costs". Our drilling and oil production operations also involve many risks and hazards, including industry accidents such as fire, explosions, blowouts, cratering and oil spills, each of which could result in substantial damage to our oil wells, production facilities and property, the environment and personal injury. In addition, our oil production operations are subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations. Moreover, the Seram Island Non-Bula Block, the area in which we carry out our oil business in Indonesia, is subject to earthquakes, landslides and tsunamis. In the event of their occurrence, our business operations may be disrupted. We expect that our operations in Kazakhstan after the completion of the Proposed Acquisition would be exposed to similar risks. For further details, see "—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries".

We are not fully insured against all of these risks, nor are all of these risks insurable. Although we maintain liability insurance in amounts which we consider adequate, the nature of these risks is such that liabilities could exceed policy limits, in which event significant costs could be incurred which could have a material adverse effect on our financial condition.

Our business could suffer if we are unable to recruit and retain skilled employees and management.

Our success depends to a significant extent upon our ability to attract, retain and motivate qualified personnel to implement our growth strategies. In particular, as we seek to increase the extent of our participation in the management and operations of our investments and joint ventures, the ability to attract and retain qualified personnel with relevant industry experience and operational expertise will become increasingly important. We face extensive competition in recruiting and retaining qualified personnel. If we are unable to recruit and retain qualified personnel, our business could be materially adversely affected.

In addition, our management structure is streamlined and, as a result, we rely heavily on a core senior management team. The unexpected loss of the services of one or more members of the senior management could have a negative impact on our results of operations and business prospects.

Failure to manage our growth could materially adversely affect our business.

We intend to grow rapidly and significantly through acquisition of new businesses and entering into joint venture arrangements. As we grow, our personnel, systems, management resources, procedures and controls may be inadequate to support future operations. We may also need to improve and expand our financial and management controls, reporting systems and operating systems as well as other aspects of our infrastructure. We may also need to hire, train and retain additional personnel. We may encounter difficulties integrating additional personnel, as well as improving, expanding and integrating new systems or facilities, which could materially adversely affect our business.

We are subject to the risk of labor disputes.

We are subject to laws and regulations in relation to labor protection, including representation of employees by labor unions, in the jurisdictions in which we operate. Currently, employees of PAS and CMJV are represented by labor unions. In addition, each of KBM and ATS has entered into a collective bargaining agreement with its employees. The labor union typically represents the majority of employees and assists with legal matters on behalf of employees, monitors compliance with labor laws and internal labor procedures and mediates labor disputes in the case of conflicts and lawsuits against the employer. Although neither we nor the Kazakhstan Subsidiaries have experienced strikes or labor protests in the past, there is no assurance that such events will not occur in the future if we are unable to maintain a satisfactory relationship with our employees. If this occurs, we could experience disruption to our operations which would materially adversely affect our financial condition and results of operations.

Political instability in the countries in which we invest could materially adversely affect our business.

A change of government in the countries in which we invest, or seek to invest, including Australia, Indonesia, Kazakhstan and the PRC could result in political and economic instability or the adoption of new policies that might assume a substantially more hostile attitude toward foreign investment. Furthermore, any such political instability could impede our access to sources of financing for our operations in the future. In particular, Indonesia and Kazakhstan have little history of political stability as independent nations; there is significant potential for social, political, economic, legal and fiscal instability. These risks include, among other things:

(a) local currency devaluation;

(b) change of government, civil disturbances or terrorism;

(c) exchange controls or lack of availability of hard currency;

(d) changes in import, export and transportation regulations;

(e) changes with respect to taxes, royalty rates, import and export tariffs and withholding taxes on distributions to foreign investors;

(f) changes in antimonopoly legislation;

(g) nationalization or expropriation of property; and

(h) interruption or blockage of oil exports.

Any of these factors could have an impact on our operations, which could have a material adverse effect on our financial condition and results of operations.

We may not be able to raise sufficient capital to develop our business successfully.

We will need substantial amounts of capital to fund our operations on an ongoing basis. Businesses in the natural resources and energy industries are capital intensive, and we may in the future need substantial amounts of capital to, among other things:

- fund acquisitions;
- engage in research and exploration to identify mines, wells and other natural resources reserves;
- develop and produce natural resource reserves;
- seek acquisition targets;
- meet the regulatory requirements for our business activities and acquisitions;
- comply with environmental, safety and other regulations;
- service our debts;
- recruit and retain qualified employees; and
- market and distribute our products.

We may need to raise additional funds through additional equity or debt offerings. There can be no assurance, however, that we will have access to sufficient funds on competitive terms, or at all, to operate and grow our business successfully. Failure to raise sufficient additional capital could materially adversely affect our business operations and prospects.

Terrorist attacks could have an adverse effect on our operations.

To date, our operations have not been disrupted by terrorist activity. It is uncertain how terrorist activity will affect us in the future, or what steps, if any, the Australian, Indonesian, Kazakhstan or PRC governments may take in response to terrorist activities. In the event of a terrorist attack in the countries where we maintain our operations, our business, financial condition and results of operations may be materially adversely affected.

Risks Relating to Our Industries

We are subject to risks and hazards associated with drilling and oil production activities.

Our drilling and production operations are subject to all the risks and hazards typically associated with the drilling and production of oil. The risks and hazards include such industry accidents as fire, explosion, blowouts, cratering and oil spills, each of which could result in substantial damage to oil wells, production facilities,

property, the environment and personal injury. Our oil production operations are also subject to all the risks typically associated with those operations, including premature decline of reservoirs and uncontrollable invasion of water into producing formations. We are not fully insured against all of those risks, nor are all of those risks insurable. Although liability insurance is maintained in amounts which are considered adequate, the nature of those risks is such that liabilities could exceed policy limits, in which event significant costs could be incurred which could have a material adverse effect on our financial condition.

Oil reserves data are only estimates and may prove to be inaccurate.

The oil reserves data included in this offering circular represent estimates only. Actual production, revenue, expenditures and future cash flows with respect to our reserves may vary from these estimates, and those variances may be material. Many of the factors, assumptions and variables involved in estimating reserves are beyond our control and, over time, may prove to be incorrect.

In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from these reserves are based on a number of variable factors and assumptions including the following, all of which may vary considerably from actual results:

(a) historical production and operating statistics from the relevant properties;

(b) comparisons with production from other producing areas;

(c) the assumed effects of regulation by governmental agencies;

(d) royalty rates; and

(e) assumptions regarding future oil prices, future operating costs and future capital expenditure.

All estimates are to some degree speculative, based on extensive engineering judgment and classifications of reserves are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil reserves attributable to any particular properties, classification of those reserves based on the risk of recovery and estimates of future net cash flows expected from the properties, whether such estimates are prepared by different engineers or by the same engineers at different times, may vary substantially. The actual results of drilling, testing and production after the date of the estimates may require substantial upward or downward revision. Adverse changes in economic conditions, including a decrease in oil prices, may render it uneconomical to produce from reserves with higher associated production costs.

The present value of estimated future cash flows from reserves referred to in this offering circular should not be interpreted as being the same as the current market value of the estimated proved reserves. The estimated discounted future cash flows from proved reserves are based on prices and costs as of the date of the estimate. Actual future prices and costs, however, may be materially higher or lower. Actual future cash flows will also be affected by a number of factors, including the following:

(a) the amount and timing of actual production;

(b) the supply and demand for oil;

(c) curtailments or increases in consumption by purchasers; and

(d) changes in governmental regulations or royalties.

Some calculations of estimated proved reserves presented in this offering circular are net of value added tax, but do not take into account income taxes, excess profit taxes or other applicable taxes attributable to estimated future net cash flows from the sale of oil. Pre-tax calculations are inconsistent with US GAAP, which require calculations on an after tax basis. These additional taxes may cause actual future cash flows to differ materially from the estimates presented in this offering circular. Finally, discount factors used in this offering circular to

calculate discounted future net pre-tax cash flows from reserves may not be the most appropriate discount factors based on interest rates in effect from time to time and risks associated with our business or the oil industry in general.

The oil industry is highly competitive.

The oil industry is highly competitive. We compete both for acquisitions and in the exploration, development, production and marketing of oil with companies owned or controlled by government entities, major international oil companies, other independent oil and gas concerns and individual producers and operators. Our competitors may be able or willing to pay more for natural gas and oil properties and drilling equipment and to evaluate, bid for and purchase a greater number of properties than our financial or personnel resources currently permit. Moreover, our competitors may have better track records in their businesses, lower costs or more established relationships or history in the oil industry than we do. All of these challenges could make it more difficult for us to execute our growth strategies. We may not be able to compete successfully in the future in acquiring further properties or prospective reserves or in raising additional capital.

Competition is intense for the acquisition of assets considered favorable for the development of oil in commercial quantities. Product availability and price are the principal means of competition in selling oil. Many of our competitors possess greater financial and other resources than ours which may enable them to identify and acquire desirable properties and market their oil production more effectively than we do.

In addition, competition arises not only from the various domestic and foreign sources of oil but also from other industries that supply alternative sources of energy.

Shortages of drilling rigs, equipment and crews could delay our operations in our oil business and reduce our cash available for distribution.

Higher oil prices generally increase the demand for drilling rigs, equipment and crews and can lead to shortages of, and higher costs for, drilling equipment, services and personnel. Shortages of, or higher costs for, experienced drilling crews and oilfield equipment and services could restrict our ability to drill the wells and conduct the operations which we currently have planned and could increase the costs of our operations or adversely affect planned production. Any delay in the drilling of new wells or significant increases in drilling costs could reduce our revenues and cash available for distribution.

Our results of operations and financial condition are subject to highly cyclical and volatile natural resources and commodities prices.

We derive substantially all of our revenues and profits from operating our natural resources and commodities import and export trading businesses directly or indirectly through our subsidiaries, joint ventures and investments. The natural resources and commodities import and export trading businesses are highly cyclical, with prices subject to worldwide market forces of supply and demand and other influences. Prices of natural resources such as oil, alumina, aluminum, iron, coal and manganese have been, and are expected to continue to be, volatile. Historically, the market for natural resources and commodities has experienced alternating periods of increased demand, causing prices and margins to increase, followed by periods of excess supply, causing prices and margins to decline.

In 2006, we derived approximately 29.6% of our operating profit (before interest and unallocated items) from the sale of aluminum. Aluminum prices have fluctuated significantly in the past due to a number of factors, including general economic and market conditions in the United States, the PRC and other major economies. The relative pricing of other materials, such as steel, plastic and glass, which is used as alternatives for aluminum in some applications, also affects the demand for, and the price of, aluminum. In addition, certain aluminum end-use markets, such as the automotive sector and the building and construction sector, are also cyclical. When downturns occur in these sectors, the demand for, and the price of, aluminum also decrease.

In addition, we anticipate the sale of oil to become a significant contributor to our revenues following the Proposed Acquisition. The volume and the price levels at which we are able to sell oil are subject to a number of factors beyond our control.

As a result, a significant or prolonged downturn in the price of oil, aluminum or any other natural resources or commodities sold by us, our joint ventures or investments could materially adversely affect our financial condition and results of operations.

Failure to obtain sufficient amounts of raw materials on acceptable terms could materially adversely affect our results of operations.

Production processes, such as that of aluminum, require substantial amounts of raw materials. The ability to obtain sufficient raw materials that these businesses require on competitive terms, if at all, is dependent on a number of factors beyond our control, including interruptions in production by suppliers, decisions by suppliers to allocate raw materials to other purchasers, price fluctuations and the availability and cost of transportation. Failure to obtain sufficient amounts of raw material on acceptable terms could materially adversely affect our results of operations.

Failure to comply with environmental laws and regulations may materially adversely affect our financial condition and results of operations.

Our operations in aluminum smelting, coal mining, manganese mining and processing and oil exploration, development and production are subject to various local environmental laws relating to the disposal of hazardous materials as well as water, air and noise pollution. For example, PAS and CMJV are subject to extensive laws and regulations promulgated by the Australian government. In addition, environmental laws are subject to change, and changes to environmental laws may significantly increase the cost of compliance or result in business interruptions. Failure to comply with applicable environmental laws could result in significant fines, penalties and other sanctions and may materially adversely affect our financial condition, results of operations and business reputation.

Our growth in the oil business segment depends on finding new reserves and our ability to employ enhanced oil recovery methods.

Our ability to achieve growth in the oil business segment depends on our success in finding and acquiring, or gaining access to, additional reserves and our ability to employ enhanced thermal oil recovery methods such as the CSS and steam flooding technologies. In general, production from oil properties declines as reserves are depleted, with the rate of decline depending on reservoir characteristics. If our exploration activities are not successful or we do not acquire properties containing proved reserves or if we are unable to employ enhanced oil recovery methods effectively, our production will decline. Our exploration activities expose us to inherent drilling risks, including the risk that we will not find any economically productive oil reservoirs. The costs of drilling, completing and operating wells are often uncertain, and numerous factors beyond our control may cause drilling operations to be curtailed, delayed or cancelled. If these activities are unsuccessful, our future results of operations and financial condition could be materially adversely affected.

CAPITALIZATION

The following table sets forth the consolidated short-term borrowings, long-term borrowings and capitalization of CITIC Resources and Renowned Nation Limited and its subsidiaries under HKFRS as of December 31, 2006. Such capitalization is presented:

- on an actual basis;
- on a pro forma as-adjusted basis to reflect the issuance of new shares, or the Share Offering;
- on a pro forma as-adjusted basis to reflect the Proposed Acquisition; and
- on a pro forma as-adjusted basis to reflect this offering.

	As of December 31, 2006					
	CITIC Resources Actual	Renowned Nation Limited and its subsidiaries Actual	Pro Forma Adjustments	Share Offering(1) Adjustment	Pro Forma as Adjusted for the Proposed Acquisition and the Share Offering	Pro Forma as Adjusted for the Proposed Acquisition, the Share Offering and this offering
	HK$	HK$	HK$ (in thousands)	HK$	HK$	HK$
Short-term borrowings:						
Bank loans	1,495,017	1,580,113	(1,555,820)	—	1,519,310	1,519,310
Other loans	46,796	—	—	—	46,796	46,796
Loans from CITIC Group	46,209	14,616,929	(14,616,929)	—	46,209	46,209
Total short-term borrowings	1,588,022	16,197,042	(16,172,749)	—	1,612,315	1,612,315
Long-term borrowings:						
Bank loans	1,848,668	170,160	—	—	2,018,828	2,018,828
Other loans	85,078	336,719	—	—	421,797	421,797
Notes	—	—	—	—	—	7,592,402(2)
Loans from CITIC Group	280,794	—	—	—	280,794	280,794
Total long-term borrowings	2,214,540	506,879	—	—	2,721,419	10,313,821
Shareholders' equity:						
Ordinary shares, par value HK$0.05 each, 4,318,184,381 shares issued	215,909	—	—	35,000	250,909	250,909
Reserves	3,009,434	4,165	—	1,687,000	4,700,599	4,700,599
Total shareholders' equity	3,225,343	4,165	—	1,722,000	4,951,508	4,951,508
Total capitalization	5,439,883	511,044	—	1,722,000	7,672,927	15,265,329

Note:

(1) On February 28, 2007, CITIC Resources issued 570,000,000 new shares at a price of HK$2.46 (US$0.31) per share. On April 19, 2007, CITIC Resources issued 130,000,000 new shares at a price of HK$2.46 (US$0.31) per share.

(2) The Notes have been translated at a rate of HK$7.7791=US$1.00.

SELECTED FINANCIAL INFORMATION

CR Finance

CR Finance was incorporated in 2007 in the British Virgin Islands for the purpose of this offering and is the issuer of the Notes. CR Finance is a wholly owned subsidiary of CITIC Resources. CR Finance does not engage in business operations and has no historical financial results. CR Finance currently maintains no business activities, is not a party to any litigation, has no employees and does not have any investments. CR Finance has no material assets and is not expected to conduct any business except in connection with the issuance of the Notes and advancing the net proceeds from the issuance of the Notes to CITIC Resources. Our historical financial results are reflected in CITIC Resources, our ultimate holding company which, through its subsidiaries, is engaged in energy, natural resources and import and export trading of commodities businesses.

Financial Information Regarding CITIC Resources

The following table presents summary consolidated financial data for CITIC Resources. The summary consolidated income statement data for the years ended December 31, 2005 and 2006 and the summary consolidated balance sheet data as of December 31, 2005 and 2006 are derived from the consolidated financial statements of CITIC Resources that have been audited by Ernst & Young, certified public accountants, who formed their opinion on the aforementioned consolidated financial statements in part based on the report of PricewaterhouseCoopers, Australia, independent auditors. The reports of both firms also appear elsewhere in this offering circular. You should read the following information in conjunction with the section of this offering circular entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of CITIC Resources" and the consolidated financial statements and related notes beginning on page F-2 of this offering circular.

The consolidated financial statements of CITIC Resources have been prepared and presented in accordance with HKFRS, which differ in certain significant respects from US GAAP. For a discussion of these differences as they relate to CITIC Resources, see "Summary of Certain Differences Between HKFRS and US GAAP".

	As of and for the year ended December 31,		
	2005	2006	2006
	HK$	HK$	US$
	(in thousands, except ratio information)		
Consolidated income statement:			
Revenue	5,786,386	7,503,428	960,291
Profit before tax	342,157	316,189	40,466
Tax	(110,642)	(70,152)	(8,978)
Profit for the year	231,515	246,037	31,488
Minority interests	(9,812)	(45,222)	(5,788)
Net profit attributable to shareholders	221,703	200,815	25,700
Earnings per share (in cents)			
Basic	5.14	4.65	0.60
Diluted	N/A	4.61	0.59
Consolidated balance sheet:			
Non-current assets	3,080,713	4,373,701	559,748
Total current assets	2,939,314	4,954,660	634,099
Total assets	6,020,027	9,328,361	1,193,847
Current liabilities	1,437,385	2,854,539	365,325
Total non-current liabilities	1,615,235	2,968,733	379,940
Total liabilities	3,052,620	5,823,272	745,265
Minority interests	25,634	279,746	35,802
Total equity (including minority interests)	2,967,407	3,505,089	448,582
Total liabilities and total equity	6,020,027	9,328,361	1,193,847
Cash and bank balances	1,519,595	850,744	108,878
Total debt(2)	1,905,616	3,802,562	486,653
Total capitalization	3,988,996	5,439,883	696,198
EBITDA(1)	530,102	627,217	80,271
Ratio of total debt(2) to EBITDA	3.6	6.1	6.1
Ratio of EBITDA to interest expenses(3)	5.7	4.2	4.2
Ratio of total debt to total capitalization(4)	0.5	0.7	0.7

(1) EBITDA is defined as income before interest, tax, depreciation and amortization. EBITDA is presented in the table above because it is generally believed that EBITDA is a widely accepted financial indicator of an entity's ability to incur and service debt. EBITDA should not be considered by an investor as an alternative to net profit or operating profit, or as an indicator of operating performance or other consolidated operations or cash flow data prepared in accordance with HKFRS, or as an alternative to cash flows as a measure of liquidity. The computation of EBITDA herein may differ from similarly titled computations of other companies. A reconciliation of net profit, the most directly comparable HKFRS measure, to EBITDA for each of the two years ended December 31, 2005 and 2006 is as follows:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$	US$
	(in thousands, except ratio information)		
Net profit	231,515	246,037	31,488
Interest expenses	93,730	150,355	19,242
Tax	110,642	70,152	8,978
Gain on sale of coal exploration interests	(78,463)	—	—
Depreciation and amortization expense	172,678	160,673	20,563
EBITDA	530,102	627,217	80,271

(2) Total debt includes interest-bearing bank and other loans under current and non-current liabilities.

(3) Interest expenses include interest expenses on short-term borrowings, medium and long-term borrowings and long-term debentures payable and other finance charges on bank and other loans.

(4) Total capitalization represents the sum of non-current bank and other loans and total equity excluding minority interest.

Financial Information Regarding CCPL and its Directly Owned Kazakhstan Subsidiaries

The following table presents summary combined financial data for CCPL and its directly owned Kazakhstan Subsidiaries. As at the date of this offering circular, CCPL's interest in the Kazakhstan Subsidiaries comprises (i) 94.6% of the equity, representing 100.0% of the voting rights, of KBM, a joint stock company incorporated under the laws of Kazakhstan engaged in the exploration, development and production of oil with the right to develop and produce oil in the Karazhanbas oilfield in Kazakhstan until 2020; (ii) 100.0% of the participation interests in TMS, a limited liability partnership established under the laws of Kazakhstan engaged in providing oil well drilling, construction and workover services; and (iii) 100.0% of the participation interests in ATS, a limited liability partnership established under the laws of Kazakhstan engaged in providing transportation services and other oilfield related logistics services. The summary combined income statement data for the years ended December 31, 2004, 2005 and 2006 and the summary combined balance sheet data as of December 31, 2004, 2005 and 2006 are derived from the combined financial information of CCPL and its directly owned Kazakhstan Subsidiaries that have been audited by Ernst & Young, certified public accountants, and included elsewhere in this offering circular. Intercompany transactions among CCPL and the Kazakhstan Subsidiaries during the relevant years have been eliminated upon combination of the results of operations. You should read the following information in conjunction with the subsection of this offering circular entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries" included in the "The Proposed Acquisition" section and the combined financial statements and related notes beginning on page F-106 of this offering circular.

The combined financial data of CCPL and its directly owned Kazakhstan Subsidiaries have been prepared on a combined basis to reflect the operations in Kazakhstan as if the disposal of the non-Kazakhstan businesses of CCPL had become effective as of January 1, 2004, and the accounting policies used are in accordance with HKFRS, which differ in certain significant respects from US GAAP. For a discussion of these differences as they relate to the Kazakhstan Subsidiaries, see "Summary of Certain Differences Between HKFRS and US GAAP".

	As of and for the year ended December 31,			
	2004	2005	2006	2006
	HK$	HK$	HK$	US$
	(in thousands, except ratio information)			
Combined income statement:				
Revenue	3,293,107	5,107,472	6,377,844	816,239
Cost of sales	(896,339)	(1,126,544)	(1,643,879)	(210,384)
Gross profit	2,396,768	3,980,928	4,733,965	605,855
Other income	3,733	8,090	18,684	2,391
Selling and distribution costs	(517,189)	(482,332)	(446,746)	(57,175)
Administrative expenses	(469,095)	(415,960)	(621,191)	(79,500)
Other expenses	(76,283)	(92,372)	(109,816)	(14,054)
Finance costs	(150,932)	(181,497)	(265,747)	(34,011)
Profit before tax	1,187,002	2,816,857	3,309,149	423,506
Tax	(1,140,465)	(1,620,787)	(1,901,437)	(243,347)
Profit for the year	46,537	1,196,070	1,407,712	180,159
Minority interests	(12,818)	(71,002)	(94,540)	(12,099)
Net profit attributable to equity holders of the holding company	33,719	1,125,068	1,313,172	168,060
Combined balance sheet:				
Non-current assets	4,543,477	4,842,188	5,667,273	725,300
Current assets	1,195,212	1,769,168	3,935,453	503,661
Current liabilities	(397,014)	(1,269,611)	(2,929,141)	(374,873)
Net current assets	798,198	499,557	1,006,312	128,788
Total assets less current liabilities	5,341,675	5,341,745	6,673,585	854,088
Non-current liabilities	(3,629,798)	(3,823,898)	(3,024,161)	(387,033)
Net assets	1,711,877	1,517,847	3,649,424	467,055
Minority Interests	103,339	110,566	111,225	14,235
Equity	1,608,538	1,407,281	3,538,199	452,820
Total equity	1,711,877	1,517,847	3,649,424	467,055
Cash and cash equivalents	274,195	634,087	311,993	39,929
Total debt[2]	1,921,762	2,175,776	2,618,164	335,074
EBITDA[1]	1,648,763	3,364,073	4,106,075	525,497
Ratio of total debt[2] to EBITDA	1.2	0.6	0.6	0.6
Ratio of EBITDA to interest expenses[3]	10.9	18.5	15.5	15.5

(1) EBITDA is defined as income before interest, tax, depreciation and amortization. EBITDA is presented in the table above because EBITDA is generally believed to be a widely accepted financial indicator of an entity's ability to incur and service debt. EBITDA should not be considered by an investor as an alternative to net profit or operating profit, or as an indicator of operating performance or other combined operations or cash flow data prepared in accordance with HKFRS, or as an alternative to cash flows as a measure of liquidity. The computation of EBITDA herein may differ from similarly titled computations of other companies. A reconciliation of net profit, the most directly comparable HKFRS measure, to EBITDA for each of the three years ended December 31, 2004, 2005 and 2006 is as follows:

	For the year ended December 31,			
	2004	2005	2006	2006
	HK$	HK$	HK$	US$
	(in thousands, except ratio information)			
Net profit	46,537	1,196,070	1,407,712	180,159
Interest expenses	150,932	181,497	265,747	34,011
Tax	1,140,465	1,620,787	1,901,437	243,347
Depreciation and amortization expense	310,829	365,719	531,179	67,980
EBITDA	1,648,763	3,364,073	4,106,075	525,497

(2) Total debt includes bank and other loans under current and non-current liabilities.

(3) Interest expenses include interest expenses on short-term borrowings, medium and long-term borrowings and long-term debentures payable and other finance charges on bank and other loans.

In connection with the Proposed Acquisition, we will publish in Hong Kong a shareholders' circular that will include certain financial information of Renowned Nation Limited, a company incorporated in the British Virgin Islands and wholly-owned by CITIC Group, through which CITIC Group indirectly holds its interests in the Target Companies. We will acquire the sole issued share of Renowned Nation Limited if the Proposed Acquisition is consummated. We have included the financial information of Renowned Nation Limited elsewhere in this offering circular.

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

CR Finance was incorporated in 2007 in the British Virgin Islands for the purpose of this offering and is the issuer of the Notes. CR Finance is a wholly owned subsidiary of CITIC Resources. CR Finance does not engage in business operations and has no historical financial results. CR Finance currently maintains no business activities, is not a party to any litigation, has no employees and does not have any investments. CR Finance has no material assets and is not expected to conduct any business except in connection with the issuance of the Notes and advancing the net proceeds from the issuance of the Notes to CITIC Resources. Our historical financial results are reflected in CITIC Resources, our ultimate holding company which, through its subsidiaries, is engaged in energy, natural resources and import and export trading of commodities businesses.

The discussion and analysis of CITIC Resources' financial condition and results of operations are based on the audited consolidated financial statements prepared in accordance with HKFRS. You should read the following discussion and analysis of financial condition and results of operations together with the audited consolidated financial statements and the notes thereto included elsewhere in this offering circular. HKFRS differs in many significant respects from US GAAP. For a discussion of these differences, see "Summary of Certain Differences Between HKFRS and US GAAP".

For a discussion of the historical financial results of CCPL and its interests in the Kazakhstan Subsidiaries for the years ended December 31, 2004, 2005 and 2006, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries". For pro forma financial information for CITIC Resources prepared as if the Proposed Acquisition had become effective on January 1, 2006 for the purpose of the income statement and as at December 31, 2006 for the purpose of the balance sheet, see "Pro Forma Financial Information".

As a result of significant changes in our businesses since 2004 and the substantial amendments to HKFRS with effect from 2005, we do not consider the presentation of historical financial results of CITIC Resources for the year ended December 31, 2004 to provide material comparable information for a meaningful discussion and analysis of CITIC Resources' financial conditions and results of operations. Therefore, we have not included CITIC Resources' 2004 financial results in this offering circular.

Overview

CITIC Resources is the flagship energy and natural resources company of our controlling shareholder, CITIC Group. CITIC Group was established in October 1979 pursuant to a special order of the State Council of the PRC as a state-owned enterprise under the direct leadership of the State Council and is now one of the largest conglomerates in the PRC. We operate assets and hold investments in several energy and natural resources segments and are increasing our focus on oil exploration and production. We currently operate in the PRC, Australia and Indonesia, and, upon completion of the Proposed Acquisition, we will also operate in Kazakhstan. After completion of the Proposed Acquisition, we expect our oil operations to become the largest contributor to our profit after tax.

In addition to our oil operations, we are actively involved in the businesses of aluminum smelting, coal mining, import and export trading of commodities, and manganese mining and processing. We also make long-term investments in energy and natural resources companies, such as those engaging in coal mining, oil and gas production and iron ore mining. We make these investments to gain direct insights that help us to formulate our plans in respect of strategic energy and natural resources industries. Long-term relationships with our investment partners also provide us with synergies for certain of our business segments, for example, sourcing products for import and export trading of commodities.

For the years ended December 31, 2005 and 2006, our revenue was HK$5,786.4 million and HK$7,503.4 million (US$960.3 million), respectively, and our profit for the year was HK$231.5 million and HK$246.0 million (US$31.5 million), respectively.

Recent Developments

On April 30, 2007, CITIC Resources entered into the Sale and Purchase Agreement with CITIC Group pursuant to which CITIC Resources has conditionally agreed to acquire from CITIC Group the sole issued share of Renowned Nation Limited and thereby CITIC Group's 50.0% indirect voting interest in the Kazakhstan Subsidiaries. See "The Proposed Acquisition". The Proposed Acquisition is expected to significantly increase the scale of our oil business interests. After completion of the Proposed Acquisition, we expect our oil operations to become the largest contributor to our profit after tax. For the years ended December 31, 2004, 2005 and 2006, the combined revenue, net of payment of royalties and hedging losses for the year ended December 31, 2004, generated by the Kazakhstan Subsidiaries were HK$3,293.1 million, HK$5,107.5 million and HK$6,377.8 million (US$816.2 million), respectively. See "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries". Assuming the Proposed Acquisition had become effective on January 1, 2006, revenues generated by the Kazakhstan Subsidiaries would have accounted for 29.8% of CITIC Resources' revenue for the year ended December 31, 2006. See "Pro Forma Financial Information".

We entered into an option agreement with Far Great Investments Limited on May 1, 2007 that gives us an option within 90 days to acquire 90.0% of the equity interest in a Hong Kong company holding the right to develop and operate, until 2034, an oilfield in the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province in the PRC for a consideration of US$150 million subject to adjustments for cash, debt and other liabilities. The oilfield covers an area of more than 300 square kilometers with estimated original oil in place ranging from approximately 65 million tons to 75 million tons. The oilfield is currently in the appraisal and development stage. If we exercise the option, we would expect to implement a long-term development plan. Our capital expenditure for the development plan would be subject to the findings from our due diligence exercise. The amount of such expenditure could be significant and therefore could cause a substantial change to our cost structure. The parties have agreed on the form of a sale and purchase agreement which we would utilize to exercise the option. Any decision to exercise the option will be based on, among other things, the results of an engineering and geological assessment of the oilfield, business, legal and financial due diligence findings and other factors we typically consider in exercising our business judgment in connection with investment opportunities.

Factors Affecting CITIC Resources' Results of Operations

The following sets forth factors that have affected CITIC Resources' results of operations in the past and/or may potentially affect CITIC Resources' results of operations in the future.

Acquisitions

CITIC Resources was initially established in 1997 as a company primarily engaged in the manufacture and sale of plywood. In March 2004, CITIC Group became the majority controlling shareholder of CITIC Resources and CITIC Resources had since become the focus of the energy and natural resources interests of CITIC Group. CITIC Resources thereafter transformed itself into a diversified energy and natural resources company through a series of acquisitions. In March 2004, we acquired our aluminum smelting, coal mining and commodities import and export trading interests from CITIC Australia Pty Limited, a wholly owned subsidiary of CITIC Group, in return for the issue of new shares in CITIC Resources. In August 2005, we formed a manganese mining and processing joint venture which commenced operations in March 2006 and in which we hold an effective 48.0% interest.

We first entered into the oil and gas sector in 2004 by acquiring a 40.0% participating interest in the Kongnan Block within the Dagang oilfield in the PRC. This interest was later converted into common shares in, and a debt due from, Ivanhoe in February 2006. Ivanhoe's subsidiary operates the Dagang oilfield. In November 2006, we acquired the Oil Interest in Indonesia and we were appointed as the operator of the Seram Island Non-Bula Block. On April 30, 2007, we entered into the Sale and Purchase Agreement pursuant to which we conditionally agreed to acquire 50.0% of CITIC Group's indirect voting interests in the Kazakhstan Subsidiaries. Completion of the Proposed Acquisition will significantly increase the scale of our oil production. We expect the adoption of new technologies and a long-term oilfield development plan by KBM to improve recovery rates and increase production volume in the Karazhanbas oilfield. See "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries".

The foregoing acquisitions fundamentally changed the nature of our business, the scale of our operations, our revenue sources, our cost structure and our profit margins. Although diversification of our revenue sources and increased scale of our operations have contributed to increases, in our revenue, our cost structure and profit margins may differ from one business segment to another. As a result, our financial condition and results of operations may change significantly from year to year as we integrate our acquired businesses and further expand our operations.

In addition, we finance these acquisitions through, among other sources, equity and debt offerings and bank borrowings. For example, we will use the proceeds from this offering to fund the purchase of 50.0% of CITIC Group's indirect voting interest in the Kazakhstan Subsidiaries. If we incur more debt in the future, we may be required to use a significant portion of cash from operating activities to service our debt payment obligations, in addition to the substantial investment which may be required to further develop any acquired businesses.

Our Investment Portfolio

The change of mix of various business segments included in our investment portfolio may have an effect on our profitability and results of operations. Different businesses we operate or may acquire have different cost structures, capital requirements and exposure to fluctuation in market prices. In particular, the import and export trading business generally has substantially higher revenue and substantially lower profit margin than our other business segments, and involves significant capital requirements and finance costs. Exposure to fluctuations in commodities prices is also significant for our import and export trading of commodities business and hedging transactions may not be able to fully cover this exposure. For example, in 2006, we incurred a foreign exchange loss of HK$52.4 million as a result of losses arising from transactions entered into to hedge against fluctuation in commodities prices and exchange rates for our import and export trading business.

We became actively involved in the oil industry with our acquisition of the Oil Interest in Indonesia in November 2006 and we expect to significantly increase the scale of our oil exploration, development and production business after completion of the Proposed Acquisition. Due to historically high oil prices prevailing in the international oil markets, oil production generally commands higher profit margins than the other businesses in our investment portfolio. However, there is no assurance that we will be able to maintain these higher margins, or that we will be successful in the expansion of our oil operations. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries".

Oil Prices

We anticipate our exposure to fluctuation in oil prices to significantly increase after completion of the Proposed Acquisition. Oil prices are affected by a number of factors beyond our control, including prevailing market conditions affected by demand in markets to which the oil is distributed, alternative supplies available from competing oil producers and the impact of weather conditions on oil production. These factors also affect the pricing for HSFO and naphtha produced by our Oil Interest in Indonesia. In addition to worldwide market demand and supply forces, the prices for the oil production from the Karazhanbas oilfield are expected to be

affected by oil and gas operations in Kazakhstan. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries —The prices KBM is able to charge for oil production from the Karazhanbas oilfield are affected by a number of factors beyond its control". In 2005 and 2006, the average benchmark end-market quote for Urals, a benchmark for international oil prices, increased from US$50.9 per barrel to US$61.4 per barrel, the average benchmark end-market quote for Brent, also a benchmark for international oil prices, increased from US$54.5 per barrel to US$65.1 per barrel. For a discussion of how oil prices affected the financial condition and results of operations of the Kazakhstan Subsidiaries, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries—Significant Factors Affecting the Kazakhstan Subsidiaries' Results of Operations—International Oil Prices".

Oil Reserves

The oil and gas reserves data included in this offering circular represent estimates only. Actual production, revenue, expenditures and future cash flows with respect to our reserves may vary from these estimates, and those variances may be material. Many of the factors, assumptions and variables involved in estimating reserves are beyond our control, and, over time, may prove to be incorrect. In general, estimates of economically recoverable oil and natural gas reserves and the future net cash flows from these reserves are based on a number of variable factors and assumptions, all of which may vary considerably from actual results.

All estimates are to some degree speculative, based on extensive engineering judgment, and classifications of reserves are only attempts to define the degree of speculation involved. For these reasons, estimates of the economically recoverable oil and natural gas reserves attributable to any particular properties, classification of those reserves based on the risk of recovery and estimates of future net cash flows expected from the properties, whether such estimates are prepared by different engineers or by the same engineers at different times, may vary substantially. The actual results of drilling, testing and production after the date of the estimates may require substantial upward or downward revision. Adverse changes in economic conditions, including a decrease in oil or natural gas prices, may render it uneconomical to produce from reserves with higher associated production costs.

The present value of estimated future cash flows from reserves referred to in this offering circular should not be interpreted as being the same as the current market value of the estimated proved reserves. The estimated discounted future cash flows from proved reserves are based on prices and costs as of the date of the estimate. Actual future prices and costs, however, may be materially higher or lower. Actual future cash flows will also be affected by a number of factors.

Some calculations of estimated proved reserves presented in this offering circular are net of value added tax, but do not take into account income taxes, excess profit taxes or other applicable taxes attributable to estimated future net cash flows from the sale of oil and gas. These additional taxes may cause actual future cash flows to differ materially from the estimates presented in this offering circular. Finally, discount factors used in this offering circular to calculate discounted future net pre-tax cash flows from reserves may not be the most appropriate discount factors based on interest rates in effect from time to time and risks associated with our business or the oil and gas industry in general. See "Risk Factors—Risks Relating to Our Industries—Oil reserves data are only estimates and may prove to be inaccurate".

Natural Resource Commodity Prices

Currently, import and export trading of commodities is the largest contributor to our revenue and we derive a substantial amount of our revenue from the sale of commodities directly or indirectly through our subsidiaries, joint ventures and long-term investments in energy and natural resources companies. The energy and natural resources industries are highly competitive and the pricing of our commodities is driven by worldwide supply and demand for those commodities. Global supply and demand for commodities in turn is determined by various factors, including levels of economic activity, global and regional trade agreements, weather conditions, and political and military conflicts impacting production and transportation of these commodities.

Production Volume of CITIC Resources' Oil Business

After completion of the Proposed Acquisition, we expect our oil operations to become the largest contributor to our profit after tax. For the year ended December 31, 2006, sales of HSFO produced from the Seram Island Non-Bula Block were 1.5 million barrels and sales of naphtha produced from the Seram Island Non-Bula Block were 0.1 million barrels. For the year ended December 31, 2006, the Kazakhstan Subsidiaries, in which we will acquire a 50.0% indirect voting interest from CITIC Group after completion of the Proposed Acquisition, sold 15.6 million barrels of oil generating HK$6,579.5 million (US$842.0 million) in revenue before payment of royalties. Furthermore, we expect our production volume of oil to continue to grow over the next five years as we implement, subject to our obtaining the requisite government approvals, our long-term oilfield development plan at the Karazhanbas oilfield. See "The Proposed Acquisition—KBM Business Overview—Production Technologies and Development Plans" and "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries—Recent Developments".

Cost Structure of CITIC Resources' Oil Business

After the completion of the Proposed Acquisition, we expect the cost structure of CITIC Resources to be predominantly determined by the cost structure of our oil business and our import and export trading business. Costs of our oil business will primarily include depreciation, depletion and amortization of the capitalized costs of acquired oil interests, labor, maintenance of our drilling equipment and facilities, oil production and oil exploration expenses. Although the transaction to acquire the Oil Interest in Indonesia was completed in November 2006 and was retroactively effective from January 1, 2006, the operating results from the Seram Island Non-Bula Block production sharing contract in Indonesia for the period from January 1, 2006 up to the completion of the acquisition were not consolidated with the results of operations of CITIC Resources for 2006. Instead, the acquisition cost was reduced. Starting from November 2006, our cost structure was affected by our Oil Interest in Indonesia. In addition, we entered into an option agreement with Far Great Investments Limited on May 1, 2007 that gives us an option within 90 days to acquire 90.0% of the equity interest in a Hong Kong company holding the right to develop and operate, until 2034, an oilfield in the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province in the PRC. See "Business—Recent Development". If we exercise the option, we may be required to incur a substantial amount of capital expenditure to develop and operate the oilfield. If this occurs, our cost structure will be affected by the addition of this oil interest in our investment portfolio. For a discussion of the cost structure of the Kazakhstan Subsidiaries, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries—Significant Factors Affecting the Target Group's Results of Operations—Oil Production Volumes and Related Costs".

Further, oil must be transported by pipeline operators which are typically state-owned enterprises that have a monopoly in the region and therefore have the power to determine transportation tariffs payable by us. If the pipeline operators increase applicable transportation tariffs and if we are unable to find alternative means of transportation or if we are unable to lower our production cost to offset increased costs arising from increased transportation tariffs, our profitability could be materially adversely affected. See "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries—Significant Factors Affecting the Target Group's Results of Operations—Transportation Routes".

Regulatory Environment

We are subject to the laws and regulations in the jurisdictions in which we operate. For example, our operations in aluminum smelting, coal mining, manganese mining and processing and oil exploration, development and production are subject to extensive laws and regulations of, and the need to obtain periodic regulatory approval from, the countries in which we engage in these activities, including laws and regulations relating to environmental

protection, occupational health and safety, and taxation. Changes or uncertainties in applicable laws and regulations could result in substantial increases in compliance costs and other significant adverse effects on our business, financial condition and results of operations. For example, CCPL is subject to periodic audits and reviews by the Kazakhstan government. In 2005, the Inter-regional Tax Committee of Kazakhstan challenged the deduction KBM and TMS used to offset their tax liabilities, seeking payment of additional tax accruals, penalties and fines in the amount of approximately US$91.2 million. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—The Kazakhstan Subsidiaries are subject to an uncertain tax environment which may lead to disputes with taxation authorities". With the exception of two small amounts, KBM and TMS successfully defended the claims in July 2006 and the Collegium of Astana City Court denied the appeal by the Inter-regional Tax Committee in November 2006. There is, however, no assurance that similar tax claims against our subsidiaries will not recur in Kazakhstan or in other jurisdictions in which we operate. Our results of operations may be significantly affected by environmental, occupational health and safety and tax regulatory levies, fines and disputes in the future.

Economic Conditions in the PRC

Although an increasing portion of our business is being conducted and will be conducted outside the PRC following the Proposed Acquisition, we will continue to conduct a significant portion of our business in the PRC. We currently derive, and expect to continue to derive, a significant portion of our revenue from sales of natural resources and commodities to customers in the PRC. As a result, our results of operations and prospects are influenced by economic conditions in the PRC. Since 1978, when the PRC government adopted the "reform and opening" policies to transform from a centrally-planned economy to a market-oriented economy, the PRC has experienced rapid economic growth. According to the National Bureau of Statistics of China, the PRC's GDP has grown at a compound annual growth rate of 13.1% from 1998 to 2006. Although the PRC economy has been growing significantly in the past, there is no assurance that the PRC economy will continue to grow in the future. In addition, the PRC government has from time to time taken various macroeconomic measures, such as fiscal and monetary policies and credit controls, to moderate the growth rate of the PRC economy, and the PRC government is expected to use similar macroeconomic policies in the future. As we expect to continue to derive a significant portion of our revenue from sales to the PRC, we will continue to be affected by economic conditions in the PRC.

Foreign Exchange Rate Fluctuation

We report our financial results in Hong Kong dollars. Our assets, earnings and cash flows, however, are influenced by a variety of currencies due to the geographic diversity of our business interests. The U.S. dollar is the currency in which the majority of our sales are denominated. Operating costs, however, are influenced by the currencies of the jurisdictions in which our operations, joint ventures and other business interests are located. Currently, most of our operating costs are denominated in Australian dollars, Renminbi and Indonesian rupiah, and we expect our operating costs to also be denominated in the Kazakhstan Tenge after completion of the Proposed Acquisition. As a result, in any particular year, currency fluctuations may have a significant impact on our financial condition and results of operations.

Further, currency fluctuations can also affect our financial condition and results when we translate financial information from our subsidiaries in various jurisdictions into Hong Kong dollars, the functional currency of our financial statements. For example, our coal sales in 2006 increased by HK$15.1 million, or 5.8%, from those in 2005, due primarily to the appreciation of the Australian dollar in 2006 against the U.S. dollar (and, therefore, against the H.K. dollar, which is pegged to the U.S. dollar), rather than to any substantial growth in that business in Australian dollar terms. Fluctuations in exchange rates can have either a positive or a negative effect on us. For a discussion of how the fluctuation of exchange rates of the Kazakhstan Tenge and other currencies could affect our financial condition and results of operations after completion of the Proposed Acquisition, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries—Significant Factors Affecting the Target Group's Results of Operations—The Kazakhstan Tenge—U.S. Dollar Exchange Rates and Domestic Inflation Rates".

Reliance on Dividends

We expect to rely on our subsidiaries, joint ventures and the businesses in which we make long-term investments for distribution of dividends as a means to receive our return on these investments. The ability of our subsidiaries, joint ventures and the businesses in which we make long-term investments to pay dividends is subject to foreign exchange controls and restrictions of the countries in which they operate. Moreover, dividend distributions are subject to board approval. If we do not own majority interests in our subsidiaries, joint ventures or businesses in which we make long-term investments, we may not be able to exert control over the board, including its decision as to whether to make a dividend distribution. After completion of the Proposed Acquisition, we expect to rely on our 50.0% owned Kazakhstan Subsidiaries for a substantial portion of our dividend income. Unless otherwise agreed, the parties to the Heads of Agreement agreed to cause each of the Kazakhstan Subsidiaries and the intermediate holding companies to distribute by way or dividends or return of capital all of their available distributable reserves.

Taxation

We are subject to tax payment obligations in the jurisdictions in which we operate. Currently, we are subject to Hong Kong, Indonesia, and Australian corporate income taxes at rates of 17.5%, 30.0% and 30.0%, respectively. Moreover, our manganese mining and processing joint venture in the PRC is subject to PRC tax. Such joint venture is entitled to exemption from corporate income tax in 2006 and 2007 and reduction of corporate income tax as to 50.0% from 2008 to 2010. Upon expiration of the tax holidays for such joint venture, the rate of corporate income tax is expected to be 25.0% according to the new PRC corporate income tax laws and regulations that became effective in early 2007. After completion of the Proposed Acquisition, we expect to be subject to corporate income tax in Kazakhstan at a rate of 30.0% and effective excess profit tax at a rate of 21.0%. For the year ended December 31, 2006, tax payable by CITIC Resources was HK$70.2 million, which represented tax payable in Australia in the amount of HK$71.9 million, offset by tax credits received in the PRC in the amount of HK$1.7 million. For the year ended December 31, 2005, tax payable by CITIC Resources was HK$110.6 million, of which HK$109.7 million was tax payable in Australia and the remaining HK$0.9 million was tax payable in the PRC. If the tax rates of relevant jurisdictions in which we operate increase, our tax liabilities would increase and our profitability would be adversely affected.

Basis of Presentation

The financial statements of CITIC Resources have been prepared in accordance with HKFRS issued by the Hong Kong Institute of Certified Public Accountants and accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The consolidated financial statements include the financial statements of CITIC Resources and its subsidiaries for the years ended December 31, 2005 and 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the dates on which CITIC Resources obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the group are eliminated upon consolidation. The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets acquired, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Minority interests represent interests of outside shareholders in the results and net assets of CITIC Resources' subsidiaries.

Critical Accounting Policies and Estimates

The accounting policies we adopt have a significant impact on the results we report in our consolidated financial statements. Some of our accounting policies require us to exercise difficult and subjective judgments. Others require management to make estimates of matters that are inherently uncertain. We summarize below the accounting policies that we believe are both important to the portrayal of our financial results and involve the need to make judgments and estimates. For a summary of these and other significant accounting policies, see Notes 2 and 3 to the financial statements of CITIC Resources included elsewhere in this offering circular.

Revenue recognition

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

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

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

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant or equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is calculated on the straight-line basis to write-off the cost of each item of property, plant and equipment to its residual value over its estimated useful life.

Where parts of an item of property, plant or equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

Derivative Financial Instruments

We derive revenue and incur liabilities and expenses in foreign currencies, primarily in Australian dollars. In addition, we derive a substantial amount of our revenue from the sale of commodities, the prices of which are highly volatile. Further, a majority of our long-term borrowings are subject to floating interest rates and therefore we are susceptible to increases in interest rates. To hedge against the risks associated with the fluctuation in foreign exchange rates, commodities prices and interest rates, we enter into forward currency contracts and currency options, forward commodity contracts and interest rate swap contracts and options. In particular, we enter into hedging transactions for our aluminum smelting and import and export trading of commodities businesses to minimize our exposure to fluctuation in commodities prices.

Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and commodity prices for

contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to applicable interest rates in the market. However, reference or comparable transactions may not be readily available, in which case the determination of fair value may require exercise of subjective and complex judgment. Moreover, the fair value determined on the date on which a derivative contract is entered into may be significantly different from the fair value subsequently remeasured, in which case adjustments must be made to reflect the difference.

Oil Properties

For oil properties, we adopt the successful efforts method of accounting whereby the initial acquisition costs and development costs are capitalized less impairment based on experience of exploration of the relevant oil properties, which involves exercise of judgment by the management. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred. Oil properties are amortized using the unit-of-production method on a property-by-property basis using the ratio of production volume in relation to the estimated remaining proved developed reserves. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Such impairment loss is charged to the income statement in the period in which it arises.

For a discussion of accounting for depreciation, depletion and amortization of oil assets, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries—Critical Accounting Policies and Estimates—Property, Plant and Equipment, Impairments and Dismantlement Costs".

Taxation

Determination of income tax provisions requires us to make judgments on the potential tax treatment of transactions that are uncertain. We evaluate tax implications of transactions in accordance with prevailing tax regulations and make tax provisions accordingly. In addition, deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. This requires management to make a judgment as to the tax treatment of certain transactions and an assessment as to the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Share-Based Compensation

The valuation of the fair value of the share options granted requires judgment in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rates during the lives of the options and the number of share options that are expected to become exercisable. See Note 37 to the financial statements of CITIC Resources included elsewhere in this offering circular. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will be reflected the income statement in the subsequent remaining vesting period of the relevant share options.

Impairment of assets

Non-financial assets

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

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

Goodwill

We determine whether goodwill is impaired on an annual basis. The determination requires an estimate of the value in use of the cash-generating units to which goodwill is allocated. Estimation of the value in use requires us to make an assessment of the expected future cash flows from the cash-generating units and to choose a suitable discount rate in order to calculate the present value of those cash flows. See Note 17 to the financial statements of CITIC Resources included elsewhere in this offering circular.

Description of Revenue and Cost Items

Revenue

We generate our revenue primarily from sales of aluminum, coal, import and export trading of commodities, and sales of manganese and oil. Sales are recognized when the significant risks and rewards of ownership of the products have been transferred to the buyer and we do not maintain managerial involvement to the degree usually associated with ownership and do not have effective control over the goods sold. Generally, this occurs at the time of delivery. In 2005 and 2006, our revenue was HK$5,786.4 million and HK$7,503.4 million (US$960.3 million), respectively. The following table sets forth the breakdown of our revenue by segment for the periods indicated:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$	US$
		(in thousands)	
Aluminum smelting	1,148,078	1,602,930	205,143
Coal mining	259,705	274,752	35,163
Import and export trading of commodities	4,300,699	5,074,136	649,390
Manganese mining and processing	—[1]	538,006	68,854
Oil	77,429	13,604	1,741
Others[2]	475	—	—
Total	5,786,386	7,503,428	960,291

Notes:

(1) We did not commence manganese mining and processing until March 2006.

(2) Others included sales of scrap from our plywood business which has ceased operations. See “Business—Legal Proceedings”.

The following table sets forth the breakdown of our revenue by geographic market for the periods indicated:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$ (in thousands)	US$
PRC	3,052,563	3,305,764	423,073
Australia	1,373,495	1,495,282	191,366
Europe	866,188	1,850,518	236,830
North America	309,394	315,187	40,338
Other Asian countries[1]	105,215	494,481	63,284
Others[2]	79,531	42,196	5,400
Total	5,786,386	7,503,428	960,291

Notes:

(1) Other Asian countries included primarily Japan, South Korea and Taiwan.

(2) Others included Central and South America.

Cost of Sales

Cost of sales consists primarily of:

- direct material and inventory procurement costs, which include the cost of acquiring raw materials used in the production process, including alumina and chemicals, as well as the cost of obtaining the commodities sold in our commodities import and export operations;
- amortization of a 30-year electricity supply agreement, or the ESA, between PAS and the State Electricity Commission of Victoria, Australia;
- amortization of mining rights, patents, licenses and land use rights in CITIC Dameng Mining;
- devaluation of the ESA;
- losses incurred from transactions entered into to hedge against fluctuations in foreign exchange and commodity prices; and
- direct staff costs, which include wages and salary, pension scheme contributions and provision for long service payments for staff involved in the production process.

In 2005 and 2006, our cost of sales was HK$5,376.1 million and HK$6,974.6 million (US$892.6 million), respectively.

Other Income and Gains

Our other income and gains primarily include:

- interest income from our bank deposits;
- handling service fees, primarily from management fees from services provided to CITIC Australia Pty Limited for our import and export trading of commodities operations;
- dividend income from listed investments, primarily representing dividend income from Macarthur Coal;
- gain on sale of coal exploration interests, primarily from disposal of certain interests in our coal mining joint ventures to Macarthur Coal;

- gain on disposal of available-for-sale equity investments, primarily from disposal of part of our interest in Ivanhoe;
- insurance claim income from payment under an insurance policy covering losses arising from damage to boilers caused by a power outage at PAS;
- gain on conversion of available-for-sale equity investments primarily representing gain from acceptance of an exchange offer by Mount Gibson in its takeover bid for Aztec;
- sale of scraps, primarily constituting the by-products produced in our aluminum smelting and manganese mining and processing operating activities; and
- others, representing profits of acquired businesses and management fees generated from our import and export trading of commodities business.

In 2005 and 2006, our other income and gains were HK$195.3 million and HK$283.2 million (US$36.2 million), respectively. The following table sets forth the principal components of our other income and gains for the periods indicated:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$ (in thousands)	US$
Interest income	75,002	144,810	18,533
Handling service fees	13,326	7,121	911
Dividend income from listed investments	19,768	55,115	7,054
Gain on sales of coal exploration interests	78,463	—	—
Gain on disposal of available-for-sale equity investments	—	5,235	670
Insurance claim income	—	25,996	3,327
Gain on conversion of available-for-sale equity investments	—	17,502	2,240
Sale of scraps	5,148	11,891	1,522
Others	3,586	15,575	1,993
Total	195,293	283,245	36,250

Selling and Distribution Costs

Selling and distribution costs principally include wages and salary, pension scheme contributions, provision for long service payments for our sales personnel, local and overseas traveling, and delivery charges, as well as other expenses relating to our selling and distribution activities.

In 2005 and 2006, our selling and distribution costs were HK$33.8 million and HK$68.3 million (US$8.7 million), respectively.

Administrative Expenses

Administrative expenses primarily include wages and salary, pension scheme contributions and provision for long service payments for our executive, administrative, finance and human resource personnel, auditors' remuneration, entertainment and depreciation expenses and operating lease payments relating to office buildings, information technology systems and other office equipment. In 2005 and 2006, our administrative expenses were HK$132.5 million and HK$214.9 million (US$27.5 million), respectively.

Other Operating Expenses, Net

Other operating expenses, net, consist primarily of:

- loss on disposal or write-off of fixed assets;

- expired Aztec option write-off;
- impairment loss;
- bad debt expense;
- overhead cost not incurred in operations;
- net exchange gains or losses;
- professional fees incurred in relation to aborted investment projects; and
- warranty income, net.

In 2005 and 2006, our other operating expenses, net, were HK$3.4 million and HK$62.3 million (US$8.0 million), respectively. The following table sets out the principal components of our other operating expenses for the periods indicated:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$	US$
		(in thousands)	
Loss on disposal/write-off of fixed assets	6,563	4,568	585
Expired Aztec option write-off	955	—	—
Impairment loss	12,733	(4,893)	(626)
Bad debt expense	1,725	1,816	232
Overhead cost not incurred in operations	12,162	13,193	1,688
Exchange losses/(gains), net	(30,754)	53,883	6,896
Professional fees incurred in relation to aborted investment projects	—	5,202	666
Warranty income, net	—	(14,908)	(1,908)
Others	—	3,458	443
Total	3,384	62,319	7,976

Finance costs

Finance costs primarily include interest expenses on bank and other loans payable and other finance charges. In 2005 and 2006, our finance costs were HK$93.7 million and HK$150.4 million (US$19.2 million), respectively.

Results of Operations

Year ended December 31, 2006 compared to year ended December 31, 2005

Revenue

Revenue increased by HK$1,717.0 million or 29.7% from HK$5,786.4 million in 2005 to HK$7,503.4 million (US$960.3 million) in 2006. This increase was primarily due to contribution of revenue attributable to exports of steel products from the PRC overseas as part of our import and export trading of commodities business commencing from the first half of 2006. In addition, revenue attributable to our manganese mining and processing business commencing from March 2006 contributed to an increase to our revenue in the amount of HK$538.0 million (US$68.9 million) in 2006.

- *Import and export trading of commodities.* Sales derived from our commodities import and export operations increased by HK$773.4 million or 18.0% from HK$4,300.7 million in 2005 to HK$5,074.1 million (US$649.4 million) in 2006. This increase was primarily due to contribution from the commencement of exports of steel products from the PRC overseas in the first half of 2006.

- *Aluminum smelting*. Aluminum sales increased by HK$454.8 million or 39.6% from HK$1,148.1 million in 2005 to HK$1,602.9 million (US$205.1 million) in 2006. This increase was primarily due to higher selling prices in 2006 compared to 2005.
- *Coal mining*. Coal sales increased by HK$15.1 million or 5.8% from HK$259.7 million in 2005 to HK$274.8 million (US$35.2 million) in 2006. This increase was primarily due to the appreciation of the Australian dollar in 2006. See "—Factors affecting CITIC Resources' results of operations—Foreign Exchange Rate Fluctuation".
- *Manganese mining and processing*. Manganese sales were HK$538.0 million (US$68.9 million) in 2006 whereas there were no such sales in 2005 because we commenced operation of our manganese mining and processing business in March 2006.
- *Oil production*. Oil sales decreased by HK$63.8 million or 82.4% from HK$77.4 million in 2005 to HK$13.6 million (US$1.7 million) in 2006. This decrease was primarily due to our exercising an option in February 2006 to convert our 40.0% participating interest in the Kongnan Block within the Dagang oilfield in the PRC into common shares in, and a loan due from, Ivanhoe in February 2006. We did not recognize any revenue from the Oil Interest in Indonesia in 2006. Revenue attributable to us from production of HSFO and naphtha from the Seram Island Non-Bula Block in Indonesia in 2006 was adjusted in the acquisition cost. See "—Factors Affecting CITIC Resources' Results of Operations—Cost Structure of CITIC Resources' Oil Business".
- *Others*. Other sales include primarily sales of plywood. Other sales were HK$0.5 million in 2005 and there was no such sales in 2006, as we ceased operations of our plywood business. See "Business—Legal Proceedings".

Cost of Sales

Cost of sales increased by HK$1,598.5 million or 29.7% from HK$5,376.1 million in 2005 to HK$6,974.6 million (US$892.6 million) in 2006. This increase was primarily due to the increase in the amount of direct material and inventory procurement costs, which included the cost of procuring raw materials including alumina and chemicals used in our production processes resulting from increased production, as well as the higher cost of sourcing commodities for our increased import and export trading of commodities business in 2006. In addition, the increased cost of sales was attributable to our commencement of manganese mining and processing operations in March 2006, as well as the export of steel products from the PRC overseas in the first half of 2006.

Gross Profit and Gross Margin

As a result of the foregoing, gross profit increased by HK$118.5 million or 28.9% from HK$410.3 million in 2005 to HK$528.8 million (US$67.7 million) in 2006. Gross margins were 7.1% and 7.0% in 2005 and 2006, respectively.

Other Income and Gains

Other income and gains increased by HK$87.9 million or 45.0% from HK$195.3 million in 2005 to HK$283.2 million (US$36.2 million) in 2006.

- *Interest income*. Interest income increased by HK$69.8 million or 93.1% from HK$75.0 million in 2005 to HK$144.8 million (US$18.5 million) in 2006. This increase was primarily due to an increase in the average balance of cash and bank deposits.
- *Handling service fees*. Handling service fees decreased by HK$6.2 million or 46.6% from HK$13.3 million in 2005 to HK$7.1 million (US$0.9 million) in 2006. This decrease was primarily due to a decrease in management fees paid for services provided in connection with sales of aluminum ingots.

- *Dividend income from listed investments*. Dividend income from listed investments increased by HK$35.3 million or 178.3% from HK$19.8 million in 2005 to HK$55.1 million (US$7.1 million) in 2006. This increase was primarily due to an increase in dividends received from Macarthur Coal.
- *Gain on sales of coal exploration interests.* Gain on sales of various coal exploration interests decreased from HK$78.5 million in 2005 to nil in 2006. This gain was from our disposal of certain interests in our coal mining joint ventures to Macarthur Coal in 2005.
- *Gain on disposal of available-for-sale equity investments.* Gain on disposal of marketable securities increased from nil in 2005 to HK$5.2 million (US$0.7 million) in 2006. This gain was from our disposal of part of our interest in Ivanhoe.
- *Insurance claim income*. Insurance claim income increased from nil in 2005 to HK$26.0 million (US$3.3 million) in 2006 due to payment under an insurance policy covering losses arising from damage to boilers caused by a power outage at PAS in 2005.
- *Gain on conversion of available-for-sale equity investments*. Gain on conversion of available-for-sale equity investments increased from nil in 2005 to HK$17.5 million (US$2.2 million) in 2006. This gain was from our acceptance of an exchange offer by Mount Gibson in its takeover bid for Aztec in 2006.
- *Sale of scraps.* Sale of scraps income increased from HK$5.1 million in 2005 to HK$11.9 million (US$1.5 million) in 2006. This increase was primarily attributable to increased amounts of by-products being produced in our aluminum smelting process due to increased production and to sale of by-products produced in our manganese mining and processing process after we commenced these operations in March 2006.
- *Others*. Other income increased from HK$3.6 million in 2005 to HK$15.6 million (US$2.0 million) in 2006. This increase was primarily due to the exempt operating income from the manganese mining and processing business.

Selling and Distribution Costs

Selling and distribution costs increased by HK$34.5 million or 102.1% from HK$33.8 million in 2005 to HK$68.3 million (US$8.7 million) in 2006. This increase was primarily due to the selling and distribution costs resulting from domestic and overseas travel for the newly acquired manganese mining and processing business and the Oil Interest in Indonesia. In addition, selling and distribution costs relating to commodities increased as a result of increased sales in our import and export trading of commodities business.

Administrative Expenses

Administrative expenses increased by HK$82.4 million or 62.2% from HK$132.5 million in 2005 to HK$214.9 million (US$27.5 million) in 2006. This increase was primarily due to the increase in staff costs including salaries and allowance, depreciation and amortization and other indirect staff costs resulting from our acquisitions of our manganese mining and processing business and our Oil Interest in Indonesia.

Other Operating Expenses, Net

Other operating expenses, net increased by HK$58.9 million or 1,732.4% from HK$3.4 million in 2005 to HK$62.3 million (US$8.0 million) in 2006.

- *Loss on disposal/write-off of fixed assets*. Loss on disposal/write-off of fixed assets decreased by HK$2.0 million or 30.3% from HK$6.6 million in 2005 to HK$4.6 million (US$0.6 million) in 2006. This decrease was primarily due to a decreased loss from disposal of fixed assets in Australia, offset by write-offs of certain fixed assets for our manganese mining and processing business.

- *Expired Aztec option write-off*. Expired Aztec option write-off decreased from HK$0.9 million in 2005 to nil in 2006, as we wrote off options convertible into Aztec shares in 2005 but did not hold Aztec options in 2006 after we accepted the exchange offer by Mount Gibson in its takeover bid for Aztec in 2006.
- *Impairment loss*. Impairment loss decreased from HK$12.7 million in 2005 to a gain of HK$4.9 million (US$0.6 million) in 2006 due primarily to a reversal of impairment loss as our aluminum smelting business resumed normal operation in 2006 after a power outage in 2005.
- *Bad debt expense*. Bad debt expense increased slightly from HK$1.7 million in 2005 to HK$1.8 million (US$0.2 million) in 2006 due to tighter control over our collection policy.
- *Overhead cost not incurred in operations*. Overhead cost not incurred in operations increased from HK$12.2 million in 2005 to HK$13.2 million (US$1.7 million) in 2006 due to an increase in rental payments.
- *Net exchange gains or losses*. We had an exchange gain of HK$30.8 million in 2005 whereas we had an exchange loss of HK$53.9 million (US$6.9 million) in 2006. The gain in 2005 and loss in 2006 were due to gains and losses incurred from transactions entered into to hedge against fluctuations in commodity prices and exchange rates.
- *Professional fees incurred in relation to aborted investment projects.* Professional fees incurred in relation to aborted investment projects increased from nil in 2005 to HK$5.2 million (US$0.7 million) in 2006 primarily due to professional fees paid in connection with the aborted subscription of shares in Caltex South China Investment Limited.
- *Warranty income, net*. Warranty income, net increased from nil in 2005 to HK$14.9 million (US$1.9 million) in 2006. This increase was primarily attributable to an agreement by CITIC Group to compensate us under a settlement agreement to indemnify us against loss arising from conversion of our interest in our subsidiary into common shares of Ivanhoe and loss arising from reduction in the number of shares in Ivanhoe we received due to the delay in shares conversion and the increased share prices of Ivanhoe before conversion. See "—Related Party Transactions".

Finance Costs

Finance costs increased by HK$56.7 million or 60.5% from HK$93.7 million in 2005 to HK$150.4 million (US$19.2 million) in 2006. This increase in finance costs was attributed to an increase in trade finance due to our increased import and export trading of commodities business and the commencement of our manganese mining and processing business in March 2006.

Profit Before Tax

As a result of the foregoing, profit before tax decreased by HK$26.0 million or 7.6% from HK$342.2 million in 2005 to HK$316.2 million (US$40.5 million) in 2006.

Tax

Tax expense decreased by HK$40.4 million or 36.5% from HK$110.6 million in 2005 to HK$70.2 million (US$9.0 million) in 2006. The higher amount in 2005 was primarily due to recognition of deferred tax liabilities arising from capital gains tax payable for the sales of coal exploration interests in 2005.

Profit for the Year

Profit for the year increased by HK$14.5 million or 6.3% from HK$231.5 million in 2005 to HK$246.0 million (US$31.5 million) in 2006.

Profit Attributable to Shareholders

Profit attributable to shareholders decreased by HK$20.9 million or 9.4% from HK$221.7 million in 2005 to HK$200.8 million (US$25.7 million) in 2006.

Minority Interest

Minority interest increased by HK$35.4 million or 361.2% from HK$9.8 million in 2005 to HK$45.2 million (US$5.8 million) in 2006. This increase was primarily attributable to the commencement of our manganese mining and processing business in March 2006.

Liquidity and Capital Resources

Currently, CITIC Resources relies primarily on dividend distributions resulting from cash generated by its operating subsidiaries and investments in various natural resources segments, including aluminum smelting, coal mining, import and export trading of commodities, and manganese mining and processing. After completion of the Proposed Acquisition, we anticipate dividend distributions from the Kazakhstan Subsidiaries will contribute significantly to CITIC Resources' liquidity and capital resources. See "The Proposed Acquisition— Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries—Liquidity and Capital Resources".

The following table sets forth CITIC Resources' cash flows for the periods indicated:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$ (in thousands)	US$
Net cash provided by/(used in) operating activities	570,209	(254,948)	(32,629)
Net cash used in investing activities	(364,956)	(2,111,709)	(270,257)
Net cash (used in)/provided by financing activities	(264,888)	1,690,867	216,398
Net decrease in cash and cash equivalents	(59,635)	(675,790)	(86,488)
Cash and cash equivalents at the beginning of year	1,606,833	1,519,595	194,478
Effect of foreign exchange rate of charges, net	(27,603)	6,939	889
Cash and cash equivalents at end of year	1,519,595	850,744	108,879

We began to generate net cash inflow from operating activities in 2005. In the future, we anticipate that our primary sources of liquidity will be cash provided by operating activities and from our long-term investments and proceeds from equity and debt offerings and bank borrowings.

Net Cash Provided by/(Used in) Operating Activities

Net cash provided by operating activities represents profit before tax for the year adjusted for non-cash and/ or non-operating items, such as finance costs, interest income, dividend income from listed investments, equity-settled share option expenses, depreciation, amortization, gain on sales of coal exploration interests, loss on disposal or write-off of property, plant and equipment, provision for long service and leave payments, provision for rehabilitation cost, impairment of property, plant and equipment, provision for doubtful debts and provision for inventories.

In 2006, net cash used in operating activities was HK$254.9 million (US$32.6 million), compared to profit before tax of HK$316.2 million (US$40.5 million). The difference was primarily attributable to cash outflow resulting from an increase in accounts receivable in the amount of HK$502.4 million (US$64.3 million) in relation to increased sales of our aluminum smelting, coal mining and import and export trading of commodities

businesses, an increase in inventories in the amount of HK$302.7 million (US$38.7 million) mainly representing increase in inventories for our manganese mining and processing business we acquired in 2006 and our aluminum smelting, coal mining and import and export trading of commodities businesses, payment of Australian income tax in the amount of HK$144.8 million (US$18.5 million), a decrease in accrued liabilities and other payables in the amount of HK$116.9 million (US$15.0 million) due to decreased purchases from our suppliers and an increase in prepayments, deposits and other receivables in the amount of HK$59.7 million (US$7.6 million) attributable to our manganese mining and processing business commencing from March 2006, partially offset by cash inflow attributable to an increase in accounts payable in the amount of HK$313.9 million (US$40.2 million).

In 2005, net cash provided by operating activities was HK$570.2 million, compared to profit before tax of HK$342.2 million. The difference was primarily attributable to a decrease in prepayments, deposits and other receivables in the amount of HK$223.1 million and decrease in inventories in the amount of HK$21.2 million due to increased sales of products in 2005, partially offset by payment of Australian income tax in the amount of HK$80.5 million.

Net Cash Used in Investing Activities

The principal items affecting net cash used in investing activities have been interest received, dividends received from listed investments, purchases of property, plant and equipment, purchases of long-term investments, acquisitions of subsidiaries, and deposits paid for potential investment projects.

In 2006, net cash used in investing activities was HK$2,111.7 million (US$270.3 million), of which HK$1,560.0 million (US$199.6 million) was used as deposit paid to CITIC Group for the Proposed Acquisition, HK$757.7 million (US$97.0 million) was used to acquire the Oil Interest in Indonesia, HK$173.4 million (US$22.2 million) was mainly used to purchase property, plant and equipment for the operations of our manganese mining and processing business and HK$35.1 million (US$4.5 million) was used to pay legal and professional fees and other charges incurred in relation to the potential investment projects. Net cash used in investing activities was partially offset by cash inflow resulting from the acquisition of our manganese mining and processing business in the amount of HK$148.2 million (US$19.0 million), interest income in the amount of HK$142.4 million (US$18.2 million), dividends received from Macarthur Coal in the amount of HK$55.1 million (US$7.1 million) and proceeds from the disposal of shares of investments in listed companies in the amount of HK$31.2 million (US$4.0 million).

In 2005, net cash used in investing activities was HK$365.0 million, of which HK$288.5 million was used as deposits paid for our investment project in the manganese mining and processing business, HK$149.1 million was used primarily to purchase property, plant and equipment for our oil operations in the Dagang oilfield in the PRC and HK$22.9 million was used primarily to pay legal and professional fees paid for services rendered in connection with potential investment projects. Net cash outflow from investing activities in 2005 was partially offset by interest income in the amount of HK$75.0 million and dividends received from our investments in listed companies in the amount of HK$19.8 million.

Net Cash Provided by/(Used in) Financing Activities

The principal items affecting net cash used in financing activities have been acquisitions of interests in subsidiaries by minority shareholders, dividends paid to minority shareholders, new bank and other loans, repayments of bank and other loans, payments of interest arising from bank and other loans and finance charges.

In 2006, net cash provided by financing activities was HK$1,690.9 million (US$216.4 million) primarily as a result of the incurrence of new bank and other loans in an aggregate amount of HK$6,019.9 million (US$770.4 million) and proceeds from issue of share capital in the amount of HK$1.4 million (US$0.2 million). Net cash provided by financing activities was partially offset by HK$4,183.1 million (US$535.4 million) used to repay

bank and other loans, HK$140.7 million (US$18.0 million) used to pay interest and finance charges on bank and other loans and HK$6.6 million (US$0.8 million) used to pay dividends to minority shareholders.

In 2005, net cash used in financing activities was HK$264.9 million, of which HK$222.5 million was used to repay bank and other loans, HK$91.7 million was used to pay interest arising from bank and other loans and HK$11.5 million was used to pay finance charges. Net cash used in financing activities in 2005 was partially offset by the incurrence of new bank and other loans in the amount of HK$63.6 million and acquisitions of interest in subsidiaries by minority shareholders in the amount of HK$2.8 million.

Indebtedness

As at December 31, 2006, CITIC Resources had total outstanding borrowings of HK$3,802.6 million (US$486.7 million) consisting principally of long-term bank loans and other loans, including shareholders' loans from CITIC Group. As at December 31, 2006, CITIC Resources' bank loans were HK$3,343.7 million (US$427.9 million), of which HK$878.7 million (US$112.5 million) was secured by our 22.5% participating interest in PAS, certain assets of CITIC Dameng Mining and a guarantee provided by a minority shareholder and the remaining HK$2,465.0 million (US$315.5 million) represent unsecured trade finance facilities that were guaranteed by CITIC Resources Australia Pty Limited and unsecured revolving term loans denominated in U.S. dollars. All the bank loans were subject to floating interest rates set by reference to London Interbank Offered Rate, or LIBOR. The loans from CITIC Group were subject to LIBOR plus 1.5% per annum.

The following table sets forth the maturity profile of our outstanding borrowings for the periods indicated:

	2007	2008	2009 to 2011	2011 and after
		(HK$ in thousands)		
Bank loans	1,495,017	833,648	1,015,020	—
Other loans[1]	46,796	1,878	6,335	3,073
Loans from former minority shareholders and a current minority shareholder	—	—	—	73,792
Loans from CITIC Group	46,209	38,999	116,998	124,797
Total	1,588,022	874,525	1,138,353	201,662

Notes:

(1) Other loans included (i) an unsecured interest-bearing loan from the state government of Queensland, Australia at an interest rate of 6.69% per annum repayable in equal quarterly installments by September 30, 2012; (ii) an unsecured interest-bearing loan from the manager of CMJV at an interest rate of 6.0% per annum repayable in equal annual installments by December 11, 2013; and (iii) an unsecured, interest-free loan from a third party.

As at December 31, 2006, we had current assets of HK$4,954.7 million (US$634.1 million) and current liabilities of HK$2,854.5 million (US$365.3 million). We believe that our working capital, together with other capital resources, such as cash provided by operating activities, bank loans, proceeds from this offering and proceeds from future equity and debt offerings, if any, are sufficient for our current capital requirements.

Capital Expenditures

We have historically financed our capital expenditures with cash contributions from our shareholder and starting from 2005 with cash provided by our operating activities. Approximately HK$305.7 million of capital expenditures in 2005 related to our investment in the joint venture to engage in the manganese mining and processing business. Approximately HK$875.0 million of capital expenditures in 2006 related to the costs required to acquire the Oil Interest in Indonesia.

The following table sets forth our historical capital expenditures for the periods indicated:

	For the year ended December 31,		
	2005	2006	2006
	HK$	HK$ (in thousands)	US$
Joint venture investments	305,670	—	—
Acquisition costs for the Oil Interest in Indonesia	—	874,952	111,977
Total	305,670	874,952	111,977

After completion of the Proposed Acquisition, we expect capital expenditures by the Kazakhstan Subsidiaries to account for a substantial part of our consolidated capital expenditures going forward. The Kazakhstan Subsidiaries are expected to spend over US$730 million from 2007 to 2011 to implement a long-term oilfield development plan in the Karazhanbas oilfield to improve recovery rates and increase production volume. For further details, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries—Liquidity and Capital Resources—Capital Expenditure". In addition, we expect to continue to invest in our existing business segments and enter other natural resources segments when attractive opportunities arise.

Related Party Transactions

During the year ended December 31, 2006, we made sales of iron ore in the amount of HK$1,378.4 million (US$176.4 million) to CITIC Metal Company Limited, a wholly owned subsidiary of CITIC Group, which controls, directly or indirectly, all of the issued share capital of Keentech Group Limited and CITIC Australia Pty Limited, our shareholders. Such sales to our related party were made on normal commercial terms comparable to the terms of sales made to independent third parties in our ordinary course of business.

As at December 31, 2006, we had an outstanding accounts receivable balance due from a fellow subsidiary of CITIC Group in the amount of HK$235.8 million (US$30.2 million).

On April 30, 2007, we entered into the Sale and Purchase Agreement with CITIC Group to acquire 50.0% of its indirect voting interest in the Kazakhstan Subsidiaries.

On October 31, 2006, we received an acknowledgement from CITIC Group in respect of a warranty settlement agreement dated October 10, 2006 between us and CITIC Group, pursuant to which CITIC Group agreed to compensate us HK$34.3 million (US$4.4 million) as indemnities for losses amounting to HK$19.4 million (US$2.5 million) arising from conversion of our interest in a subsidiary into common shares of Ivanhoe. In addition, we sustained a loss arising from a reduction in the number of common shares in Ivanhoe that we received due to the delay in share conversion and the increase in the price of Ivanhoe shares before the conversion. As a result, we had an outstanding amount due from CITIC Group for HK$34.3 million (US$4.4 million) as at December 31, 2006, which was repaid as of the date of this offering circular.

For the year ended December 31, 2006, we paid rental charges in the amount of HK$2.8 million (US$0.4 million) to 99 King Street Property Management Pty Ltd., a subsidiary of CITIC Group which owns our headquarters office in Australia.

Contractual Obligations

As at December 31, 2006, we had operating lease obligations in the amount of HK$39.5 million relating to non-cancellable leases in respect of land and buildings in Hong Kong, the PRC and Australia for our business operations. In addition, we had contractual obligations in the amount of HK$27.4 million relating to investment in infrastructure and installation of plant and equipment for our operations in Australia and our joint venture

investment in Guangxi. For further information regarding the contractual obligations of the Kazakhstan Subsidiaries, see "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries—Liquidity and Capital Resources—Contractual Obligations".

The following table summarizes CITIC Resources' contractual obligations for the periods indicated as at December 31, 2006:

	2007	2008-2011	2011 and after
	HK$	HK$ (In thousands)	HK$
Operating leases	12,883	16,803	9,848
Others	27,445	—	—
Total	40,328	16,803	9,848

Off-Balance Sheet Arrangements

CITIC Resources does not have any material off-balance sheet arrangements. CITIC Resources has, however, entered into derivative transactions to manage its exposures to fluctuations in interest rates, foreign exchange rates and adverse movements in aluminum prices. See "—Derivative Financial Instruments" and "Quantitative and Qualitative Disclosure about Market Risk".

Derivative Financial Instruments

CITIC Resources has entered into derivative financial instrument transactions, including forward currency contracts and currency options, forward commodity contracts and interest rate swap contracts and options, to manage its exposures to exchange rates, commodity prices and interest rates. For further discussion of the accounting for these derivative financial instruments, see Notes 2.4 and 31 to the financial statements of CITIC Resources included elsewhere in this offering circular.

Inflation

Inflation in China has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, China's overall inflation rate, as represented by changes in the Consumer Price Index, was approximately 3.9% in 2004, 1.8% in 2005 and 1.5% in 2006. In addition, inflation in other countries in which we operate, including Australia and Indonesia, has not had a material impact on our results of operations in recent years.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to the following types of market risks:

Commodity Price Risk

We are exposed to risks relating to fluctuation of natural resources commodities prices. In particular, to mitigate the impact of adverse movements in aluminum prices, we enter into forward commodity contracts to hedge against the risk of adverse movements in aluminum prices. We expect our exposure to fluctuation in oil prices to significantly increase after the completion of the Proposed Acquisition. See "The Proposed Acquisition—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries—Quantitative and Qualitative Disclosures About Market Risk".

Interest Rate Risk

Our exposure to the risk of fluctuation in interest rates relates primarily to our long-term debt obligations subject to floating interest rates. Our policy is to manage our interest costs using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, we enter into interest rate swaps in which we agree to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge the underlying debt obligations. As at December 31, 2005 and 2006, after taking into account the effect of the interest rate swaps, approximately 36.8% and 23.5%, respectively, of our interest-bearing borrowings bore interest at fixed rates.

Foreign Currency Risk

We are exposed to fluctuation in foreign exchange rates. Such exposure arises from sales or purchases by our operating units in currencies other than the units' functional currencies. Forward contracts and currency options are used to mitigate exposure to risks arising from fluctuation in foreign exchange rates after we entered into a firm commitment for a sale or purchase. It is our policy not to enter into forward contracts and options until a firm commitment is in place. It is also our policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Credit Risk

We conduct credit checks to verify the creditworthiness of third parties before entering into transactions with them. It is our policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and our exposure to bad debts has not been significant. For transactions that are not denominated in the functional currency of the relevant operating unit, we do not offer credit terms without the specific approval of our head of credit control. The credit risk of our other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. We usually do not require collateral because we trade with recognized and creditworthy third parties.

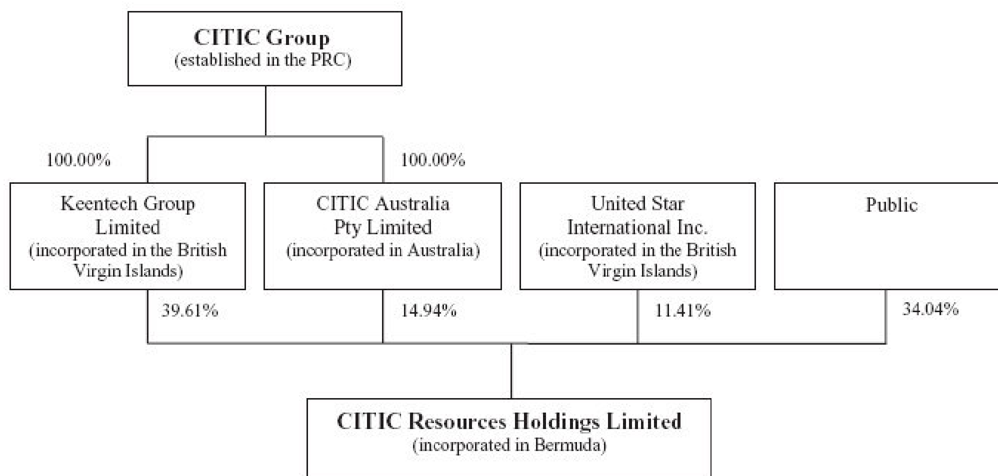
Liquidity Risk

Our objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, other interest-bearing loans and equity and debt offerings.

OUR SHAREHOLDER STRUCTURE AND RELATIONSHIP WITH CITIC GROUP

Our Shareholder Structure

Our simplified shareholder structure as of the date of this offering circular is illustrated in the chart below:



CITIC Group

CITIC Group, formerly known as China International Trust and Investment Corporation, was established in October 1979 pursuant to a special order of the State Council of the PRC, or the State Council, as a state-owned enterprise that is "under the direct leadership of the State Council". Following its reorganization in 1986 and 1987 and subsequent structural reforms, CITIC Group became a holding company which conducts its business activities primarily through its domestic and overseas operating subsidiaries.

CITIC Group's primary mission is to introduce advanced technology and managerial expertise to the PRC, to develop domestic and foreign economic and technological cooperation and to engage in domestic and international financing and banking, investment and trade pursuant to applicable laws, regulations, guidelines and policies of the PRC, by attracting and utilizing foreign capital for the purpose of promoting the PRC's modernization.

Pursuant to CITIC Group's articles of association, the PRC government is the sole owner of CITIC Group. All of CITIC Group's initial capital was paid in by the PRC government and all of CITIC Group's profits (net of amounts credited to capital) are transferred to the PRC government either as taxes or as profits remitted to the Ministry of Finance of the PRC. CITIC Group is under the supervision of the State Council, the highest executive authority in the PRC. CITIC Group's articles of association may be amended only with the approval of the State Council. The chairman, each vice chairman, each executive director, the president and each vice president of CITIC Group are appointed or dismissed directly by the State Council.

Since its inception more than 27 years ago, CITIC Group has grown into a multinational conglomerate with a broad range of business activities operating through subsidiaries located in the PRC, Hong Kong, the United States, Canada and Australia across various industries. CITIC Group also maintains representative offices in Tokyo, New York and Rotterdam.

CITIC Group's business activities are divided into two main areas: financial services businesses and non-financial businesses. Financial services businesses, consisting primarily of commercial banking, securities, insurance, trust and funds and asset management, constitute the core business of CITIC Group. Non-financial businesses of CITIC Group range from information technology, infrastructure, manufacturing, natural resources, property development to construction.

Our History and Relationship with CITIC Group

CITIC Group became our indirect controlling shareholder in March 2004, following which we transformed ourselves from a company primarily engaged in the manufacture and sale of plywood to become the flagship energy and natural resources company of CITIC Group. Since March 2004, we have been able to utilize CITIC Group's support and resources to identify business opportunities in the energy, natural resources and import and export trading of commodities industries. We are now a diversified energy and natural resources company with investments in various natural resources segments and a focus on the oil industry. To further expand the scale of our operations in this sector following the acquisition of our Oil Interest in Indonesia in November 2006, we have entered into the Sale and Purchase Agreement with CITIC Group to acquire 50.0% of its indirect voting interest in the Kazakhstan Subsidiaries engaging in the operation of the Karazhanbas oilfield in Kazakhstan. See "The Proposed Acquisition" and "Business—Our Business Development".

BUSINESS

Overview

CITIC Resources is the flagship energy and natural resources company of our controlling shareholder, CITIC Group. CITIC Group was established in October 1979 pursuant to a special order of the State Council of the PRC as a state-owned enterprise under the direct leadership of the State Council and is now one of the largest conglomerates in the PRC. We operate assets and hold investments in several energy and natural resources segments and are increasing our focus on oil exploration and production. We currently operate in the PRC, Australia and Indonesia, and, upon completion of the Proposed Acquisition, we will also operate in Kazakhstan. After completion of the Proposed Acquisition, we expect our oil operations to become the largest contributor to our profit after tax.

In addition to our oil operations, we are actively involved in the businesses of aluminum smelting, coal mining, import and export trading of commodities, and manganese mining and processing. We also make long-term investments in energy and natural resources companies, such as those engaging in coal mining, oil and gas production and iron ore mining. We make these investments to gain direct insights that help us to formulate our plans in respect of strategic energy and natural resources industries. Long-term relationships with our investment partners also provide us with synergies for certain of our business segments, for example, sourcing products for import and export trading of commodities.

Oil operations. Upon completion of the Proposed Acquisition, we will become one of the largest PRC-controlled oil producers active in overseas oil production. We conduct oilfield operations in Indonesia and, following the Proposed Acquisition, in Kazakhstan. The core asset of the Kazakhstan Subsidiaries is the right to explore and produce subsurface hydrocarbons in the Karazhanbas oilfield in Mangistau Oblast in Kazakhstan. We expect to lead the redevelopment of and introduction of new technologies to the Karazhanbas oilfield in order to improve recovery rates and to increase production volume. As of December 31, 2006, the estimated gross reserves of the Karazhanbas oilfield were 363.8 million barrels of proved reserves, 74.6 million barrels of probable reserves and 21.6 million barrels of possible reserves, according to a report prepared by Miller and Lents, an independent third party oil and gas consultant. For the year ended December 31, 2006, sales of oil produced from the Karazhanbas oilfield were 15.6 million barrels of oil, generating HK$6,579.5 million (US$842.0 million) in revenue before payment of royalties. After completion of the Proposed Acquisition, with the addition of the oil operations in Kazakhstan, we expect our oil operations to become the largest contributor to our profit after tax.

We have been managing and operating the Seram Island Non-Bula Block since our acquisition in November 2006 of the Oil Interest in Indonesia. As of December 31, 2005, the estimated gross reserves at the Oseil Field, which is the principal oilfield located in the Seram Island Non-Bula Block, were 7.0 million barrels of proved reserves, 6.0 million barrels of probable reserves and 26.1 million barrels of possible reserves, according to a report prepared by DeGolyer and MacNaughton, an independent third party oil and gas consultant. In addition, there is an area of more than 4,000 square kilometers in the Seram Island Non-Bula Block available for future exploration and development. We produce HSFO and naphtha by fractionating the oil we extract under the Seram Island Non-Bula Block production sharing contract. For the year ended December 31, 2006, sales of HSFO produced from the Seram Island Non-Bula Block were 1.5 million barrels and sales of naphtha produced from the Seram Island Non-Bula Block were 0.1 million barrels.

Aluminum smelting. We are engaged in the aluminum smelting business through our 22.5% interest in an unincorporated joint venture, PAS, which we acquired in March 2004 from CITIC Australia Pty Limited, a wholly owned subsidiary of CITIC Group. The operations of PAS, located in southwestern Victoria, Australia, are conducted in cooperation with Alcoa and Marubeni. PAS produces high quality primary aluminum ingots used in a variety of industries and applications. For the year ended December 31, 2006, revenue from PAS attributable to us was HK$1,602.9 million (US$205.1 million).

Coal mining. We have been engaging in the coal mining business since March 2004 through our 7.0% interest in CMJV in cooperation with Coppabella Coal Pty Limited and other joint venture partners. Through this unincorporated joint venture, we engage mainly in the production of PCI coal in Bowen Basin in Queensland, Australia. For the year ended December 31, 2006, revenue from CMJV attributable to us was HK$274.8 million (US$35.2 million).

Import and export trading of commodities. We conduct our business of import and export trading of commodities through CATL, our subsidiary based in Australia and listed on the Australian Stock Exchange. CATL exports alumina, iron ore and other products from Australia to the PRC. In addition, CATL exports steel products from the PRC to Europe and imports general steel products, tires and wheels, and batteries from the PRC to Australia. As of December 31, 2006, we owned approximately 77.7% of the issued and outstanding shares in CATL. For the year ended December 31, 2006, revenue generated from import and export trading of commodities was HK$5,074.1 million (US$649.4 million).

Manganese mining and processing. We entered into manganese mining and processing in the Guangxi Zhuang Autonomous Region in the PRC through CITIC Dameng Mining, a joint venture established in August 2005 with Guangxi Dameng, a PRC state owned enterprise. We hold an effective 48.0% interest in CITIC Dameng Mining, which began operation in March 2006. For the year ended December 31, 2006, revenue from the joint venture attributable to us was HK$538.0 million (US$68.9 million).

Long-term investments in energy and natural resources companies. We make long-term investments in energy and natural resources companies operating in the coal mining, oil and gas and iron ore industries. We own an 11.6% interest in Macarthur Coal, a coal mining company listed on the Australian Stock Exchange. We also own 2.9% of the outstanding shares in Ivanhoe, an oil and gas producer quoted on the Nasdaq Capital Market and listed on the Toronto Stock Exchange. In addition, we own 0.8% of the outstanding shares of Mount Gibson, an Australian iron ore mining company listed on the Australian Stock Exchange.

Some of our long-term investments provide synergies across our principal business segments. For example, our import and export trading business has entered into a long-term iron ore offtake contract with Aztec, our former investee company acquired by Mount Gibson in December 2006. We make these investments to gain direct insights that help us to formulate our plans in respect of strategic energy and natural resources industries.

Our Business Development

CITIC Resources was established in 1997 as a company primarily engaged in the manufacture and sale of plywood and was listed on the Hong Kong Stock Exchange that year. In March 2004, we acquired our aluminum smelting, coal mining and commodities import and export trading interests from CITIC Australia Pty Limited, a wholly owned subsidiary of CITIC Group, in return for the issue of new shares in CITIC Resources. As a result, CITIC Resources became its platform for expansion into the energy and natural resources business areas. In August 2005, we agreed to acquire an effective 48.0% interest in CITIC Dameng Mining to enter into the manganese mining and processing business. CITIC Dameng Mining commenced operations in March 2006.

We first entered into the oil and gas sector in 2004 by acquiring a 40.0% participating interest in the Kongnan Block within the Dagang oilfield in the PRC. This interest was later converted into common shares in, and a loan due from, Ivanhoe in February 2006. Ivanhoe's subsidiary operates the Dagang oilfield. In November 2006, we acquired the Oil Interest in Indonesia and we were appointed as the operator of the Seram Island Non-Bula Block. On April 30, 2007, we executed the Sale and Purchase Agreement to acquire from CITIC Group 50.0% of its indirect voting interest in the Kazakhstan Subsidiaries, which operate the Karazhanbas oilfield in Kazakhstan. We expect to significantly increase the scale of our oil production after completion of the Proposed Acquisition.

Recent Development

We entered into an option agreement with Far Great Investments Limited on May 1, 2007 that gives us an option within 90 days to acquire 90.0% of the equity interest in a Hong Kong company holding the right to develop and operate, until 2034, an oilfield in the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province in the PRC for a consideration of US$150 million subject to adjustments for cash, debt and other liabilities. The oilfield covers an area of more than 300 square kilometers with estimated original oil in place ranging from approximately 65 million tons to 75 million tons. The oilfield is currently in the appraisal and development stage. If we exercise the option, we would expect to implement a long-term development plan. Our capital expenditure for the development plan would be subject to the findings from our due diligence exercise. The amount of such expenditure could be significant and therefore could cause a substantial change to our cost structure. The parties have agreed on the form of a sale and purchase agreement which we would utilize to exercise the option. Any decision to exercise the option will be based on, among other things, the results of an engineering and geological assessment of the oilfield, business, legal and financial due diligence findings and other factors we typically consider in exercising our business judgment in connection with investment opportunities.

Our Competitive Strengths

Our relationship with CITIC Group gives us access to a strong team of talented management and professional staff with prior experience working at leading oil producers in the PRC and overseas. With access to such valuable management talent, we believe we are able to benefit from the continued growth of the PRC economy as an active participant in the energy and natural resources industries in the PRC. We are and will continue to be committed to the establishment of a strong management team to compete effectively against our competitors. We believe the following factors favorably differentiate us from our competitors:

Our relationship with CITIC Group gives us access to business opportunities in both the PRC and globally.

We are a majority-owned subsidiary of CITIC Group, which was established under the direct leadership of the State Council and is now one of the largest conglomerates in the PRC. As the flagship energy and natural resources company of CITIC Group, we have a mandate to expand through strategic acquisitions of, or joint venture investments in, energy and natural resources assets. Since CITIC Group became our parent company in 2004, it has given us vital support and afforded us access to resources necessary to penetrate the natural resources industries and to grow our business in these industries. CITIC Group's support includes introducing us to investment opportunities, providing financing on favorable terms and seconding experienced management and professional personnel to assist us in acquiring and integrating new businesses. For example, we entered into the energy and natural resources industries through the acquisitions of our aluminum smelting, coal mining and import and export trading of commodities business in 2004 from CITIC Australia Pty Limited, a wholly owned subsidiary of CITIC Group. In addition, we made our first long-term investment in the oil and gas industry in 2004 through the introduction by CITIC Group of an investment in the Kongnan Block within the Dagang oilfield in the PRC. We now are seeking to expand our oil operations through the acquisition of 50.0% of CITIC Group's indirect voting interest in the Kazakhstan Subsidiaries. Due to our relationship with CITIC Group, we were able to retain Mr. Xuancheng Shou, a former senior executive of China National Petroleum Corporation, the largest oil and gas producer in the PRC, with over 36 years of experience in the oil and gas industry including experience working at leading oil producers in the PRC, to head our oil business. We believe CITIC Group will continue to support us and afford us access to resources in the future and we expect to continue to leverage our relationship with CITIC Group to capture future business opportunities in the energy and natural resources industries in the PRC and overseas.

We have significant experience in evaluating, acquiring and integrating a diverse portfolio of natural resources businesses and investments.

We have significant experience in evaluating, acquiring and integrating a diverse portfolio of natural resources businesses and investments. We initially entered the natural resources industry through acquisition of our aluminum smelting, coal mining and commodities import and export trading businesses in March 2004. We made our first long-term investment in the oil industry in the same year. To further diversify our revenue sources, we commenced our manganese mining and processing business in March 2006. We became an oilfield operator in November 2006 through the acquisition of the Oil Interest in Indonesia.

Pursuing acquisitions and investments requires our management to exercise discipline and judgment in assessing their viability. We evaluate each opportunity based on, among other factors, operational, regulatory and financial risks of the business, the terms of the investment, our ability to integrate the business successfully with our existing operations, its expected contribution to our financial results and the quality of the existing management. We believe our management's experience in expanding our businesses while successfully managing the risks associated with such growth is critical to our success to date. We believe our management's ability to identify attractive investment targets, our accumulated experience in executing complex business transactions and our access to management talent from CITIC Group, if needed, will continue to drive our financial performance going forward.

Our established operating experience in the PRC and overseas positions us well to expand our energy and natural resources businesses in the PRC.

We believe our established presence in the PRC, combined with our international operating experience, give us a competitive edge against both non-PRC energy companies less familiar with market practice in the PRC and PRC privately-owned domestic energy companies that lack international operating experience. We have an established operating history in the import and export trading of commodities between the PRC and other countries. As a result, we have developed extensive experience in establishing and maintaining business relationships, structuring transactions in accordance with the evolving regulatory environment and exploiting opportunities across our business lines in the PRC, including identifying acquisition and joint venture opportunities in key natural resources industries, sourcing commodities and other goods in the PRC, and expanding distribution networks in the PRC in connection with our commodities import and export trading business. In addition, we have gained international exposure through our import and export trading of commodities business in Australia and our oil exploration and production business in Indonesia. We expect to further enhance our international operating experience through our oil exploration and production business in Kazakhstan following the Proposed Acquisition.

According to the National Bureau of Statistics of China, the PRC's GDP has grown at a compound annual growth rate of 13.1% from 1998 to 2006. Due to a rapid increase in oil consumption, PRC oil consumption has consistently exceeded production since the mid-1990's. Continued economic growth is expected to drive further demand for energy and natural resources, including oil, in the PRC. We believe our established presence in the PRC and international operating experience in energy and natural resources industries, in particular, our oil operations experience in Indonesia and, prospectively, Kazakhstan, position us well to be a leading provider of oil and other natural resources to the PRC market.

Our existing corporate governance, reporting systems and Hong Kong listing provide a stable platform for financial stability and success.

We have been listed on the Hong Kong Stock Exchange since 1997 and have developed a strong corporate platform focused on sound corporate governance, strict compliance with financial reporting standards and timely disclosure to our stakeholders of business developments. We believe this enhances stakeholders' confidence in our business and significantly improves our cost of and access to financing when compared to privately-held

companies. We are subject to a comprehensive set of rules and regulations relating to corporate governance standards, internal controls and procedures and financial reporting standards applicable to companies listed in Hong Kong. We are required to prepare our financial statements in accordance with HKFRS, to publish our annual and semi-annual results and to seek independent director or shareholder approvals for certain types of business transactions. We believe these requirements help to promote the best interests of our shareholders, creditors and our company as a whole. We will further leverage this discipline in management as we integrate our newly acquired businesses and expect our stakeholders will continue to benefit from the transparency afforded by our corporate governance standards.

Our Strategies

We seek to become a major oil producer with diversified investments in other key natural resources segments such as aluminum, coal, manganese and iron ore, as well as import and export trading of commodities. We intend to achieve our long-term objectives by focusing on the following strategies, while simultaneously maintaining a healthy capital structure:

Capitalize on our relationship with CITIC Group to continue to achieve strong financial performance.

We intend to continue to capitalize on our relationship with CITIC Group to benefit our business in the energy and natural resources industries in the PRC and overseas. Exercise of sound business judgment in assessing each opportunity CITIC Group introduces to us in the future will ensure that we continue to grow our business at a manageable pace and that any future transactions are accretive to our profits and cash flows. We intend to remain an active participant in the energy and natural resources industries, in particular, the oil industry, in the PRC. We aim to benefit from the positive market dynamics driven by increasing market demand as the PRC economy continues to grow. We intend to draw on support and resources accessible to us through CITIC Group to capture future business opportunities that will add valuable natural resources interests to our investment portfolio, further diversify our revenue sources and generate profit and cash flow for our business.

Capitalize on growing market demand for oil and other natural resources in the PRC and overseas.

Our long-term goal is to become a major energy and natural resources provider to the PRC and other international markets. In particular, the growth of the PRC economy has driven strong demand growth for energy and natural resources, including oil, in recent years. Such demand growth is expected to continue in the future. Following the Proposed Acquisition, we will become one of the largest PRC-controlled oil producers active in overseas oil production. We expect to take advantage of favorable market dynamics in the PRC and overseas to capitalize on acquisition and joint venture opportunities in respect of oil and other natural resources assets globally.

Further diversify our investment portfolio to realize synergies across our business segments and mitigate investment risks.

Our goal is to continue to take advantage of the breadth of our management expertise to pursue investment targets that will give us access to large natural resource reserves and generate sustainable cash flows. Maintaining a well diversified investment portfolio is expected to provide us with multiple sources of revenue, make us less susceptible to downward cycles in a particular natural resources segment and enable us to realize synergies across our business segments. We are structuring our investment portfolio to enable us to maximize the value of our business while minimizing investment risks. For example, we intend to utilize the distribution network we established through our import and export commodities trading business to distribute natural resources products associated with the various segments in which we invest.

Continue to recruit, retain and train talented professionals with operating experience in natural resources businesses.

We believe a strong management and professional team is critical to our continued success. We expect our management and professional team to be closely involved in the operations of our investments and joint ventures in order to monitor their performance and ensure efficient allocation of our capital resources. We strive to continue to recruit, retain and train talented professionals with operating experience in natural resources businesses. We seek to attract talented professionals who want to join a dynamic and growing company with the success and strong financial performance we have demonstrated since our entry into the energy and natural resources industries. In particular, we are and will continue to be committed to attracting talented management and professional staff with experience in the oil industry in the PRC and overseas. Further, we intend to retain top performing employees by continuing to invest in training programs to improve and upgrade their management and professional skills. We believe our listing status and reputation position us to achieve these goals.

Our Principal Business Segments

Oil Operations

Oil Product Overview

In 2006, KUFPEC, a subsidiary of Kuwait Petroleum Corporation, invited proposals as part of a tender process for an acquisition of the Oil Interest in Indonesia. CITIC Seram Energy Limited, or CITIC Seram, a wholly-owned subsidiary of CITIC Resources, was the successful bidder in the tender process for a majority interest in the Oil Interest in Indonesia.

Following its successful tender, CITIC Seram entered into a sale and purchase agreement with KUFPEC on July 11, 2006, to acquire the Oil Interest in Indonesia, together with a corresponding interest in a joint operating agreement relating to the exploration, development and production of oil in the Seram Island Non-Bula Block for a consideration of US$97.4 million, subject to adjustment. The latest estimated adjustment was US$7.9 million pending confirmation by both parties. The acquisition was completed in November 2006. CITIC Seram had incurred total legal and professional fees of HK$53.6 million (US$6.9 million) for the acquisition. These legal and professional fees had been capitalized in the investment cost.

The Seram Island Non-Bula Block occupies an area of approximately 4,500 square kilometers on Seram Island in Indonesia. The principal field in the Seram Island Non-Bula Block is the Oseil Field. The development of the Oseil Field was divided into two phases in accordance with the production sharing contract. The first phase included the proposed acquisition and processing of three-dimensional seismic data, drilling of wells, well completion, installation of production facilities, pipelines, storage facilities, oil export facilities and other supporting infrastructure to operate and produce the wells, and establishing a commercial market for Oseil oil. The second phase included the drilling and completion of additional development wells and expansion of production facilities, pipelines, storage facilities, oil export facilities and other supporting infrastructure. From 1988 to 2002, four exploration wells were drilled in the Seram Island Non-Bula Block, resulting in commercial discovery in the Oseil Field. The average production for the year ended December 31, 2006 was approximately 4,700 barrels per day of 15 to 22 degree API oil. As the operator, we seek to improve our production level and are initiating additional seismic exploration programs and drilling of additional exploration wells. As of December 31, 2005, the estimated gross reserves of the Oseil Field consisted of approximately 7.0 million barrels of proved reserves, 6.0 million barrels of probable reserves and 26.1 million barrels of possible reserves according to a report prepared by DeGolyer and MacNaughton, an independent third party oil and gas consultant.

Pursuant to the production sharing contract, the contractors thereunder have an exclusive right to explore, develop and produce oil from the Seram Island Non-Bula Block until 2019. The contractors are responsible to Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi, or BPMIGAS, the oil and gas upstream regulatory authority in Indonesia, for the execution of all operations at the Seram Island Non-Bula Block and for

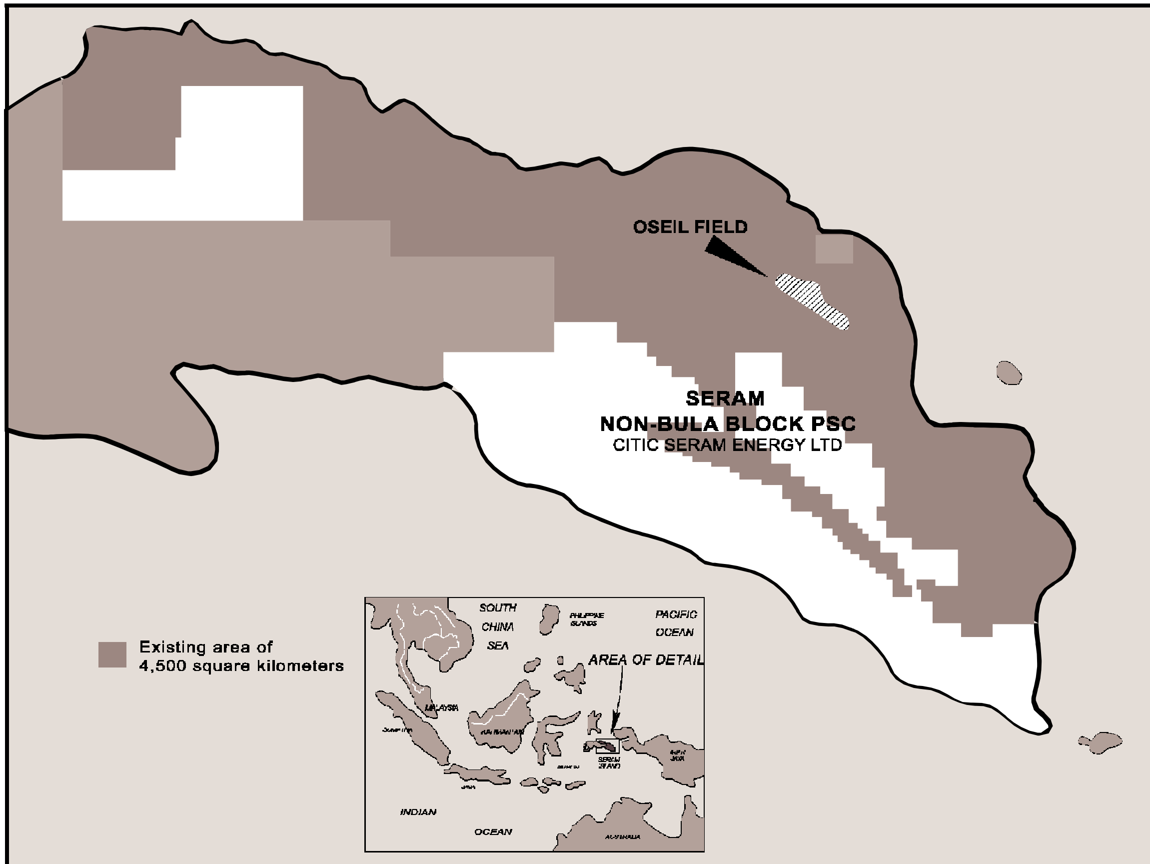
the provision of all financial and technical assistance relating to these operations. Prior to any deduction for the recovery of operating costs, the contractors and BPMIGAS are entitled to receive a quantity of petroleum each year equal to 15.0% of the oil production for that year, or the first tranche petroleum, which is divided among the contractors as to 62.5% and BPMIGAS as to 37.5%. After deduction of the first tranche petroleum and recovery of operating costs by the contractors, the balance of proceeds is shared between the contractors as to 62.5% and BPMIGAS as to 37.5%. CITIC Seram's 51.0% participating interest in the Seram Island Non-Bula Block production sharing contract affords an effective 31.9% economic interest in the Seram Island Non-Bula Block production sharing contract.

CITIC Seram is the operator of the Seram Island Non-Bula Block. This is the first project in which we are actively involved in the day-to-day management and operation of an oil business. Day-to-day management is carried out by both CITIC Seram employees brought in after the acquisition and employees transferred to CITIC Seram from KUFPEC, and include geophysicists, petroleum engineers, drilling engineers, field technicians, health, safety and environmental officers and other relevant qualified personnel. The management team at CITIC Seram is under supervision of our management team in charge of oil operations at CITIC Resources.

As at the date of this offering circular, the percentage interest held by the participants in the Seram Island Non-Bula Block production sharing contract is as follows:

	Participating interest
CITIC Seram	51.0%
KUFPEC	30.0%
Gulf Petroleum Investment Company k.s.c.c.	16.5%
Lion Petroleum (Seram) Limited	2.5%
Total	100.0%

The following is a map of the Seram Island Non-Bula Block in Indonesia:



Production of Oil Products

Due to its high sulphur content, oil produced under the Seram Island Non-Bula Block production sharing contract is fractionated into and sold as HSFO and naphtha. HSFO is a type of fuel typically used for steam boilers in the manufacturing industry. Naphtha is an intermediate oil refining product used primarily as feedstock for the production of other petroleum products. As of the date of this offering circular, we operate 12 wells in the Seram Island Non-Bula Block. For the year ended December 31, 2006, the average production of oil under the Seram Island Non-Bula Block production sharing contract was approximately 4,700 barrels of 15 to 22 degree API oil per day.

The following table sets forth the operating data under the Seram Island Non-Bula Block production sharing contract in Indonesia for the year ended December 31, 2006:

	For the year ended December 31, 2006	
	HSFO	**Naphtha**
Sales volume (in million barrels) [(1)]	1.5	0.1

Note:

(1) The operating data for the year ended December 31, 2006 relate to those of KUFPEC, the party from which we acquired the Oil Interest in Indonesia. Although the transaction was completed in November 2006 and was retroactively effective from January 1, 2006, the operating results from the Seram Island Non-Bula Block production sharing contract in Indonesia for the period from January 1, 2006 up to the completion of the acquisition were not consolidated with the results of operations of CITIC Resources for 2006. Instead, the acquisition cost was reduced. The financial data of the Seram Island Non-Bula Block in Indonesia are prepared in accordance with

Indonesian GAAP. We have an effective economic interest of 31.9% under the Seram Island Non-Bula Block production sharing contract in Indonesia. See "Management's Discussion and Analysis of Financial Condition and Results of Operations of CITIC Resources—Factors Affecting CITIC Resources' Results of Operations—Cost Structure of CITIC Resources' Oil Business".

Productive oil wells consist of producing oil wells and oil wells capable of production, including those awaiting connection to production facilities. During the year ended December 31, 2006, there were 12 wells in the Seram Island Non-Bula Block.

Oil Development

Seram Island Non-Bula Block occupies an area of approximately 4,500 square kilometers. The following table sets forth information regarding our developed and undeveloped area as of December 31, 2006.

	As of December 31, 2006
	(in square kilometers)
Developed area(1)	9.3
Undeveloped area(2)	4,490.7
Total	4,500.0

Notes:

(1) Developed area is area spaced or assigned to productive wells.

(2) Undeveloped area is area on which wells have not been drilled or completed to a point that would permit commercial production of oil, regardless of whether such area contains proved reserves.

Development wells are wells drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive for the purpose of producing hydrocarbons. Exploratory wells are wells drilled to find and produce oil or gas in an unproved area, to find a new reservoir in a field previously found to be productive for oil or gas in another reservoir, or to extend a known reservoir.

In addition to development of our productive wells, we also engage in exploration, seismic and drilling activities as part of our exploratory program to discover further oil resources for future production. The number of wells we drill will vary depending on availability of capital resources, the cost of each well, and the estimated recoverable reserves attributable to each well.

The following table sets forth the increase in the number of productive wells in Seram Island Non-Bula Block for the years ended December 31, 2004, 2005 and 2006:

	Increase in productive wells
2006	2
2005	6
2004	1

Productive oil wells consist of producing oil wells and oil wells capable of production, including those awaiting connection to production facilities.

Oil Reserves

As of December 31, 2005, the estimated gross reserves at the Oseil Field were 7.0 million barrels of proved reserves, 6.0 million barrels of probable reserves and 26.1 million barrels of possible reserves according to a report prepared by DeGolyer and MacNaughton, an independent third party oil and gas consultant. Some of the old wells in the Seram Island Non-Bula Block experience high water cuts resulting from water coning that increases the cost of extraction. We believe that if we are able to rectify the situation, we will be able to maintain historical production levels, albeit at an increased cost of production.

The following table sets forth the estimated reserves in the Oseil Field as of December 31, 2005:

	As of December 31, 2005 (in million barrels)
Reserves	
Proved	
Developed	4.3
Undeveloped	2.7
Subtotal	7.0
Probable	6.0
Possible	26.1

Transportation

Oil produced from the wells flows into oil fractionating facilities to produce HSFO and naphtha. HSFO and naphtha is stored in storage facilities and flows through separate pipelines connected with our jetty facility on Seram Island. Transportation is undertaken by the end customers who load the HSFO and naphtha into their tankers and ship to their respective destinations. Products ownership and risk transfer upon loading onto the customers' designated tankers.

Sales and Marketing

Currently, all our HSFO and naphtha produced under the Seram Island Non-Bula Block production sharing contract in Indonesia is marketed and sold through KUFPEC. We do not participate in the sales of marketing of HSFO and naphtha by KUFPEC and the revenue we are able to generate from the sales of HSFO and naphtha produced from the Seram Island Non-Bula Block is in part determined by the price KUFPEC is able to obtain in its distribution to the end customers.

Properties

We maintain various production facilities and equipment including pipelines and facilities for gathering oil and separating oil and gas, power generation facilities to use gas as power for operation, processing facilities to fractionate oil into HSFO and naphtha, storage facilities with a capacity of approximately 0.4 million barrels of HSFO and 0.1 million barrels of naphtha, export facilities to meter and export to end customers' tankers, and supporting infrastructure such as camps, workshops and roads to support oil production and delivery of oil products.

Aluminum Smelting

Our business interest in aluminum smelting consists of a 22.5% interest in PAS, an unincorporated joint venture that was established in 1984. Alcoa and Marubeni own the remaining 55.0% and 22.5%, respectively, of PAS. PAS primarily produces high-quality primary aluminum ingots, most of which are exported.

PAS is located in Portland in southwestern Victoria, Australia. PAS commenced production in 1986, and, as of December 31, 2006, had over 600 employees and a maximum annual production capacity of approximately 360,000 tons of aluminum ingots. In 2006, revenue from PAS attributable to us was HK$1,602.9 million (US$205.1 million).

PAS's day-to-day operations are managed on behalf of the joint venture participants by Alcoa Portland Aluminum Pty. Ltd., a wholly-owned subsidiary of Alcoa. PAS has a joint venture participant management committee responsible for reviewing the overall progress and performance of PAS as well as PAS' financial

reports. Each joint venture participant is entitled to appoint one member to the management committee, with each member entitled to voting rights equal to the participant's share of interest in the PAS joint venture. Each joint venture participant is entitled to its proportionate share of PAS' aluminum ingot production based on the participant's joint venture interest, and each participant is responsible for marketing and selling its share of aluminum ingots. We have designated CATL, an entity that is 77.7% owned by us as of December 31, 2006, as our exclusive sales agent responsible for marketing and distributing our share of aluminum ingots produced by PAS. CATL sells the aluminum ingots to a variety of multi-national customers, exporting to locations mainly in the Asia-Pacific region such as Korea, Japan, the PRC and Taiwan. For more information on CATL, see "—Import and Export Trading of Commodities".

The primary raw material used in aluminum smelting production is alumina. PAS sources all of its alumina requirements from Alcoa's Kwinana, Pinjarra and Wagerup refineries in Western Australia. Each participant has its own alumina supply agreement with Alcoa. Alumina is shipped from Alcoa's refineries in Western Australia to PAS via PAS' own vessel. Alumina is unloaded at the port using a vacuum unloading system and then transported to PAS through a 4.5 kilometer enclosed conveyor. Petroleum coke, which is used in the production of consumable carbon anodes that are essential to the smelting process, is imported from the United States and is also unloaded at the port of Portland via the same system.

PAS has adopted a vigorous environmental protection program. As a result, we believe that PAS is a very clean and efficient aluminum smelter meeting international standards. PAS utilizes leading smelting and emission control technologies developed by Alcoa. As a result of various process and technology improvements, PAS has reduced solid general waste output from more than 1,100 cubic meters per month in 1989 to less than two cubic meters per month today.

Coal Mining

We hold a 7.0% interest in CMJV, an unincorporated joint venture. The current joint venture participants of CMJV are as follows:

Joint Venture Participant	Parent Company	Interest
Coppabella Coal Pty Limited	Macarthur Coal	73.3%
CITIC Australia Coppabella Pty Limited	**CITIC Resources Holdings Limited**	**7.0%**
Mapella Pty Limited	Marubeni Corporation	7.0%
Winview Pty Limited	Sojitz Corporation	7.0%
KC Resources Pty Limited	JFE Shoji Trade Corporation	3.7%
NS Coal Pty Limited	Nippon Steel Trading Co. Limited	2.0%
Total		100.0%

CMJV has two open cut coal mines: namely, the Coppabella mine and the Moorvale mine. The mines are located in Bowen Basin in Queensland, Australia, 140 kilometers and 157 kilometers, respectively, by rail from the Dalrymple Bay Coal Terminal coal shipping seaport. CMJV primarily produces PCI coal. PCI coal is predominantly sold to steel mills for use in the production of iron from iron ore. CMJV is one of the five producers of PCI coal in Australia. As of December 31, 2006, CMJV had over 720 employees and contractors and an aggregate production capacity of 6.6 million tons per annum of coal. In 2006, revenue from CMJV attributable to us was HK$274.8 million (US$35.2 million).

CMJV has a management committee responsible for the overall management and control of the joint venture. Except for Macarthur Coal, which is entitled to appoint two representatives to the management committee, each joint venture participant is entitled to appoint one representative, with each representative entitled to such number of votes that is proportionate to the participant's joint venture interest. Generally, the day-to-day operations of CMJV are managed on behalf of the joint venture participants by the management

company, Macarthur Coal (C&M) Management Pty Limited, or MCCM, formerly known as Australian Premium Coals Pty. Ltd., a company in which we have a 7.0% interest. MCCM contracts out certain aspects of the operations, such as the mining operations and coal handling and preparation, to other contractors. However, in December 2006, the mining operations of a small mining contractor in the Coppabella mine were purchased as the first stage of a process to become an owner-operator.

Each CMJV joint venture participant is entitled to its pro rata share of the coal produced. All CMJV joint venture participants have appointed MCCM as the agent to sell their coal. In turn, MCCM uses the joint venture participants as sub-agents to market the coal. Most of the coal produced by CMJV is sold to steel makers in Asia, Europe and South America.

In order to ensure that the quality of the coal meets customer specifications, coal quality is monitored throughout the production process. Coal is sampled and analyzed during exploration drilling, prior to mining, at the preparation plant feed stage, on delivery at the terminal and during ship loading prior to export.

Coal produced by CMJV is transported by rail to the Dalrymple Bay Coal Terminal and then shipped overseas. CMJV has entered into long-term agreements with Queensland Rail and Babcock & Brown Infrastructure for rail and sea transportation of its coal. CMJV's coal is loaded onto Queensland Rail's electric trains at the mines' dedicated rail loops at a rate of 3,000 tons per hour. Each train has a unit capacity of 10,000 tons. Coal is then transported by Queensland Rail's trains to the Dalrymple Bay Coal Terminal. The Dalrymple Bay Coal Terminal operates 365 days per year and can accommodate vessels of up to 200,000 deadweight tons. The Dalrymple Bay coal shipping terminal has a loading rate of 7,200 tons per hour and a current capacity of 54 million tons per annum.

Coppabella Mine. The Coppabella mine completed its first shipment of PCI coal in November 1998. As of June 30, 2006, the mine has 56.9 million tons of measured resources and 126.2 million tons of indicated resources, and the remaining life of the mine is currently estimated to be approximately 17 years. Roche Mining Pty Limited is currently its principal mining contractor.

Moorvale Mine. The Moorvale mine completed its first shipment of export coal in December 2003. As of June 30, 2006, the mine has 44.0 million tons of measured resources and 69.5 million tons of indicated resources, and the remaining life of the mine is currently estimated to be about 12 years. Leighton Contractors Pty Limited is currently the principal mining contractor.

Import and Export Trading of Commodities

Our commodities import and export operations are focused primarily on trade between the PRC and Australia, which is conducted through our subsidiary, CATL, a company listed on the Australian Stock Exchange. As of December 31, 2006, we held approximately 77.7% of the issued and outstanding shares of CATL.

Profit in commodities import and export is generated by sourcing products from suppliers and on-selling those products to CATL's customers. CATL has an experienced import and export team capable of sourcing a number of commodities and products from various regions and suppliers around the world. CATL's commodities import and export activities are focused primarily on bulk commodities, including base metals and mineral resources. CATL's import and export trading business consists of the following:

Exports from Australia to the PRC

- *Alumina.* Alumina exports to the PRC generally account for the largest portion of CATL's pre-tax profit. CATL sells alumina primarily to smelters and traders in the PRC. CATL sources alumina from Alcoa pursuant to a five-year long-term supply contract, as well as from other international alumina producers and traders.

- *Iron ore.* Iron ore exports to the PRC account for a significant portion of CATL's pre-tax profit. CATL sources iron ore from various producers in Australia, India and South Africa, and sells iron ore primarily to steel mills in the PRC. To secure a long-term supply of iron ore, CATL signed a long-term offtake agreement with Aztec in August 2006 to procure 1.5 million tons of iron ore per year starting from 2007. The term of this contract is for the shorter of 15 years or the life of the Koolan Island iron ore mine located in Western Australia. The mine has mineral resources of approximately 53.0 million tons of high quality iron ore.

Exports from the PRC overseas

- *Steel.* CATL commenced trading of steel products in the first half of 2006. CATL sources steel from producers in the PRC and sells steel products primarily to distributors in Europe and other countries. CATL's focus is to consolidate this into its existing import and export trading business and make it a regular and sustainable trading line.

Imports to Australia from overseas

- Steel. CATL imports to Australia general steel products sourced from producers in the PRC and Taiwan.
- *Tires and wheels.* CATL sources its tires and wheels primarily from PRC manufacturers. CATL's tires and wheels import business has six sales offices and warehouse facilities in Australia servicing customers, mainly retail customers, across the country.
- *Batteries.* CATL imports to Australian customers automobile and industrial batteries produced in the PRC.

Manganese Mining and Processing

In August 2005, we, through our 80.0%-controlled subsidiary, CITIC Dameng, entered into a joint venture agreement with Guangxi Dameng to establish CITIC Dameng Mining to engage in manganese mining and processing in Guangxi Zhuang Autonomous Region in the PRC. CITIC Dameng Mining began operations in March 2006.

CITIC Dameng Mining is 60.0%-owned by CITIC Dameng and 40.0%-owned by Guangxi Dameng. As a result, we own an effective 48.0% interest in CITIC Dameng Mining. Pursuant to the joint venture contract, Guangxi Dameng contributed to CITIC Dameng Mining mining rights, land use rights, operational assets and liabilities and certain long-term investments, while CITIC Dameng contributed HK$288.5 million (US$36.9 million) in cash. Three of the five members of the board of directors of CITIC Dameng Mining are nominated by CITIC Dameng.

The products produced by our manganese mining and processing business primarily include electrolytic manganese metal, silicon-manganese alloy, metallurgical manganese ore, natural discharge manganese, manganese sulphate and sintered ore. We sell manganese to various producers for further processing and to steel and battery producers in the PRC and overseas. For the year ended December 31, 2006, revenue from CITIC Dameng Mining attributable to us was HK$538.0 million (US$68.9 million).

Long-term investments in energy and natural resources companies

Coal

We have an approximately 11.6% equity interest in Macarthur Coal, which is an Australian resources company listed on the Australian Stock Exchange. Macarthur Coal's principal product is PCI coal. Macarthur

Coal derives substantially all of its coal production from the Coppabella and Moorvale mines through its joint venture interest of 73.3% in CMJV. In addition to coal production, Macarthur Coal is engaged in a number of exploration projects to identify new mines in the Bowen Basin in Australia.

Oil and Gas

In 2004, Richfirst Holdings Limited, or Richfirst, our subsidiary, entered into a farm-out agreement with Ivanhoe, a company quoted on the Nasdaq Capital Market and listed on the Toronto Stock Exchange, and certain of its affiliates, pursuant to which Richfirst acquired a 40.0% participating interest in the contractors' rights and obligations under a 30-year petroleum development and production sharing contract between Pan-China Resources Limited, an indirect wholly-owned subsidiary of Ivanhoe, and China National Petroleum Corporation relating to the development and production of the Kongnan Block within the Dagang oilfield in the PRC. In February 2006, Richfirst exercised its right under the farm-out agreement to convert its participating interest into common shares in, and a loan due from, Ivanhoe. As of December 31, 2006, Richfirst held 2.9% of Ivanhoe's issued and outstanding shares.

Ivanhoe is engaged in oil and gas exploration and production in the United States and the PRC. Ivanhoe is currently evaluating the use of several enhanced oil recovery processes, including the Ensyn RTP™ technology, which upgrades the quality of heavy oil by producing lighter and more valuable oil. Ivanhoe has also performed project feasibility studies relating to gas-to-liquid technology used to convert natural gas into synthetic fuels, such as clean transportation fuels and other synthetic petroleum products.

Iron Ore

We own a 0.8% shareholding in Mount Gibson, an Australian iron ore mining company listed on the Australian Stock Exchange, as a result of the takeover bid by Mount Gibson for Aztec in December 2006. Aztec was primarily focused on the evaluation and development of the Koolan Island iron ore project, or Koolan Island Project, in the Kimberley region in Western Australia.

Our original investment in Aztec not only provides us with gains from a long-term investment, but also ensures the availability of certain products for our commodities import and export trading business. In August 2006, CATL entered into a long-term iron ore offtake contract with Aztec pursuant to which Aztec will supply up to 1.5 million tons of iron ore per year to CATL for the shorter of 15 years or the life of the Koolan Island iron ore mine. The amount of iron ore to CATL under the contract will be based upon actual production. The prices under the offtake contract are based on the annual benchmark price negotiated by the major Pilbara producers for equivalent iron ore products.

Plywood

We used to conduct our plywood business through Dongguan Xinlian Wood Products Company Limited, or Dongguan Xinlian, the operations of which have ceased as a result of an ongoing legal proceeding with China Foreign Trade Development Company, or CFTDC. See "—Legal Proceedings—Dongguan Xinlian". We intend to dispose of Dongguan Xinlian after the litigation with CFTDC is resolved.

Competition

The energy and natural resources industries are intensely competitive in all aspects. We operate in a highly competitive environment for operating and acquiring assets and companies in the energy and natural resources industries, in particular, the oil industry, obtaining licenses from relevant governments for exploration, development and production of oilfields, and attracting capital and employing trained personnel. Our competitors may be able and willing to pay more for oil assets and to evaluate, bid for and purchase a greater number of assets than our financial or human resources permit. Furthermore, competition arises not only from numerous

domestic and foreign sources of oil but also from other industries that supply alternative sources of energy. In the oil industry, product availability and price are the principal basis of competition.

Environmental, Health and Safety Protection

Our operations are subject to environmental, health and safety protection laws and regulations applicable in the jurisdictions in which we operate. Such laws and regulations govern our exploration, production and other business activities which include, among other things, where and how we handle waste discharges from our operations and air emissions. In particular, these laws and regulations:

- require contractors to conduct an environmental impact assessment and maintain an ongoing environmental management plan that ensures compliance with the guidelines underlying the environmental impact assessment;
- restrict the type, quantity, and concentration of various substances that can be released into the environment in connection with drilling and production activities;
- limit or prohibit activities on certain lands lying within protected areas; and
- impose legal liabilities for pollution resulting from our operations.

These laws and regulations, in particular, restrict air emissions, discharges to surface and subsurface water and disposal of waste resulting from our operations.

We anticipate that the environmental protection laws and regulations of jurisdictions to which we are subject will become increasingly strict and therefore likely to increase our compliance costs. There is no assurance that we will not be subject to increased risks, compliance costs and liabilities inherent in the natural resources industries, in particular, the oil industry.

We believe we comply in all material respects with environmental protection laws and regulations to which we are subject. For the year ended December 31, 2006, we incurred US$8.1 million capital expenditures for environmental protection equipment and facilities. We expect our capital expenditures for environmental protection and compliance with environmental laws to increase significantly in connection with our operation of the Seram Island Non-Bula Block and the Karazhanbas oilfield after completion of the Proposed Acquisition.

Employees

As of December 31, 2006, we had approximately 3,100 employees retained by us and our majority-owned subsidiaries and joint ventures worldwide.

Our success depends to a significant extent upon, among other factors, our ability to attract, retain and motivate qualified personnel. In particular, as we seek to increase our participation in the management and operations of our investments, the ability to attract and retain qualified personnel with the relevant industry experience and operational expertise will become increasingly important. We face extensive competition in recruiting and retaining qualified personnel. See "Risk Factors—Risks Relating to Our Historical Business—Our business could suffer if we are unable to recruit and retain skilled employees and management".

Employee remuneration, promotion and salary increments are assessed based on the employee's performance, professional and working experience, and prevailing market practice and standards. Rent-free housing is provided to certain employees in the PRC.

We operate a defined contribution mandatory provident fund retirement benefits scheme, or the Hong Kong MPF scheme, under the Hong Kong Mandatory Provident Fund Schemes Ordinance, and a defined contribution retirement benefits scheme, or the Australian retirement benefits scheme, under the Australian superannuation

legislation, to eligible employees in Hong Kong and Australia, respectively. We make contributions to the Hong Kong MPF scheme and the Australian retirement benefits scheme based on a percentage of the eligible employee's base salary. The assets of the Hong Kong MPF scheme and the Australian retirement benefits scheme are held separately from the assets of CITIC Resources in an independently administered fund. The contributions to the Hong Kong MPF scheme and the Australian retirement benefits scheme vest fully with the employees at the time of contribution.

The employees of our PRC subsidiaries are required to participate in a central pension scheme operated by the local municipal governments. The PRC subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme.

In June 2004, CITIC Resources adopted a share option scheme to provide incentives and rewards to eligible participants who contribute to our success. See "Management—Share Option Scheme".

Properties

The head office and principal place of business of CITIC Resources are located at Suites 3001-3006, 30/F One Pacific Place, 88 Queensway, Hong Kong.

Legal Proceedings

Dongguan Xinlian

In January 1999, Dongguan Xinlian received a writ of summons from CFTDC claiming for US$6,362,000 and related interest in respect of six re-export contracts purported to have been entered into by Dongguan Xinlian before it became a subsidiary of CITIC Resources. A judgment was issued in February 2000 against Dongguan Xinlian for a sum of US$3,448,000 and Dongguan Xinlian filed an appeal against this judgment.

In August 2003, certain members of the CFTDC management team were sentenced to imprisonment for forging documents, including those presented by them in connection with the claim against Dongguan Xinlian. However, the People's High Court of Guangdong Province issued a judgment in December 2003 against Dongguan Xinlian for US$4,800,000 with related interest. In January 2004, Dongguan Xinlian appealed this judgment to the PRC Supreme Court, requesting the withdrawal of the December 2003 judgment and a decision that it is not liable to CFTDC. In December 2004, the People's High Court of Guangdong Province issued a decision that it would re-hear the case. In December 2005, the People's High Court of Guangdong Province issued a judgment whereby the validity of the December 2003 judgment against Dongguan Xinlian was maintained.

As advised by the legal advisers of CITIC Resources, there were a number of conflicts and discrepancies with regard to the December 2003 and December 2005 judgments. The two judgments were not supported by valid evidence and, although the People's High Court of Guangdong Province acknowledged the criminal liabilities of certain members of the CFTDC management team (including forging the contracts connected to this claim), the People's High Court of Guangdong Province did not, contrary to normal legal procedures, take these factors into account when it issued the December 2005 judgment. In February 2006, Dongguan Xinlian appealed the December 2005 judgment. In the meantime, the Shenzhen Intermediate People's Court has frozen the assets and machinery of Dongguan Xinlian and CITIC Resources has also taken steps to apply for a suspension of the auction of the assets and machinery of Dongguan Xinlian.

The former shareholders of Wing Lam (International) Timber Limited, through which CITIC Resources holds its interest in Dongguan Xinlian, have given an undertaking to indemnify CITIC Resources against all monetary losses that may arise from this claim up to HK$11,862,000, which was the outstanding amount of other loans from these former shareholders as at December 31, 2006. In light of the indemnity from these former shareholders and the advice of the legal advisers of CITIC Resources, CITIC Resources believes that the outcome of this claim will not have a material adverse impact on its financial results.

Macarthur Coal

We have a 7.0% interest in CMJV which is managed by MCCM, or the Manager. Roche Mining Pty Limited, or the Contractor, was contracted to mine coal and overburden at the Coppabella mine for a term of five years commencing from July 1, 2003. In December 2003, the Manager lodged a notice of dispute with the Contractor under the terms of the mining contract. The claim included recovery of loss and damages for higher production costs and demurrage resulting from a failure of the Contractor to deliver coal in accordance with the contract provisions. Subsequently, the Manager received a series of claims from the Contractor.

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

In February 2005, the arbitrator determined that seven of the nine points of claim could proceed to arbitration. The Manager received the detailed points of claim from the Contractor in March 2005 and detailed further particulars in September 2005. In April 2006, the Manager lodged its defense to the points of claim and lodged a counterclaim against the Contractor.

In July 2005, the Contractor lodged a further notice of dispute in relation to alleged additional costs resulting from the superintendent's approval of the 2005 financial year mine plan. The claims were rejected by the superintendent and the subsequent dispute was referred to arbitration in August 2005. In April 2006, the Contractor lodged a consolidated and further amended points of claim in relation to both the 2004 financial year claim and the 2005 financial year claim. In October 2006, the Manager lodged its defense to the consolidated claim.

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

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

The Manager disputes the above claims and will vigorously defend its position in arbitration. The arbitrator has set a date to hear the consolidated 2004 and 2005 financial year claims in June 2007.

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

THE PROPOSED ACQUISITION

The Sale and Purchase Agreement

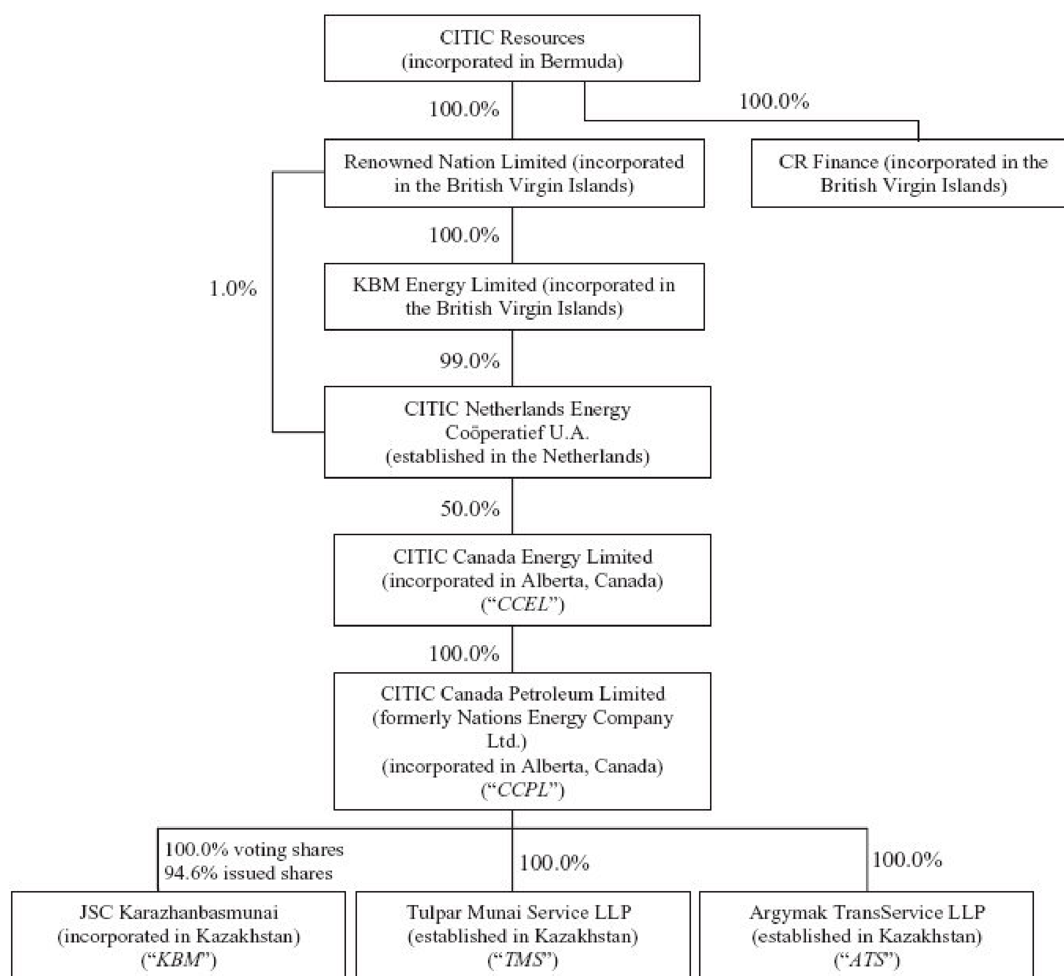
Pursuant to the Sale and Purchase Agreement entered into between CITIC Resources and CITIC Group dated April 30, 2007, CITIC Resources has conditionally agreed to acquire 50.0% of CITIC Group's indirect voting interest in the Kazakhstan Subsidiaries. The remaining 50.0% interest in the Kazakhstan Subsidiaries will be retained by CITIC Group subject to the KMG Option. See "—The KMG Option".

As at the date of this offering circular, CITIC Group's indirect voting interest in the Kazakhstan Subsidiaries comprises (i) 94.6% of the equity, representing 100.0% of the voting rights, of KBM, a joint stock company incorporated under the laws of Kazakhstan engaged in the exploration, development and production of oil with the right to develop and produce oil in the Karazhanbas oilfield in Kazakhstan until 2020; (ii) 100.0% of the participation interests in TMS, a limited liability partnership established under the laws of Kazakhstan engaged in providing oil well drilling, construction and workover services; and (iii) 100.0% of the participation interests in ATS, a limited liability partnership established under the laws of Kazakhstan engaged in providing transportation services and other oilfield related logistics services. The remaining 5.4% equity interest in KBM comprises non-voting preference shares held primarily by current and former employees of KBM. These preference shares confer upon their holders entitlement to receive the higher of (i) annual fixed cumulative dividends of 20.0% of their nominal value regardless of KBM's financial results in any given year and (ii) the amount the holders of these preference shares would receive if the preference shares were to participate ratably with respect to any dividend distributions made on the ordinary voting shares of KBM. The nominal value of the preference shares is 1,000 Tenge per share. As a result, the aggregate cumulative amount of dividends accruing to the holders of these preference shares is at least approximately US$0.2 million each year. The preference shares also confer upon their holders the right to vote in respect of the matters which limit the rights of the holders of preference shares, reorganization and liquidation of KBM and any other matters in the event of a failure to distribute dividends attributable to preference shares in full within three months after expiration of the respective time line.

The purchase price payable to CITIC Group pursuant to the Sale and Purchase Agreement is approximately US$1,003.5 million comprising consideration for (i) the acquisition of all the issued share capital of Renowned Nation Limited represented by one issued share in Renowned Nation Limited with a par value of US$1; and (ii) the assignment of indebtedness in the amount of US$1,003.5 million owed by KBM Energy Limited, a wholly-owned subsidiary of Renowned Nation Limited, to CITIC Group to fund CCEL's acquisition of CCPL pursuant to the Arrangement Agreement.

CITIC Group's interest in the Kazakhstan Subsidiaries was previously acquired by CITIC Group when it acquired Nations through the Arrangement Agreement among Nations, CITIC Group, CCEL, and Nations Petroleum Company Ltd. dated October 25, 2006 and the Plan of Arrangement annexed thereto. The Plan of Arrangement was effected in accordance with the Business Corporations Act of Alberta, Canada. Pursuant to the Plan of Arrangement, CITIC Group, through CCEL, acquired 100.0% of the outstanding shares of Nations, currently known as CCPL. The Plan of Arrangement was unanimously approved by the security holders of Nations present at a duly convened meeting of security holders and the Court of Queen's Bench of Alberta Judicial District of Calgary, which issued its final order approving the Plan of Arrangement on December 19, 2006. The acquisition by CITIC Group through CCEL pursuant to the Plan of Arrangement became effective on December 29, 2006.

We hold our interest in the Kazakhstan Subsidiaries through the following corporate structure (as it relates to the Proposed Acquisition) after giving effect to the Proposed Acquisition:



The KMG Option

Pursuant to the Heads of Agreement executed on December 28, 2006 among CITIC Group, CCEL and KMG, KMG was granted an option exercisable on or before December 28, 2007 to acquire 50.0% of CITIC Group's indirect voting interest in the Kazakhstan Subsidiaries.

As of the date of this offering circular, there is no certainty as to whether the KMG Option will be exercised. If the KMG Option is exercised, each of us and KMG is expected to hold an indirect 50.0% voting interest in the Kazakhstan Subsidiaries after completion of the Proposed Acquisition. On the other hand, if the KMG Option is not exercised before its expiration, each of us and CITIC Group is expected to hold an indirect 50.0% voting interest in the Kazakhstan Subsidiaries.

If the KMG Option under the Heads of Agreement is exercised, KMG will hold an effective 50.0% voting interest in each of the Kazakhstan Subsidiaries. As a result, we will operate the Karazhanbas oilfield in Kazakhstan with KMG jointly as to 50.0% each (exclusive of certain non-voting shares of KBM held by

employees of KBM) in accordance with a shareholders' agreement to be entered into between the parties, or the Shareholders' Agreement, or, if no such agreement is entered into, with the Heads of Agreement. In particular, the Heads of Agreement provides for joint control and representation on the board of directors of the Kazakhstan Subsidiaries. During the five years following the exercise of the KMG Option, the chief executive officer and technical director would be appointed by us. During the same period, KMG would appoint the deputy chief executive officer and chief financial officer. During the five years starting from the sixth year following the exercise of the KMG Option, the chief executive officer and technical director would be appointed by KMG. During the same period, we would appoint the deputy chief executive officer and chief financial officer. During the term of joint operation, each of KMG and us would appoint one marketing and commercial director. In addition, certain decisions critical to the operation of the Kazakhstan Subsidiaries would require unanimous approval by the board or the shareholders. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—If the KMG Option is exercised, we will face management challenges associated with joint operation of the Kazakhstan Subsidiaries with KMG".

The matters that require unanimous approval by the directors of the relevant companies include, among others, the following:

- approval of the annual work programs, annual budgets and capital expenditure programs and any amendments thereto;
- the terms of and entry into any agreements in respect of the sale or supply of oil under a long-term contract or a contract with a value of more than US$15.0 million (other than spot sales of oil conducted on the standard term sale and supply contracts);
- any acquisition or disposal of any asset with a purchase price exceeding US$10.0 million unless in accordance with an approved annual work program, annual budget and capital expenditure program; and
- amendments to the policy as to dividends or returns of capital.

The matters that require unanimous approval by the shareholders of the relevant companies include, among others, the following:

- entry into a new field of business or substantially expanding the business of any of the entities other than in accordance with an approved annual work program and annual budget and capital expenditure program;
- any change to the rights and attributes attached to the existing shares of or interests in any of the entities;
- any merger, amalgamation or other combination of the Kazakhstan Subsidiaries or any sale, transfer or other disposal of or mortgage, charge, pledge or other encumbrance of any shares or interests in the Kazakhstan Subsidiaries; and
- any dissolution, liquidation, winding-up, cessation of existence or receivership of the Kazakhstan Subsidiaries or sale of all or substantially all the assets of the Kazakhstan Subsidiaries, including any asset material to the operation or existence of the Kazakhstan Subsidiaries, their interests in joint ventures and any rights to explore and produce subsurface hydrocarbons.

In the event the directors or the shareholders, as the case may be, are unable to reach a consensus on matters that require unanimous approval, such deadlock may be resolved in accordance with the mechanism set forth in the Shareholders' Agreement. If no such agreement is entered into, the deadlock will be resolved in accordance with the Heads of Agreement. Pursuant to the Heads of Agreement, the directors are required to refer any matter to the shareholders if, after seven days' negotiation in good faith, they are unable to reach a consensus on matters that require unanimous approval by the directors. Similarly, the shareholders are required to refer to any matter to an independent internationally recognized expert in the oil and gas industry if, after seven days of negotiation in

good faith, they are unable to reach a consensus either on matters that require unanimous approval by the shareholders or matters referred to them by the directors. If the parties involved in the deadlock situation are unable to reach an agreement on the appointment of an expert within ten days, the expert will be appointed by any such party by giving notice to the International Centre for Expertise of the International Chamber of Commerce. Upon appointment, such expert must make a determination in writing within sixty days.

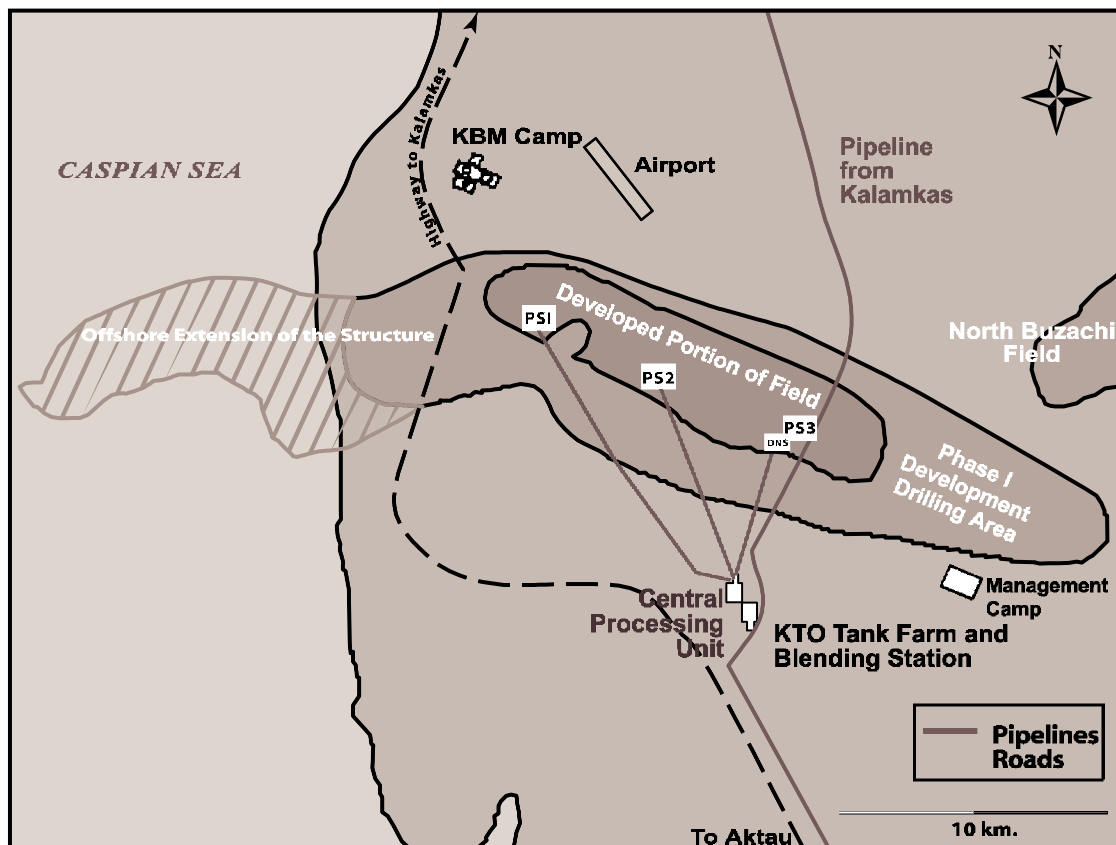
Unless otherwise agreed, the parties to the Heads of Agreement agreed to cause each of the Kazakhstan Subsidiaries and the intermediate holding companies to distribute by way or dividends or return of capital all of their available distributable reserves. In addition, each of KMG and us will receive US$10.0 million in the form of management fees each year (net of any withholding taxes) from KBM, and KMG will receive further a net guaranteed priority return of US$16.2 million each year.

KBM Business Overview

KBM was established as a joint stock company in 1993 through transformation from Karazhanbastermneft, a state-owned oil exploration and production enterprise in Kazakhstan. The core asset of KBM is the subsurface rights for the Karazhanbas oilfield in Mangistau Oblast in Kazakhstan. Under a license for the right to produce hydrocarbons in the Karazhanbas oilfield, granted to KBM by the Kazakhstan government on May 7, 1997, and the Hydrocarbon Contract, KBM has the right to carry out operations relating to the extraction and processing of hydrocarbon in the Karazhanbas oilfield for a term of 23 years, expiring on June 7, 2020. The Karazhanbas oilfield covers an area of approximately 160 square kilometers, has a depth of up to 500 meters and is located on the shore of the Caspian Sea in close proximity to refineries, pipelines and port facilities which supply oil to the major markets in Central Asia, Europe and the Middle East.

The Karazhanbas oilfield is characterized by its shallow field and low paraffin content, making it less capital intensive to drill than oilfields with deep underground reserves or higher paraffin content. In addition, a three-dimensional seismic survey indicates that the Karazhanbas oilfield contains high quality reservoirs with large channel deposits of high porosity and high permeability associated with good flow rates. The quality of oil produced from the Karazhanbas oilfield is typically 19 degree API. Its low pour point at minus 26 degrees Celcius, which is the lowest temperature at which oil will flow, makes it an essential blending component with oil produced in the region, including oil produced by Tengizchevroil, Mangistaumunaigas and CNPC North Buzachi, in order to help maintain flow during the winter season.

The following is a map of the Karazhanbas oilfield in Kazakhstan and its surrounding facilities:



Oil Production

As of the date of this offering circular, there are approximately 1,160 active productive wells in the Karazhanbas oilfield. For the year ended December 31, 2006, the average production of oil from the Karazhanbas oilfield was approximately 42,500 barrels per day. Oil has traditionally been produced in the Karazhanbas oilfield primarily through the recovery process known as CHOPS and water injection in the development drill area. Starting from the end of 2005, pilot tests of the thermal enhanced recovery processes of CSS and steam flooding technologies were implemented on a small scale in the eastern part of the oilfield. To improve recovery rates and increase production volume, we contemplate submission of a new oilfield development plan to the MEMR in 2007 for permission to drill more wells, expand the usage of CSS and steam flooding technologies in the Karazhanbas oilfield and reconfigure the current water flooding technology in the developed area. See "—Production Technologies and Development Plans". We also intend to reduce well spacing in the development drill area from 300 meters to approximately 100 to 150 meters to improve oil recovery rates thereby increasing production volume and redistribute injection wells.

The following table sets forth information regarding oil production from the Karazhanbas oilfield for the year ended December 31, 2006:

	For the year ended December 31, 2006
Revenue from sales of oil before payment of royalties (in million)	US$842.0
Sales volume (in million barrels)	15.6
Average sales price per barrel	US$ 54.0

Oil Development

The Karazhanbas oilfield occupies an area of approximately 160 square kilometers. As of December 31, 2006, there were approximately 72.9 square kilometers of development area, representing area spaced or assigned to productive wells. As of December 31, 2006, there were approximately 87.1 square kilometers of undeveloped area, representing area on which wells have not been drilled or completed to a point that would permit commercial production of oil, regardless of whether such area contains proved reserves.

In addition to development of productive wells, KBM has carried out drilling to explore further oil resources for future production. The number of wells drilled varies depending on the volume approved under the annual work program, the availability of capital resources, the cost of each well, the estimated recoverable reserves attributable to each well and accessibility to the well site.

During the year ended December 31, 2006, KBM drilled a total of 205 wells including 194 productive wells and 11 dry wells. During the year ended December 31, 2005, KBM drilled a total of 135 wells including 132 productive wells and three dry wells. During the year ended December 31, 2004, KBM drilled a total of 107 wells including 105 productive wells and two dry wells.

Oil Reserves

As of December 31, 2006, the estimated gross reserves of the Karazhanbas oilfield in Kazakhstan consisted of approximately 363.8 million barrels of proved reserves, approximately 74.6 million barrels of probable reserves and approximately 21.6 million barrels of possible reserves according to a report prepared by Miller and Lents, an independent third party oil and gas consultant.

The estimated proved reserves and future net revenues expected from such reserves are based on the report prepared by Miller and Lents as of December 31, 2006, a summary of which is included in Appendix A to this offering circular. The report includes standardized measures of income, including PV-10, which is the present value of future net income discounted at a rate of 10.0%. Estimates of future net income were made from proved reserves using oil sales prices in effect as of the dates of the estimates and which are held constant throughout the life of the oilfield.

The following table summarizes information relating to the reserves of the Karazhanbas oilfield for the periods indicated:

	As of December 31,						
	2000	2001	2002	2003	2004	2005	2006
Reserves							
(in million barrels)							
Proved							
Developed	123.4	206.3	278.2	253.7	265.1	229.1	244.0
Undeveloped	102.4	138.6	105.8	137.7	140.9	117.9	119.8
Total proved	225.8	344.9	384.0	391.4	406.0	347.0	363.8
Probable	73.8	94.6	89.6	67.6	110.8	78.9	74.6
Possible	91.5	167.2	138.5	103.9	33.6	29.2	21.6
Future Net Income							
(US$ in millions)							
PV-10 estimates	1,716.3	1,717.7	2,325.9	2,842.7	4,072.1	5,596.3	5,336.2

Reserve estimates are imprecise and may change as additional information becomes available. In addition, estimates of oil reserves are projections based on engineering data. There are uncertainties inherent in the interpretation of this data as well as the projection of future rates of production and the timing of development expenditures. Reservoir engineering is a subjective process of estimating underground accumulations of oil that cannot be measured in an exact way and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment. Reserve reports of other engineers might differ from the reports included in Appendix A of this offering circular. Results of drilling, testing and production subsequent to the date of the estimate may justify revision of this estimate. Future prices received from the sale of oil may be different from the estimates included in Appendix A of this offering circular. The amounts and timing of future operating and development costs may also differ from those used. Accordingly, the reserves set forth in the table above may not ultimately be produced and the proved undeveloped reserves may not be developed within the periods anticipated. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—Oil reserves data are only estimates and may prove to be inaccurate". Investors are cautioned not to construe PV-10 value as representative of the current or future fair market value of the proved reserves. PV-10 value is based on projected cash flows, which do not provide for changes in oil prices or for the escalation of expenses and capital costs and before deduction of tax, overhead and other adjustments. The meaningfulness of these estimates depends upon the accuracy and adequacy of the assumptions upon which they were based.

Production Technologies and Development Plans

Existing Production Technologies

CHOPS is the primary production technology used to extract oil from the Karazhanbas oilfield during the early years of the production life of a well. It is a non-thermal production process through which formation sand is produced with the oil throughout the primary production period of the well. The sand production enhances the near wellbore properties, which increases well productivity and later injectivity if the well is subsequently converted to a water or steam injection well. To improve the manufacturing efficiency of CHOPS, KBM is in the process of replacing sucker rod pumps, or SRPs, with progressing cavity pumps, or PCPs. PCPs are more effective in extracting oil to the surface in wells with a high level of sand and have lower installation and operating costs, and longer run life, than SRPs. Although CHOPS is frequently used by oil producers in Canada, and has been found to improve recovery rates and increase production volume of heavy oil, production volume tends to significantly decrease over time if the reservoir is not duly supplemented by injection of water. In addition, the final disposal of sand incurs additional costs.

Water flooding is the secondary production technology currently used in the developed area of the Karazhanbas oilfield to extract remaining oil reserves to the surface as the recovery rates and production volume decline toward the end of the production life of a well. Water flooding involves injection of water into the reservoir through injection wells to displace residual oil towards the adjacent production wells. In addition, water flooding maintains reservoir pressure at a higher level than that in the wellbores of other producing wells, thereby increasing production volume from the reservoir.

In the development drilling area, after CHOPS is used as the primary production method, thermal recovery methods are used as secondary means to extract oil from certain parts of the oilfield where the reservoir characteristics warrant the use of this technology. Water flooding is used in the remaining areas of the development drilling area. Net pay is the primary reservoir characteristic used in deciding whether to use thermal or non-thermal recovery methods as secondary means to extract oil from a well following production using CHOPS.

Oil extracted from the Karazhanbas oilfield passes through a central processing unit, where it travels through a series of surge tanks, heaters, free water knock out systems and desalination units to separate oil from water and sand to meet the specification stipulated by KTO for transportation through KTO pipelines. Processed

oil is then transported to KBM's storage tanks at KTO's facility for blending and onward transportation to end customers.

Proposed New Production Technologies

In order to improve recovery rates and to increase oil production volume, KBM intends, primarily over the next five years, to implement a long-term oilfield development plan by introducing CSS and steam flooding technologies in the Karazhanbas oilfield. Trials conducted on the Karazhanbas oilfield by using CSS technology in five wells and steam flooding technology in 14 wells in a pilot program have yielded encouraging results. KBM expects to employ CSS technology in up to 80 wells by the end of 2007 and expand the use of steam flooding technologies beginning in 2008. The adoption of CSS and steam flooding technologies, together with the introduction of additional wells, is expected to improve recovery rates and increase production volume as the new technologies are applied throughout the oilfield as early as 2007.

CSS involves a three-step exercise with initial steam injection lasting for approximately two weeks, followed by another approximately two weeks' soaking to allow heat to penetrate into the reservoir and reduce the in situ oil viscosity and the final production stage where oil is produced from the well by using SRPs. This exercise is repeated until such time as the cost of injecting steam exceeds the profit that can be made from oil production. CSS and steam flooding technologies are applied after CHOPS is employed for a period of time. Further, the production cycle of CSS technology depends on the characteristics of the reservoir. KBM expects the wells on the Karazhanbas oilfield to undergo three to five cycles and trials carried out in the pilot program indicated that the production cycle of CSS technology employed in the Karazhanbas oilfield lasted for approximately ten months.

Steam flooding involves continuous injection of steam into the reservoir through injection wells to heat the oil and thereby reduce oil viscosity to improve flow. In addition, hot water condensed from steam and steam heat serves to displace residual oil towards the adjacent production wells. Further, steam enables oil to be more easily removed from the rock and therefore improves ultimate oil recovery rates.

The results demonstrated by application of CSS and steam flooding technologies in the pilot program have generally been in line with our planning and expectation to improve recovery rates and increase production volume.

Redevelopment of Existing Wells and Introduction of New Wells

In addition to the adoption of CSS and steam flooding technologies to increase production volume in the development drilling area of the Karazhanbas oilfield, KBM intends to increase oil production capacity as a means to achieve higher production volume primarily over the next five years through reactivation of retired wells, realignment of the waterflood and drilling infill wells. In addition, the current average distance between wells in the development drilling area of the Karazhanbas oilfield is approximately 300 meters. KBM believe this spacing can be improved for optimal oil recovery. As a result, KBM intends to reduce well spacing to 150 meters in the old central area and to 100 to 150 meters in the development drill area. This way, KBM will be able to drill more wells on the oilfield to increase production volume. From 2007 to 2011, KBM plans to reactivate approximately 200 old wells and drill approximately 1,000 new wells. More immediately, KBM intends to reactivate approximately 100 old wells and drill approximately 150 new wells in 2007.

Supporting Infrastructure and Facilities

In anticipation of increased production capacity as a result of the adoption of CSS and steam flooding technologies, redevelopment of old wells through redevelopment and infill and introduction of new wells, KBM is in the process of installing the following supporting infrastructure and facilities to meet increased production requirements.

- *Steam generation system*

CSS and steam flooding are enhanced thermal oil recovery technologies that consume significant amounts of steam. In anticipation of increased production requirements for steam as CSS and steam flooding technologies are employed in an increasing number of wells in the Karazhanbas oilfield starting from 2007 and 2008, respectively, KBM intends to expand its steam generation facilities to meet increased production requirements. Steam required for both CSS and steam flooding technologies is currently supported by two steam generators completed in 2005. KBM expects to complete installation of two more steam generators in the second half of 2007. In addition, another steam plant with the capacity to house four steam generators is currently in the design stage.

- *Power supply system*

Currently, the Karazhanbas oilfield is serviced by one power substation and two 110 kilovolt power lines connecting with the power grid in Aktau. KBM believes the current capacity will be sufficient to meet its demand in the short term. In anticipation of increased requirements for electricity necessary to operate the expanded steam generation system, KBM plans to install additional power supply facilities by adding a new power line, a new power substation and a second new power substation in the medium to long term.

- *Natural gas utilization system*

Currently, natural gas associated with oil production at the Karazhanbas oilfield is flared. In response to recent government regulations which restrict natural gas flaring and are expected to ultimately prohibit natural gas flaring effective from January 1, 2009, and to utilize natural gas associated with oil production to reduce costs arising from the purchase of natural gas from third parties, KBM is at the design stage of installing natural gas compression and dehydration systems at each field gathering station. KBM expects to fully utilize natural gas associated with oil production at the Karazhanbas oilfield by January 1, 2009. In light of the historical natural gas price trends, KBM expects that natural gas prices will increase significantly in 2007. The ability to utilize natural gas associated with oil production at the Karazhanbas oilfield will not only ensure our compliance with new natural gas flaring regulations, but also result in significant cost savings.

- *Water supply system*

KBM intends to install a water filtration system capable of purifying water produced with oil during the extraction process for use in the steam generators. In light of the historical water price trends, KBM expects that water prices will continue to increase significantly in the future. Installation of an internal water purifying system is expected to result in substantial cost savings arising from the purchase of water from third parties.

- *Other supporting facilities*

In response to increased production requirements as a result of increased production capacity as well as to improve production efficiency, KBM seeks to expand its oil separation facilities, replace steel transportation pipes with fiberglass pipes to prevent erosion and install additional sand removal equipment to separate oil from sand. Replacement of steel pipes with fiberglass pipes is expected to result in significant cost savings.

KBM's long-term oilfield development plan in the next five years, which primarily includes the adoption of new production technologies and associated increases in field processing capacity, is subject to approval by the Kazakhstan government. In light of the good relationship KBM established with the Kazakhstan government in the past few years, KBM does not anticipate significant obstacles in obtaining such approval. However, there is no assurance that KBM will be able to obtain the necessary approval in a timely manner or at all. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—We may not be able to successfully implement our long-term oilfield development plan in the Karazhanbas oilfield".

Transportation

Oil produced from the Karazhanbas oilfield is transported via infrastructure owned or operated by third parties, including pipelines, railroads and vessels. Substantially all of the oil produced from the Karazhanbas oilfield is transported through four routes. The principal transportation route is the Aktau-Makhachkala-Novorossiysk route. Oil transported through this route first travels from the Karazhanbas oilfield to the port of Aktau through KTO pipelines and then to Makhachkala either by sea or through KTO pipelines in Kazakhstan and Transneft pipelines in Russia for further transportation to Novorossiysk, a port in Russia on the Black Sea, for further transportation to end customers in Europe, in particular, Italy, through pipelines, by rail or by sea.

The second transportation route is the Aktau-Samara-Odessa/Primorsk route. Oil transported through this route first travels from the Karazhanbas oilfield to the port of Aktau through KTO pipelines and then to Samara through KTO pipelines in Kazakhstan and Transneft pipelines in Russia for further transportation to the port of Primorsk in Russia on the Baltic Sea or the port of Odessa in Ukraine on the Black Sea, for further transportation to end customers in Europe, in particular, Switzerland, through pipelines, by rail or by sea.

The remaining transportation routes include the Aktau-Baku route and the Aktau-Neka route. Oil transported through the Aktau-Baku route first travels from the Karazhanbas oilfield to the port of Aktau through KTO pipelines and then to Baku, the port in Azerbaijan on the Caspian Sea, by sea for further transportation by rail to Batumi or Novorossiysk before reaching end customers. Oil transported through the Aktau-Neka route first travels from the Karazhanbas oilfield to the port of Aktau through KTO pipelines and then to Neka, the port in Iran on the Caspian Sea, by sea.

A majority of KBM's oil for export sales is distributed through Euro-Asian and travels primarily through the Atkau-Makhachkala-Novorossiysk route with the remainder of the oil distributed through Euro-Asian traveling through the Aktau-Baku route and the Aktau-Neka route. A portion of KBM's oil distributed through Euro-Asian was sold to Iranian companies since 2005. KBM and the Guarantor are required to terminate, or amend to prohibit any sales of oil to Iran under, the Euro-Asian Contract before the net proceeds from this offering are released to us from the Escrow Account. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—U.S. persons, including U.S. underwriters and U.S. investors in the Notes, are exposed to risks associated with directly or indirectly doing business in countries subject to sanctions by the United States".

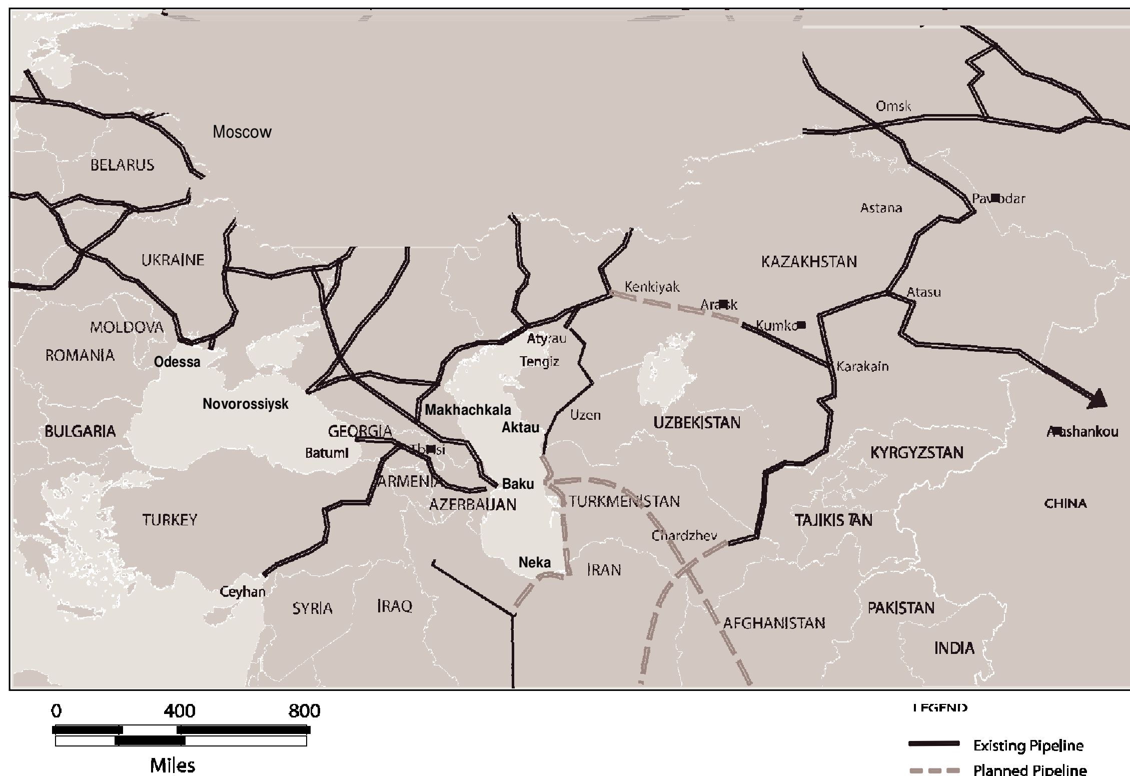
In addition, KBM's oil for export sales is also distributed through Glencore and travels through the Aktau-Samara-Primorsk/Odessa route. Under the contracts entered into with Euro-Asian and Glencore, respectively, oil is sold by KBM either on a FOB basis for delivery for loading at ports on the Caspian Sea, Baltic Sea and Black Sea, or on a DAF basis for delivery at the delivery point for the Druzhba pipeline. For a discussion of the transfer of title and risk of loss attached to KBM's oil, see "—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries—Significant Factors Affecting the Target Group's Results of Operations—International Oil Prices".

The recently completed Baku-Tbilisi-Ceyhan pipeline, which runs from the port of Baku on the Caspian Sea in Azerbaijan through Tbilisi in Georgia to the port of Ceyhan in Turkey, provides oil producers in Kazakhstan, including KBM, access to countries surrounding the Black Sea and the Mediterranean Sea. KBM currently does not utilize this route to transport its oil but may consider doing so if transportation through this route to customers provides KBM better pricing or if KBM is not successful in obtaining sufficient export quotas for alternative transportation channels. See also "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—KBM may not be able to obtain transportation quotas necessary for its export sales" and "—Competition—Competition for Pipeline Access".

Further, the construction of the Atasu-Alashankou pipeline between eastern Kazakhstan and the PRC was completed in December 2005. Additional transportation pipelines connecting western Kazakhstan and the PRC

are being developed, including a new pipeline project connecting Kenkiyak and Kumkol. This connection, when completed, will provide oil and gas operators in western Kazakhstan, including KBM, with access to the PRC.

The following map sets forth port facilities and existing and planned major pipeline routes in Kazakhstan and neighboring countries:



Since Kazakhstan has no direct access to the open sea, oil exports must be transported through pipeline facilities in other countries, in particular, Russia, to reach ports on the Black Sea and the Baltic Sea. Therefore, our oil exports are dependent upon intergovernmental agreements, including the establishment of transportation quotas for the amount of oil that may be transported through the pipelines of KTO, the state-owned pipeline operator in Kazakhstan, and Transneft, the state-owned pipeline operator in Russia. Transportation quotas are controlled by the MEMR in consultation with the Russian government authority in charge of assignment of quotas. In order to receive transportation quotas for its export sales, KBM is required to submit monthly sales plans to KTO and the MEMR. For risks relating to obtaining transportation quotas sufficient for export sales and potential increased competition to obtain quotas from competing oil producers in Kazakhstan, see “Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—KBM may not be able to obtain transportation quotas necessary for its export sales” and “—Competition—Competition for Pipeline Access”.

Sales and Marketing

KBM is required to sell a certain amount of oil produced from the Karazhanbas oilfield to domestic refineries. The remainder is exported. Although there is no legally binding document setting forth the price and quantity at which domestic sales must be made, such sales tend to be at prices lower than export sales and domestic sales historically accounted for approximately 9.0% to 13.0% of the total production volume from the Karazhanbas oilfield. See “Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan

Subsidiaries—We are required to supply a certain amount of our production to domestic refineries at below market prices". For the years ended December 31, 2004, 2005 and 2006, such domestic sales accounted for 9.2%, 12.8% and 11.1% of the production volume from the Karazhanbas oilfield. During the same periods, the average prices for domestic sales were US$14.4, US$19.1 and US$22.9 per barrel compared to average prices for export sales of US$32.7, US$49.3 and US$58.0 per barrel, representing discounts of 56.0%, 61.3% and 60.5%.

Historically, domestic sales have been made to the Atyrau Refinery and export sales mainly to two distributors/customers, Euro-Asian and Glencore, which further sell our oil to their end customers in Europe and the Middle East. The following table sets forth the percentage breakdown of revenues from domestic and export sales and the major markets covered by export sales through our distributors:

	For the year ended December 31,		
	2004	2005	2006
Export Sales			
Euro-Asian			
Europe	66.5%	63.2%	46.6%
Middle East	—	1.1%	21.1%
Subtotal	66.5%	64.3%	67.7%
Glencore			
Europe	27.3%	30.3%	27.6%
Other			
Europe	1.9%	—	—
Total export sales	95.7%	94.6%	95.3%
Domestic Sales			
Atyrau Refinery	4.3%	5.4%	4.7%
Total	100.0%	100.0%	100.0%

The sales and marketing department is responsible for negotiating prices with the two distributors and obtaining transportation quotas from the MEMR on a monthly basis. See "—Pricing" and "—Transportation". Once the monthly quota is obtained from the MEMR, KBM arranges delivery to the distributors at the port of Aktau amounts of oil that fall within the quota for transportation to the relevant locations and on-sale to customers that will yield the best pricing for KBM.

KBM has historically relied on Euro-Asian and Glencore for the distribution of its oil. Euro-Asian has been a KBM distributor since 2001 and Glencore since 1997. While we intend to continue to maintain a long-term relationship with Euro-Asian and Glencore, we will also periodically review our sales to distributors to ensure we sell our oil at competitive prices. We may also increase the number of our distributors or replace our current distributors as appropriate to obtain competitive pricing for our oil.

Pricing

KBM's sales and marketing personnel negotiate with the distributors each month to determine the prices for export sales in that month. The Urals end-market quote is used as the benchmark for sales to Euro-Asian through the transportation routes of Aktau-Makhachkala-Novorossiysk, Aktau-Baku, Aktau-Neka and Aktau-Samara-Odessa. The Brent end-market quote is used as the benchmark for sales to Glencore through the transportation route of Aktau-Samara-Primorsk. Pricing negotiated with Euro-Asian and Glencore under these benchmarks is affected by a number of factors, including, among others, general market conditions, the quality of the blended oil delivered at final destinations, transportation costs payable to cargo and pipeline operators and the contractual arrangements with the distributor. Since the quality of the ultimate blended oils to the target markets KBM

distributed through Euro-Asian are usually comparable to the quality of oil achieving Urals prices, the price KBM obtains and the prices of the oils with which KBM's oil is blended during transportation through the same pipeline are benchmarked against Urals prices. Similarly, since the quality of the ultimate blended oils to the target markets KBM distributed through Glencore are usually comparable to the quality of oil achieving Brent prices, the price KBM obtains and the prices of the oils with which KBM's oil is blended during transportation through the same pipeline are benchmarked against Brent prices. This pricing mechanism has sometimes resulted in KBM receiving better prices than would otherwise be payable for oil of the quality produced from the Karazhanbas oilfield. This may no longer be the case upon implementation of a quality bank system. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—The prices KBM is able to charge for the oil production in the Karazhanbas oilfield are affected by a number of factors beyond its control".

Although there is no requirement that the oil produced from the Karazhanbas oilfield be sold domestically at prices below those prevailing in export sales, the prices for domestic sales have historically been significantly lower than those in export sales. See "—Sales and Marketing". Domestic sales are subject to excise tax and export sales are subject to royalties payable to the government depending on the production volume. See "—Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its Directly Owned Kazakhstan Subsidiaries—Taxation".

Further, the Kazakhstan and Russian governments may consider the implementation of a quality bank system whereby the oil comprising blends of oils produced by different oil producers and transported through the same pipeline must reach a certain grade. The average quality of oil produced in the Karazhanbas oilfield for the year ended December 31, 2006 was typically 19 degree API. It is uncertain what grade of oil would be required by the Kazakhstan or the Russian governments to permit entry into their pipeline systems upon implementation of a quality bank system. Under a quality bank system, the heavier oil produced in the Karazhanbas oilfield would likely need to be blended with lighter oils to reach the appropriate grade prior to entering the pipelines. The prices KBM receives for its oil would therefore be based on the grade of oil it provides to the pipelines, and this may result in it receiving lower prices per barrel of oil than the prices per barrel of oil it is able to command under the current system.

Production Facilities

The Karazhanbas oilfield maintains oil production facilities, including oil processing facilities, oil gathering and transportation lines, two operational steam generators with a capacity to generate approximately 2,000 tons of steam per day, an electrical distribution system, water injection and disposal systems, and storage facilities with a capacity of approximately 54,000 tons, which is equivalent to 360,720 barrels. In addition, KBM owns one drilling rig and 17 workover rigs with associated equipment which it leases to TMS, and approximately 530 vehicles which it leases to ATS. Drilling rigs are available for lease in the region if KBM requires additional drilling rigs for its drilling activities. See "—TMS Business Overview" and "—ATS Business Overview".

TMS Business Overview

TMS was established in October 2001 to provide oil well drilling and workover services. TMS has historically provided such services primarily to KBM. TMS leases one drilling rig and 17 workover rigs from KBM which it uses to carry out drilling and workover activities. The drilling rig is mobile, enabling it to be moved from one drilling site to another in less than half a day, and has a top drive system and special handling equipment with a capacity to drill new wells of up to 2,500 meters underground. TMS uses workover rigs for repair and maintenance of existing wells. For the years ended December 31, 2004, 2005 and 2006, TMS drilled 107, 135 and 205 new wells and performed workovers on approximately 2,100, 2,000 and 2,700 wells, respectively.

ATS Business Overview

ATS was established in November 2004 to provide transportation and other oilfield related logistics services. ATS has historically provided such services exclusively to KBM in the Karazhanbas oilfield. ATS leases approximately 530 vehicles, including trucks, light vehicles and buses for transportation of personnel and specialist oilfield equipment, from KBM which are then leased back to KBM as part of a package including drivers, maintenance, fuel, insurance and spare parts for the vehicles. Although ATS currently principally supplies services to KBM, ATS is currently funding and purchasing its own fleet of vehicles and has won tenders to provide oilfield transportation and logistics services to third party oil and gas producers within the Mangistau Oblast region.

Management of the Kazakhstan Subsidiaries

Prior to the effective acquisition by CITIC Group of the Kazakhstan Subsidiaries pursuant to the Plan of Arrangement, KBM was managed by a team comprising expatriate and local employees with an average of over 20 years of experience in the international oil and gas business. The management of the Kazakhstan Subsidiaries maintains an efficient monitoring and reporting system comprising regular meetings and reporting procedures to ensure regulatory compliance and efficiency in all aspects of operations, including drilling, production, transportation, workover, infrastructure, engineering and geology. As a result of the change in control of the Kazakhstan Subsidiaries following CITIC Group’s acquisition, CITIC Group has appointed senior managers to key positions within KBM, including a new president, to work together with the existing management personnel. CITIC Group has progressively brought in its own managers to work with the existing management team to achieve an integrated management team in preparation for ongoing operations in the Karazhanbas oilfield. Under the terms of a transitional services agreement, expiring on June 28, 2007, former management members who left with the original shareholders following the completion of CITIC Group’s acquisition are available to CITIC Group to ensure minimal disruption arising from a change in control of management. All other expatriate employees and local management teams and the structure of the Kazakhstan Subsidiaries have not been affected by CITIC Group’s acquisition.

In addition, if the KMG Option is exercised, each of KMG and us will hold an effective 50.0% indirect voting interest in each of the Kazakhstan Subsidiaries. We will have majority representation on the board of directors of KBM and joint representation on the management boards of ATS and TMS. In particular, during the five years following the exercise of the KMG Option, the chief executive officer and technical director of KBM would be appointed by us. During the same period, KMG would appoint the deputy chief executive officer and chief financial officer of KBM. During the five years starting from the sixth year following the exercise of the KMG Option, the chief executive officer and technical director of KBM would be appointed by KMG. During the same period, we would appoint the deputy chief executive officer and chief financial officer of KBM. During the term of joint operation with KMG, each of KMG and us would appoint one marketing and commercial director for KBM. Moreover, certain decisions critical to the operation of the Kazakhstan Subsidiaries require unanimous approval by the board or the shareholders. For example, the Heads of Agreement requires unanimous approval by the board of directors to be obtained for such matters as setting the annual work program, approval of capital expenditures, entry into certain long-term material contracts and amendment of the dividend policy. The Heads of Agreement also requires unanimous approval by the shareholders to be obtained for such matters as entry into new businesses, or substantial expansion of business by any of the Kazakhstan Subsidiaries outside its scope as approved in accordance with the annual work program. Since we have majority representation on the board and we have the right to appoint the chief executive officer for the first five years following the exercise of the KMG Option, we believe we are able to lead the day-to-day management and operation of the Karazhanbas oilfield during this period. As a result, we do not expect the exercise of the KMG Option to have a significant impact on the management structure and the operations of the Kazakhstan Subsidiaries. However, there is no assurance that we will not encounter challenges associated with jointly operating the Karazhanbas oilfield with KMG. See “Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—If the KMG Option is exercised, we will face management challenges associated with joint operation of the Kazakhstan Subsidiaries with KMG.”

Employees of the Kazakhstan Subsidiaries

The Kazakhstan Subsidiaries have approximately 3,360 employees, comprising approximately 1,800 employees of KBM engaging in oil exploration and production related activities, approximately 460 employees of TMS engaging in drilling and workover related services and approximately 1,100 employees of ATS engaging in transportation and oilfield related logistics services. The majority of the employees are local employees and there have been no significant increases in attrition rates in the past. Similar to the situation at the management level, a vast majority of the employees of the Kazakhstan Subsidiaries have stayed and remain unaffected by the CITIC Group acquisition.

Currently, there are approximately 30 expatriate employees. In light of the new management structure and the need for engineers and technicians to implement CSS and steam flooding technologies, KBM expects to increase the number of its expatriate employees and has recently obtained work permits from the Regional Mayor's office for those expatriate employees.

Under Kazakhstan law, employment contracts are for an initial term of one year, after which the contracts, if renewed, become contracts for an indefinite term. In addition, KBM is party to a collective bargaining agreement valid until December 31, 2009, which governs KBM's relationship with its employees and, in particular, the benefits provided to employees and their families. The employees of the Kazakhstan Subsidiaries have continued to carry out their duties following the acquisition by CITIC Group of its interest in the Kazakhstan Subsidiaries. See "Risk Factors—Risks Relating to Our Historical Business—We are subject to the risk of labor disputes".

Occupational Safety of the Kazakhstan Subsidiaries

The management of each of the Kazakhstan Subsidiaries places a great emphasis on occupational health and safety. The Kazakhstan Subsidiaries maintain occupational health and safety programs to ensure employees obtain appropriate safety training to maximize operational safety in the Karazhanbas oilfield. Accidents are reported through a system to study the cause and remedial and preventive measures that can be taken in the future to reduce the likelihood of similar accidents occurring. In addition, there are four medical aid posts and a fire fighting service on the Karazhanbas oilfield to serve emergency needs. The number of accidents recorded by KBM decreased from 13 in 2002 to four in 2006, with a resulting reduction in injured employees from 16 to four over the same period. In 2006, TMS operated 12 workover rigs for over 1,000 days without a lost time incident, or LTI, representing the number of incidents per million work hours, and operated one drilling rig for 351 days without an LTI. ATS currently has a safety record of 373 days without an LTI.

Management's Discussion and Analysis of Financial Condition and Results of Operations of CCPL and its directly owned Kazakhstan Subsidiaries

The discussion and analysis included in this subsection relates to the historical results of operations of the Target Group. The discussion and analysis of the Target Group are based on the audited combined financial statements prepared in accordance with HKFRS. You should read the following discussion and analysis of financial condition and results of operations together with the audited combined financial statements and the notes thereto included elsewhere in this offering circular. HKFRS differ in many significant respects from US GAAP. For a discussion of these differences, see "Summary of Certain Differences between HKFRS and US GAAP".

Overview

The Kazakhstan Subsidiaries comprise KBM, a joint stock company incorporated under the laws of Kazakhstan engaged in the exploration, development and production of hydrocarbons in the Karazhanbas oilfield in Kazakhstan, TMS, a limited liability partnership established under the laws of Kazakhstan engaged in providing oil well drilling, construction and workover services in the Karazhanbas oilfield, and ATS, a limited liability

partnership established under the laws of Kazakhstan engaged in providing transportation and other oilfield related logistics services in the Karazhanbas oilfield. As at the date of this offering circular, CCPL holds 94.6% of the equity, representing 100.0% of the voting rights, of KBM, 100.0% of the participation interests in TMS, and 100.0% of the participation interests in ATS.

The core asset of KBM is the subsurface rights for the Karazhanbas oilfield in Mangistau Oblast in Kazakhstan. Under a license for the right to produce hydrocarbons in the Karazhanbas oilfield, granted to KBM by the Kazakhstan government on May 7, 1997, and the Hydrocarbon Contract, KBM has the right to carry out operations relating to the extraction and processing of hydrocarbon in the Karazhanbas oilfield for a term of 23 years, expiring on June 7, 2020. The Karazhanbas oilfield covers an area of approximately 160 square kilometers, has a depth of up to 500 meters and is located on the shore of the Caspian Sea in close proximity to refineries, pipelines and port facilities which supply oil to the major markets in Europe and the Middle East.

Recent Developments

Introduction of CSS and Steam Flooding Technologies in the Karazhanbas Oilfield

In order to improve recovery rates and to increase oil production volume, subject to obtaining the requisite government approvals, KBM intends to implement, over the next five years, a long-term oilfield development plan by introducing CSS and steam flooding technologies in the Karazhanbas oilfield. Trials conducted in the Karazhanbas oilfield by using CSS technology in five wells and steam flooding technology in 14 wells in a pilot program have yielded encouraging results. KBM expects to employ CSS technology in up to 80 wells by the end of 2007 and expand the use of steam flooding technologies beginning in 2008. The adoption of CSS and steam flooding technologies, together with the introduction of additional wells, is expected to improve recovery rates and increase production volume as the new technologies are applied throughout the oilfield as early as 2007.

Although the introduction of the new technologies will initially require substantial capital expenditure, the medium- to long-term benefits from the improved recovery rates and increased production volume are expected to increase KBM's revenue and profitability.

Significant Factors Affecting the Target Group's Results of Operations

International Oil Prices

Revenue from the sale of oil accounted for substantially all of the total revenue of the Target Group for the years ended December 31, 2004, 2005 and 2006, respectively. Of this, approximately 95.7%, 94.6% and 95.3%, respectively, of total revenue was derived from export sales. The price for export sales depends largely on the international price of oil, and, as a result, this is one of the key factors affecting the Target Group's total revenue.

The following table sets forth information about the average price of oil on which the price for export sales of oil from the Karazhanbas oilfield was based for the years ended December 31, 2004, 2005 and 2006:

	For the year ended December 31,		
	2004	**2005**	**2006**
	(US$ per barrel)		
Average price of oil			
Urals (Med)	34.5	50.9	61.4
Brent (DTD)	38.3	54.5	65.1

Source: Platts

The average realizable price for export sales of oil from the Karazhanbas oilfield is also affected by the contractual arrangements with the distributors, for example, when the title and risk of loss of oil pass from KBM to Euro-Asian or Glencore, as the case may be. The exported oil is currently sold to Euro-Asian and Glencore for

on-sale to final customers overseas. In addition, in the year ended December 31, 2004, approximately 1.9% of the oil from the Karazhanbas oilfield was sold to Europetroleum Inc. Under the contracts entered into with Euro-Asian and Glencore, respectively, oil is sold by KBM either on a FOB basis for delivery for loading at ports on the Caspian Sea, Baltic Sea and Black Sea, or on a DAF basis for delivery at the delivery point for the Druzhba pipeline. In the case of both Euro-Asian and Glencore, title to the oil and all risks attached thereto pass from KBM to Euro-Asian or Glencore, as the case may be, at the time of loading for FOB deliveries and on signing of the delivery acceptance notice at the border pumping stations for DAF deliveries. Under the contract entered into between KBM and KTO, the title over KBM's oil remains with KBM when the oil is transported through KTO's pipelines. However, KTO bears the risk of loss from the moment the oil is accepted into KTO's pipelines until such time as oil is delivered to KBM at the point of transfer and acceptance. Therefore, KTO bears the risk of loss when the oil is transported through its pipelines until such time as the oil is transported to another pipeline operator such as Transneft or changed to a different means of transportation such as by rail or by sea before the oil is delivered to Euro-Asian or Glencore on an FOB or DAF basis. In most cases, KBM's oil is distributed on an FOB basis whereby title and risk of loss attached to the oil pass, in the case of oil sales to Euro-Asian, at the port of Aktau on the Caspian Sea and, in the case of oil sales to Glencore, at the port of Odessa on the Black Sea or at the port of Primorsk on the Baltic Sea.

The average realized price for export sales of oil from the Karazhanbas oilfield increased from US$32.7 per barrel for the year ended December 31, 2004 to US$49.3 per barrel for the year ended December 31, 2005 and US$58.0 per barrel for the year ended December 31, 2006. These increases primarily reflect the trend in the international oil markets. For an explanation of the difference between the international oil price and average realized price, see "—Results of Operations—Description of Components of the Target Group's Income Statements—Revenue" below.

Oil Production Volumes and Related Costs

The volume of oil produced and exported is also one of the key factors affecting the Target Group's total revenue. The average volume of oil produced per day in the Karazhanbas oilfield for the years ended December 31, 2004, 2005 and 2006 was approximately 42,568 barrels, 40,961 barrels and 42,535 barrels, respectively.

With the proposed drilling of new wells and introduction of new production technologies, the management of KBM believes that there is potential to further increase the production volume and recovery rates in the Karazhanbas oilfield. See "—KBM Business Overview—Production Technologies and Development Plans".

Transportation Routes

The majority of the oil produced in the Karazhanbas oilfield is delivered to Euro-Asian or Glencore for export sales, with the remainder being supplied to the domestic market. The oil sold to Euro-Asian and Glencore is transported by each of them to final customers overseas. Currently, all the oil sold to Euro-Asian is delivered at the port of Aktau and then transported to either Makhachkala and onto Novorossiysk in Russia, to Baku in Azerbaijan or to Neka in Iran, whereas all the oil sold to Glencore is delivered by pipeline through the Transneft system to the ports of Odessa and Primorsk.

The following table sets forth information about the major transportation routes of oil production from the Karazhanbas oilfield for the years ended December 31, 2004, 2005 and 2006:

	For the year ended December 31,		
	2004	2005	2006
	(in barrels, except percentage)		
Aktau—Makhachkala—Novorossiysk			
Volume of oil	9,767,195	8,276,239	6,090,530
Percentage of total oil sales volume	63.1%	55.9%	39.1%
Aktau—Baku			
Volume of oil	—	547,259	730,585
Percentage of total oil sales volume	—	3.7%	4.7%
Aktau—Neka			
Volume of oil	—	163,206	3,281,583
Percentage of total oil sales volume	—	1.1%	21.1%
Aktau—Samara—Odessa			
Volume of oil	133,233	—	—
Percentage of total oil sales volume	0.9%	—	—
Aktau—Samara—Primorsk			
Volume of oil	4,148,788	3,928,942	3,729,177
Percentage of total oil sales volume	26.8%	26.5%	24.0%
Domestic			
Volume of oil	1,436,200	1,903,800	1,736,433
Percentage of total oil sales volume	9.2%	12.8%	11.1%
Total Volume of Oil	15,485,416	14,819,446	15,568,308

The price for export sales of oil differs depending on the transportation route chosen. For example, the pricing in Primorsk is based on the market price for Brent (DTD), with adjustments for, among other things, the cost of freight, port fees and insurance, while the pricing in Novorossiysk is based on the market price for Urals (Med), with adjustments for, among other things, the cost of freight and the relevant ports' demurrage charges. In addition, the transportation costs associated with each route depend on, among other things, the applicable pipeline tariffs and the distance of transportation to end customers. KBM's ability to allocate exported oil to different pipeline routes and destinations is subject to the transportation quotas it receives from the MEMR and demand in each of the overseas markets. See "—KBM Business Overview—Transportation" and "—KBM Business Overview—Sales and Marketing".

Supplies to the Domestic Market

KBM is required to supply a certain amount of its production to domestic refineries at prices that are substantially lower than the prices that may be charged for export sales from time to time. For the years ended December 31, 2004, 2005 and 2006, domestic sales of oil from the Karazhanbas oilfield accounted for 9.2%, 12.8% and 11.1%, respectively, of the production volume and these domestic sales were at prices representing discounts of 56.0%, 61.3% and 60.5%, respectively, to the average price for export sales, reducing the overall average revenue per barrel of oil sold. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—We may be required to supply a certain amount of our production to domestic refineries at below market prices" and "—KBM relies on pipelines and other transportation facilities owned or operated by third parties to transport its oil".

Taxes and Other Amounts Payable under the Hydrocarbon Contract and License

The license for the right to produce hydrocarbons in the Karazhanbas oilfield, granted to KBM by the Kazakhstan government on May 7, 1997, requires KBM to pay certain taxes and other amounts. Details of these taxes and other amounts are contained in the Hydrocarbon Contract and primarily comprise corporate income tax, withholding tax on payments to persons not resident in Kazakhstan, excess profit tax, value added tax on domestic oil sales and any services provided to third parties in Kazakhstan, excise tax on domestic oil sales, royalties, production bonuses and property tax. See "—Taxation". In addition, the Kazakhstan Subsidiaries are required to pay taxes in accordance with the Kazakhstan tax laws and regulations from time to time.

The Inter-regional Tax Committee of Kazakhstan conducts a periodic tax audit of the Kazakhstan Subsidiaries to ensure that they are calculating the level of the taxes and other amounts payable by them in accordance with the Hydrocarbon Contract and the Kazakhstan tax code. In December 2005, having completed its tax audit for the years ended December 31, 2002, 2003 and 2004, the Interregional Tax Committee filed a claim against KBM and TMS seeking additional tax accruals, penalties and fines in the amount of approximately US$91.2 million. KBM and TMS denied these claims and, with the exception of two small amounts, the Specialized Inter-regional Economic Court of Astana found in favor of KBM and TMS in July 2006. There is no assurance, however, that similar tax claims against the Kazakhstan Subsidiaries will not recur as a result of periodical tax audits or, if they were to recur, that the Kazakhstan Subsidiaries would be successful in defending the claims against them. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—The Kazakhstan Subsidiaries are subject to an uncertain tax environment which may lead to disputes with taxation authorities".

The Kazakhstan Tenge—U.S. Dollar Exchange Rate and Domestic Inflation Rates

The following table sets forth information about the Kazakhstan Tenge – U.S. dollar exchange rates and the rate of domestic inflation for the years ended December 31, 2004, 2005 and 2006:

	For the year ended December 31,		
	2004	**2005**	**2006**
Kazakhstan Tenge—U.S. dollar average exchange rate	136.0	132.9	126.1
Inflation rate	6.9%	7.6%	8.6%

Source: Currency—The National Bank of Kazakhstan; Inflation rate—Economic Intelligence Unit

Substantially all of the Target Group's revenue and all the Target Group's borrowings, with the exception of certain Kazakhstan Tenge bonds, in the principal amount of 11.1 billion Kazakhstan Tenge, issued by KBM in 2003, are denominated in U.S. dollars, while the Target Group's operating expenses are primarily denominated in Kazakhstan Tenge. The impact of foreign currency fluctuations on the Target Group's results of operations depends on the Target Group's net foreign currency position and the size and direction of the fluctuation. During the period under review, the Kazakhstan Tenge appreciated in value in relation to the U.S. dollar, resulting in the Target Group having fewer Kazakhstan Tenge available after conversion of U.S. dollar denominated income to settle its Kazakhstan Tenge-denominated operating expenses. In addition, most of the Target Group's expenses are affected by local inflation which may not be offset by inflation-related increases in the Target Group's revenue.

Further, as the Target Group's results of operations are reported in Hong Kong dollars, any fluctuation of the Kazakhstan Tenge against the U.S. dollar (and, therefore, against the Hong Kong dollar, which is pegged to the U.S. dollar) affects the Hong Kong dollar translations of such amounts set out in the financial statements.

Environmental Remediation Obligations

The Kazakhstan Subsidiaries are required to carry out their oil production and associated operations in accordance with Kazakhstan laws and regulations relating to protection of the subsurface and environment in order to, among other things, ensure rational and complex use of the produced hydrocarbons, preserve the natural landscape and conduct reclamation of any disturbed land and preserve the upper layer of the subsurface to prevent earthquakes, landslides, flooding and soil depression. Discharges into the environment or environmental damage caused by non-compliance with such laws and regulations may result in substantial penalties and other liabilities. Environmental regulations are currently in a state of transition in Kazakhstan, and there is no certainty as to what additional obligations and liabilities may be imposed on the Kazakhstan Subsidiaries' operations. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—We may be subject to substantial environmental liabilities".

In addition to these continuing obligations, pursuant to the Hydrocarbon Contract, KBM is required to remediate contamination existing in the Karazhanbas oilfield as at the date of the contract to a level which complies with Kazakhstan legislation. Such remediation work continues to be carried out and the total cost of this is expected to be significant. KBM is entitled to seek reimbursement of a portion of such cost from the Kazakhstan government. However, there is no assurance that KBM will be able to obtain such reimbursement.

Seasonality of Oil Production

During the winter months, and in particular January and February, the level of production of oil in the Karazhanbas oilfield generally decreases, as the cold weather increases the viscosity of the oil, thereby reducing flow in the pipeline, and often slows or halts the drilling and workover processes.

Critical Accounting Policies and Estimates

The accounting policies the Kazakhstan Subsidiaries adopt have a significant impact on the results they report in their consolidated financial statements. Some of their accounting policies require us to exercise difficult and subjective judgments. Others require management to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies that are believed to be both important to the portrayal of their financial results and involve the need to make judgments and estimates. For a summary of their significant accounting policies, see Note 2 to the financial statements of CCPL and its directly owned Kazakhstan Subsidiaries included elsewhere in this offering circular.

Recognition of Revenue for Oil Sales

Revenue is recognized when significant risks and rewards of ownership over the oil have been transferred to the buyer and the Kazakhstan Subsidiaries maintain neither managerial involvement to a degree usually associated with ownership, nor effective control over the goods sold. Therefore, depending on the terms of the contract with the relevant distributor, revenue is typically recognized when the oil is delivered to the relevant distributor at the port on an FOB basis.

Share-based Compensation

CCPL operates share option schemes by way of granting share-based compensation to provide incentives and rewards to eligible participants who contribute to the success of the Target Group's operations. Employees, including directors and officers, of the Kazakhstan Subsidiaries receive remuneration in the form of share-based compensation, whereby employees render services as consideration for the grant of equity instruments. The cost of share-based compensation is measured by reference to the fair value at the date on which the share options are granted. The fair value is determined by using the Black-Scholes model and performance conditions are not taken

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

Borrowing Costs

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

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost of inventory of oil is determined using first-in, first-out method while cost of inventory of materials and supplies is determined using weighted average method. Oil inventory consists primarily of oil in pipelines and tanks.

Property, Plant and Equipment, Impairments and Dismantlement Costs

Property, plant and equipment, other than construction in progress and oil properties, are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis based on the estimated useful life of the fixed asset. For oil properties, we adopt the successful efforts method of accounting whereby the initial acquisition costs and development costs are capitalized less impairment based on experience of exploration of the relevant oil properties, which involves exercise of judgment by the management. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred. Oil properties are amortized using the unit-of-production method on a property-by-property basis using the ratio of production volume in relation to the estimated remaining proved developed reserves. An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Such impairment loss is charged to the income statement in the period in which it arises.

The Kazakhstan Subsidiaries also estimate future dismantlement costs for oil properties by reference to the estimates provided by internal and external engineers after taking into consideration the anticipated method of dismantlement required in accordance with current legislation and industry practices. The associated cost is capitalized and the liability is discounted and an accretion expense is recognized.

Foreign Currency Translation

The financial information of the Target Group is presented in Hong Kong dollars. Each Kazakhstan Subsidiary maintains its books and records in its own functional currency, being the Tenge and items included in the financial statements of each Kazakhstan Subsidiary are denominated in the Tenge. Foreign currency transactions are initially recorded using the exchange rates prevailing on the dates of the relevant transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the Tenge using the exchange rate prevailing on the balance sheet date. All differences arising from foreign currency translation are reflected in the combined income statement of the Kazakhstan Subsidiaries. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates prevailing on

the dates of the transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates prevailing on the date when the fair value was determined.

As at the balance sheet date, the assets and liabilities of the Kazakhstan Subsidiaries are translated into Hong Kong dollars using the exchange rates prevailing on the balance sheet date. The income statements of the Kazakhstan Subsidiaries are translated into Hong Kong dollars using the weighted average exchange rates for the year. The resulting differences arising from foreign currency translation are included in the cumulative translation reserve. Upon disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the combined income statement.

Results of Operations

Description of Components of the Target Group's Income Statements

- *Revenue*

The Target Group's revenue comprises the net sales revenue from the sale of oil after payment of royalties in accordance with the Hydrocarbon Contract and any hedging losses.

The following table sets forth information regarding sales revenue before payment of royalties and, in the case of the year ended December 31, 2004, hedging losses, volumes and realized prices of the oil production from the Karazhanbas oilfield for the years ended December 31, 2004, 2005 and 2006, and the reserves in the Karazhanbas oilfield as at December 31, 2004, 2005 and 2006:

	For the year ended December 31,			
	2004	2005	2006	2006
	(HK$ in millions)	(HK$ in millions)	(HK$ in millions)	(US$ in millions)
Sales Revenue				
Export sales by transportation route				
Aktau—Makhachkala—Novorossiysk	2,458.5	3,118.5	2,744.4	351.2
Aktau—Baku	—	203.2	319.5	40.9
Aktau—Neka	—	62.4	1,388.0	177.6
Aktau—Samara—Odessa	36.4	—	—	—
Aktau—Samara—Primorsk	1,095.1	1,595.5	1,816.6	232.5
Total export sales	3,590.0	4,979.6	6,268.5	802.2
Domestic sales				
Total domestic sales	161.7	283.4	311.0	39.8
Total sales revenue	3,751.7	5,263.0	6,579.5	842.0

	For the year ended December 31,		
	2004	2005	2006
Sales Volume (in million barrels)			
Export sales by transportation route			
Aktau—Makhachkala—Novorossiysk	9,767.2	8,276.2	6,090.5
Aktau—Baku	—	547.3	730.6
Aktau—Neka	—	163.2	3,281.6
Aktau—Samara—Odessa	133.2	—	—
Aktau—Samara—Primorsk	4,148.8	3,928.9	3,729.2
Total export sales	14,049.2	12,915.6	13,831.9
Domestic sales			
Total domestic sales	1,436.2	1,903.8	1,736.4
Total sales volume	15,485.4	14,819.4	15,568.3
Realized Average Price (US$ per tonne)			
Export sales by transportation route			
Aktau—Makhachkala—Novorossiysk	215.2	322.1	385.2
Aktau—Baku	—	317.4	373.9
Aktau—Neka	—	326.9	361.6
Aktau—Samara—Odessa	233.6	—	—
Aktau—Samara—Primorsk	225.7	347.2	416.5
Domestic sales	96.3	127.3	153.1
Realized Average Price (US$ per barrel)			
Export sales by transportation route			
Aktau—Makhachkala—Novorossiysk	32.2	48.2	57.7
Aktau—Baku	—	47.5	56.0
Aktau—Neka	—	48.9	54.1
Aktau—Samara—Odessa	35.0	—	—
Aktau—Samara—Primorsk	33.8	52.0	62.3
Domestic sales	14.4	19.1	22.9
Proved Reserves (in million barrels)			
Karazhanbas oilfield	406.1	347.0	363.8

The following tables set forth information regarding realized oil sales prices adjusted for oil transportation and other expenses for the years ended December 31, 2004, 2005 and 2006:

	For the year ended December 31, 2004					
	Export – AMN[1]	Export – AB[1]	Export – AN[1]	Export – ASO[1]	Export – ASP[1]	Domestic
	(US$ per barrel)					
Benchmark end-market quote[2]	34.5	34.5	34.5	34.5	38.3	—
Realized price	32.2	—	—	35.0	33.7	14.4
Transportation	(3.2)	—	—	(7.3)	(7.3)	(1.5)
Adjusted realized price	29.0	—	—	27.7	26.4	12.9

	For the year ended December 31, 2005					
	Export – AMN[1]	Export – AB[1]	Export – AN[1]	Export – ASO[1]	Export – ASP[1]	Domestic
	(US$ per barrel)					
Benchmark end-market quote[2]	50.9	50.9	50.9	50.9	54.5	—
Realized price	48.2	47.5	48.9	—	52.0	19.1
Transportation	(3.1)	(0.9)	(1.0)	—	(7.6)	(1.5)
Adjusted realized price	45.1	46.6	47.9	—	44.4	17.6

	For the year ended December 31, 2006					
	Export – AMN[1]	Export – AB[1]	Export – AN[1]	Export – ASO[1]	Export – ASP[1]	Domestic
	(US$ per barrel)					
Benchmark end-market quote[2]	61.4	61.4	61.4	61.4	65.1	—
Realized price	57.7	56.0	54.1	—	62.3	22.9
Transportation	(2.9)	(1.0)	(1.1)	—	(7.9)	(1.6)
Adjusted realized price	54.8	55.0	53.0	—	54.4	21.3

Notes:

(1) For the purposes of these tables, "AMN" means Aktau—Makhachkala—Novorossiysk, "AB" means Aktau —Baku, "AN" means Aktau—Neka, "ASO" means Aktau—Samara—Odessa and "ASP" means Aktau—Samara—Primorsk.

(2) The quoted prices are used as benchmarks: Urals for sales by the transportation routes of Aktau —Makhachkala—Novorossiysk, Aktau—Baku, Aktau—Neka, and Aktau—Samara—Odessa; and Brent for sales by the transportation route of Aktau—Samara—Primorsk. Such prices are quoted from Platts and represent the average price for the relevant period, and may differ from the actual reference price in respect of each individual sales contract made during that period.

The difference between the benchmark end-market quote and the realized price on the sales of oil primarily comprises the discount applied to reflect the quality of the blended oil, namely, the oil resulting from the mix of the oil from the Karazhanbas oilfield with that of other producers to satisfy the requirements of the relevant end customers. The prices received for sales of oil to domestic refineries are typically substantially lower than the prices received for export sales from time to time. See "—Significant Factors Affecting the Target Group's Results of Operations—Supplies to the Domestic Market".

- *Cost of sales*

The Target Group's cost of sales comprise the direct costs and expenses in respect of the production of oil in the Karazhanbas oilfield.

The following table sets forth the components of the Target Group's cost of sales for the years ended December 31, 2004, 2005 and 2006:

	For the year ended December 31,			
	2004	2005	2006	2006
	(HK$ millions)	(HK$ millions)	(HK$ millions)	(US$ millions)
Cost of sales				
Field salaries	161.0	207.2	267.9	34.3
Field supervision	26.7	34.0	39.7	5.1
Field repair and maintenance, supplies and services	165.5	163.5	306.1	39.2
Field services	68.0	52.6	65.7	8.4
Material and supplies	58.7	102.8	122.8	15.7
Electricity	42.4	48.2	60.6	7.8
Water	26.5	21.5	26.9	3.4
Gas	16.5	25.5	63.2	8.1
Depreciation, depletion and amortization	303.1	361.9	523.5	67.0
Land, property and water taxes	16.5	46.3	66.8	8.5
Provision for obsolete material	—	36.0	63.3	8.1
Other operating costs	11.4	27.0	37.4	4.8
Total cost of sales	896.3	1,126.5	1,643.9	210.4

Field salaries comprise the salaries of staff employed in the Karazhanbas oilfield, and include both base salary and employee performance linked bonus. Field supervision relates to the fees of employees seconded to the Kazakhstan Subsidiaries from CCPL to oversee operations in the oilfield. Field repair and maintenance, supplies and services include primarily the cost of transportation in the oilfield, workovers on existing wells and contractors' fees to install electrical and other infrastructure which cannot be capitalized. Field services comprise the cost of providing catering, accommodation, medical, ecological and emergency services in the Karazhanbas oilfield. Material and supplies include all spare parts and other materials kept on site which relate to the infrastructure of the oilfield.

- *Other income*

The Target Group's other income primarily comprises interest received on bank deposits and also includes income received for the provision of transport and related services by ATS to third parties.

- *Selling and distribution costs*

The Target Group's selling and distribution costs primarily relate to the marketing and distribution of oil to their customers. These costs include the costs of transportation, marketing expenses and customs declarations expenses in respect of exports of oil.

- *Administrative expenses*

The Target Group's administrative expenses primarily comprise the salaries of head office and administrative staff, accounting, legal and professional fees, training costs, insurance premiums, transportation tax and property tax in respect of the properties used by the Target Group for administrative purposes.

- *Other expenses*

The Target Group's other expenses primarily comprise withholding tax in respect of the dividends and management fees paid by the Kazakhstan Subsidiaries to CCPL and provisions for bad debts in respect of

prepayments and other advances made to suppliers. In addition, other expenses include gains and losses on the disposal of certain damaged fixed assets, such as the engines used in wells, and foreign exchange and trade losses.

- *Finance costs*

The Target Group's finance costs in each of the periods comprise primarily interest payable in respect of bank loans and the floating rate coupon bonds issued by KBM in December 2003 with a five-year maturity, and other finance charges. Except for the bonds, which are denominated in Kazakhstan Tenge, all other borrowings are currently denominated in U.S. dollars.

- *Tax*

KBM pays taxes and other amounts in accordance with the Hydrocarbon Contract, which primarily comprise corporate income tax, withholding tax on payments to non-residents, excess profit tax, value added tax on domestic oil sales and any services provided to third parties in Kazakhstan, excise tax on domestic oil sales, production bonuses and property tax. See "—Taxation". In addition, ATS and TMS are required to pay taxes in accordance with Kazakhstan tax laws and regulations from time to time, which primarily comprise corporate income tax, withholding tax on payments to persons not resident in Kazakhstan, excess profit tax, value added tax on sales and services provided to third parties in Kazakhstan and property tax.

Comparison of the Years Ended December 31, 2006 and December 31, 2005

- *Revenue*

Revenue after payment of royalties increased by HK$1,270.3 million, or 24.9%, from HK$5,107.5 million for the year ended December 31, 2005 to HK$6,377.8 million (US$816.2 million) for the year ended December 31, 2006. This increase was primarily due to increases in international oil prices over the same period, as evidenced by the increase in the average benchmark end-market quote for Urals of US$50.9 and Brent of US$54.5 per barrel in 2005 to US$61.4 for Urals and US$65.1 for Brent per barrel in 2006. See "—Significant Factors Affecting the Target Group's Results of Operations—International Oil Prices". The increase was also attributable to the increase in the sales volume of oil produced in the Karazhanbas oilfield from 2.2 million tons for the year ended December 31, 2005 to 2.3 million tons for the year ended December 31, 2006. The increase in sales volume was mainly a result of the increase in the number of wells drilled in the Karazhanbas oilfield in 2006, and the fact that the temperature in the winter of 2006 did not reach the same extremely low levels that it had in 2005, which had affected production in 2005.

- *Cost of sales*

Cost of sales increased by HK$517.4 million, or 45.9%, from HK$1,126.5 million for the year ended December 31, 2005 to HK$1,643.9 million (US$210.4 million) for the year ended December 31, 2006. This increase was primarily due to a HK$161.6 million, or 44.7%, increase in depreciation, depletion and amortization which resulted principally from a reclassification of certain oil and gas assets from assets depreciating under a unit of production, or UOP, method to assets depreciating under a straight line method. The reclassification reduced the expected useful life of the affected assets, and consequently increased the annual depreciation charge on those assets. The increase in depreciation, depletion and amortization was also attributable to a number of additions to fixed assets at the end of 2005 and the beginning of 2006.

The increase in cost of sales was also due to a HK$142.6 million, or 87.2%, increase in field repair, maintenance, supplies and services from HK$163.5 million for the year ended December 31, 2005 to HK$306.1 million (US$39.2 million) for the year ended December 31, 2006 and a HK$60.7 million, or 29.3%, increase in field salaries paid to employees in the Karazhanbas oilfield from HK$207.2 million to HK$267.9 million

(US$34.3 million) for the same years. The increase in field repair, maintenance, supplies and services was caused principally by an increase in the cost of the provision of transport services, the cost of the installation of electrical power lines to a number of new wells and an increase in the amount of workover work carried out on existing wells to increase the production volume and recovery rates from those wells. The increase in field salaries resulted both from an increase in the average salary paid to seek to retain employees in an environment of rising competition for skilled employees in Kazakhstan and the increase in the number of employees of the Kazakhstan Subsidiaries from approximately 3,300 as at December 31, 2005 to approximately 3,360 as at December 31, 2006. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—Failure to successfully recruit and retain professionals could materially adversely affect our future operations in Kazakhstan".

In addition, there was a HK$37.7 million increase in the cost of gas bought to fuel production in the Karazhanbas oilfield from HK$25.5 million for the year ended December 31, 2005 to HK$63.2 million (US$8.1 million) for the year ended December 31, 2006, as a result both of an increase in the amount of gas required for production, and in particular for the production of steam for use in the new CSS and steam flooding technologies, and an increase in the average price of gas from HK$180.2 to HK$332.7 per thousand cubic meters of gas over the same period.

- *Gross profit and gross profit margin*

As a result of the factors described above, gross profit increased by HK$753.1 million, or 18.9%, from HK$3,980.9 million for the year ended December 31, 2005 to HK$4,734.0 million (US$605.9 million) for the year ended December 31, 2006. Over the same period, gross profit margin decreased from 77.9% to 74.2%.

- *Other income*

Other income increased by HK$10.6 million from HK$8.1 million for the year ended December 31, 2005 to HK$18.7 million (US$2.4 million) for the year ended December 31, 2006. This increase was due primarily to an increase in the amount of cash and cash equivalents from HK$274.2 million as at December 31, 2004 to HK$634.1 million as at December 31, 2005. Although the level of cash and cash equivalents subsequently decreased to HK$312.0 million as at December 31, 2006, the majority of this decrease took place towards the end of 2006, and the Target Group therefore enjoyed the benefit of interest received on the higher level of cash and cash equivalents during 2006.

- *Selling and distribution costs*

Selling and distribution costs decreased by HK$35.6 million, or 7.4%, from HK$482.3 million for the year ended December 31, 2005 to HK$446.7 million (US$57.2 million) for the year ended December 31, 2006. This decrease was primarily due to a reduction in the transportation tariffs charged by KTO for the transport of oil through its pipelines.

- *Administrative expenses*

Administrative expenses increased by HK$205.2 million, or 49.3%, from HK$416.0 million for the year ended December 31, 2005 to HK$621.2 million (US$79.5 million) for the year ended December 31, 2006. This increase was primarily due to the accounting, legal and other professional fees incurred in 2006 in respect of, among other things, the sale of the Target Group to CITIC Group.

- *Other operating expenses, net*

Other operating expenses, net increased by HK$17.4 million, or 18.8%, from HK$92.4 million for the year ended December 31, 2005 to HK$109.8 million (US$14.1 million) for the year ended December 31, 2006. This

increase was primarily due to a change in policy to take a more conservative approach in respect of the provision for bad debts in 2006, which resulted in a provision being made equivalent to approximately 19.3% of all advances to suppliers in the year ended December 31, 2006 compared to no provision in the year ended December 31, 2005. In addition, the increase in other operating expenses, net was attributable to an increase in withholding tax resulting from an increase in the dividends paid by the Kazakhstan Subsidiaries to CCPL.

- *Finance costs*

Finance costs increased by HK$84.2 million, or 46.4%, from HK$181.5 million for the year ended December 31, 2005 to HK$265.7 million (US$34.0 million) for the year ended December 31, 2006. This increase was due both to an increase in the amount of bank loans and overdraft repayable within one year for working capital purposes and an increase in the overall average effective interest rate payable on the Target Group's borrowings.

- *Profit before tax*

As a result of the factors described above, profit before tax increased by HK$492.2 million, or 17.5%, from HK$2,816.9 million for the year ended December 31, 2005 to HK$3,309.1 million (US$423.5 million) for the year ended December 31, 2006.

- *Tax*

Tax increased by HK$280.6 million, or 17.3%, from HK$1,620.8 million for the year ended December 31, 2005 to HK$1,901.4 million (US$243.3 million) for the year ended December 31, 2006. This increase was primarily due to the HK$492.2 million, or 17.5%, increase in profit before tax over the same period.

- *Profit for the year*

As a result of the factors described above, profit for the year increased by HK$211.6 million, or 17.7%, from HK$1,196.1 million for the year ended December 31, 2005 to HK$1,407.7 million (US$180.2 million) for the year ended December 31, 2006.

Comparison of the Years Ended December 31, 2005 and December 31, 2004

- *Revenue*

Revenue increased by HK$1,814.4 million, or 55.1%, from HK$3,293.1 million for the year ended December 31, 2004 to HK$5,107.5 million for the year ended December 31, 2005. This increase was primarily due to the increase in international oil prices over the same period, as evidenced by the increase in the average benchmark end-market quote for Urals of US$34.5 and Brent of US$38.3 per barrel in 2004 to US$50.9 for Urals and US$54.5 for Brent per barrel in 2005. See "—Significant Factors Affecting the Target Group's Results of Operations—International Oil Prices". The increase in revenue was offset in part by a decrease in the sales volume of oil produced in the Karazhanbas oilfield from 2.3 million tons for the year ended December 31, 2004 to 2.2 million tons for the year ended December 31, 2005 which was mainly attributable to the fact that the temperature in the winter of 2005 reached unusually low levels, which affected production.

- *Cost of sales*

Cost of sales increased by HK$230.2 million, or 25.7%, from HK$896.3 million for the year ended December 31, 2004 to HK$1,126.5 million for the year ended December 31, 2005. This increase was primarily due to a HK$58.8 million, or 19.4%, increase in depreciation, depletion and amortization, which resulted principally from the Target Group changing from preparing its accounts in accordance with generally accepted

accounting principles in Kazakhstan to preparing its accounts in accordance with IFRS, which is substantially similar to HKFRS as of January 1, 2004. This change in the basis of presentation caused by the valuation of the Target Group's fixed assets at deemed cost increased the amount of depreciation, depletion and amortization in 2005. The increase in depreciation, depletion and amortization was also attributable in part to a number of additions to fixed assets at the end of 2005.

The increase in cost of sales was also due to (a) a HK$46.2 million, or 28.7%, increase in field salaries from HK$161.0 million for the year ended December 31, 2004 to HK$207.2 million for the year ended December 31, 2005, (b) a HK$44.1 million, or 75.1%, increase in material and supplies from HK$58.7 million to HK$102.8 million for the same years, and (c) an increase in the provision for obsolete materials from nil to HK$36.0 million for the same years. The increase in field salaries resulted from both an increase in the average salary paid in order to retain employees in an environment of rising competition for skilled employees in Kazakhstan and the increase in the number of employees of the Kazakhstan Subsidiaries from approximately 3,200 as at December 31, 2004 to approximately 3,300 as at December 31, 2005. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—Failure to successfully recruit and retain professionals could materially adversely affect our future operations in Kazakhstan". The increase in material and supplies resulted from an increase in the price of materials, such as steel, used in the infrastructure in the Karazhanbas oilfield and the commencement of the process of replacing steel transportation pipes with fiberglass pipes in the oilfield. See "—KBM Business Overview—Production Technologies and Development Plans—Supporting Infrastructure and Facilities". The provision for obsolete materials was made to reflect discrepancies in the actual quantity of spare parts and other materials kept in the Karazhanbas oilfield from that shown in the accounting records, which was discovered during a physical stocktake of such materials which commenced in 2005 and was completed in 2006.

- *Gross profit and gross profit margin*

As a result of the factors described above, gross profit increased by HK$1,584.1 million, or 66.1%, from HK$2,396.8 million for the year ended December 31, 2004 to HK$3,980.9 million for the year ended December 31, 2005. Over the same period, gross profit margin increased from 72.8% to 77.9%.

- *Other income*

Other income increased by HK$4.4 million from HK$3.7 million for the year ended December 31, 2004 to HK$8.1 million for the year ended December 31, 2005. This increase was due primarily to an increase in the amount of cash and cash equivalents from HK$274.2 million as at December 31, 2004 to HK$634.1 million as at December 31, 2005.

- *Selling and distribution costs*

Selling and distribution costs decreased by HK$34.9 million, or 6.7%, from HK$517.2 million for the year ended December 31, 2004 to HK$482.3 million for the year ended December 31, 2005. This decrease was primarily due to the decrease in sales volume of oil from the Karazhanbas oilfield, which was mainly attributable to the fact that the temperature in the winter of 2005 reached unusually and extreme low levels, which affected production.

- *Administrative expenses*

Administrative expenses decreased by HK$53.1 million, or 11.3%, from HK$469.1 million for the year ended December 31, 2004 to HK$416.0 million for the year ended December 31, 2005. This decrease was primarily attributable to the payment in 2004 of approximately HK$31.2 million in respect of pensions relating to the years ended December 31, 2002, 2003 and 2004, for which there was no equivalent in 2005.

- *Other operating expenses, net*

Other operating expenses, net increased by HK$16.1 million, or 21.1%, from HK$76.3 million for the year ended December 31, 2004 to HK$92.4 million for the year ended December 31, 2005. This increase was primarily due to an increase in withholding tax resulting from an increase in the dividends paid by the Kazakhstan Subsidiaries to CCPL.

- *Finance costs*

Finance costs increased by HK$30.6 million, or 20.3%, from HK$150.9 million for the year ended December 31, 2004 to HK$181.5 million for the year ended December 31, 2005. This increase was due to both an increase in the amount of bank loans repayable within one year for working capital purposes and an increase in the overall average effective interest rate borne by on the Target Group's borrowings.

- *Profit before tax*

As a result of the factors described above, profit before tax increased by HK$1,629.9 million from HK$1,187.0 million for the year ended December 31, 2004 to HK$2,816.9 million for the year ended December 31, 2005.

- *Tax*

Tax increased by HK$480.3 million, or 42.1%, from HK$1,140.5 million for the year ended December 31, 2004 to HK$1,620.8 million for the year ended December 31, 2005. This increase was primarily due to the incurrence by KBM of excess profit tax for the first time in 2005 as the threshold specified in the Hydrocarbon Contract triggering such tax was exceeded in 2005. See "—Taxation". The increase was also attributable to the HK$1,629.9 million increase in profit before tax over the same period.

- *Profit for the year*

As a result of the factors described above, profit for the year increased by HK$1,149.6 million from HK$46.5 million for the year ended December 31, 2004 to HK$1,196.1 million for the year ended December 31, 2005.

Liquidity and Capital Resources

Liquidity and Working Capital

The Target Group's liquidity requirements arise principally from the need for working capital to finance their existing operations and capital expenditure to finance investments in the Karazhanbas oilfield, including the costs associated with the expansion of the production facilities and supporting infrastructure and the development of new technologies for extracting oil.

The Target Group has historically financed its capital expenditure through a combination of cash generated from operations, the proceeds of debt offerings and borrowings from commercial banks and related parties. The management of the Target Group believes that the Target Group currently has adequate liquidity and resources to meet its short-term obligations.

Cash Flows

The following table sets forth a summary of the Target Group's cash flows with respect to operating activities, investing activities and financing activities for the years ended December 31, 2004, 2005 and 2006:

	Year ended December 31,			
	2004	**2005**	**2006**	**2006**
	(HK$ millions)	**(HK$ millions)**	**(HK$ millions)**	**(US$ millions)**
Net cash from operating activities	872.6	2,324.0	2,354.6	301.3
Net cash used in investing activities	(712.7)	(802.2)	(3,216.7)	(411.7)
Net cash from/(used in) financing activities	97.6	(1,158.2)	515.7	66.0
Net increase/(decrease) in cash and cash equivalents	257.5	363.6	(346.4)	(44.4)
Cash and cash equivalents at beginning of year	16.4	274.2	634.1	81.2
Effect of foreign exchange rate changes, net	0.3	(3.7)	24.3	3.1
Cash and cash equivalents at end of year	274.2	634.1	312.0	39.9

- *Net cash from operating activities*

For the year ended December 31, 2006, the Target Group's net cash inflow from operating activities was HK$2,354.6 million (US$301.3 million), which was primarily attributable to operating profit before working capital changes of HK$4,268.3 million (US$546.3 million). The net cash inflow was also attributable to an increase in accrued liabilities and other payables of HK$119.9 million (US$15.3 million) resulting from an increase in relevant cost to meet increased production requirements as well as charges resulting from early repayment of certain bank loans incurred for the Proposed Acquisition and an increase in accounts payable of HK$59.3 million (US$7.6 million) reflecting increased costs of, among other things, field repair and maintenance, materials and supplies and utilities associated with the increase in oil production volume in the Karazhanbas oilfield. This net cash inflow was offset in part by income tax paid of HK$1,786.0 million (US$228.6 million) and an increase in inventories of HK$176.3 million (US$22.6 million) resulting from the acquisition of spare parts and other materials to replace items identified as lacking during a physical stocktake of such materials which was completed in 2006 and to increase the amount of spare parts and materials kept in the Karazhanbas oilfield to meet the demands of anticipated higher future oil production volume.

For the year ended December 31, 2005, the Target Group's net cash inflow from operating activities was HK$2,324.0 million, which was primarily attributable to operating profit before working capital changes of HK$3,451.0 million. This was offset in part by income tax paid of HK$937.3 million, and an increase in inventories of HK$120.0 million resulting from the acquisition of spare parts and other materials to replace items identified as lacking during a physical stocktake of such materials which commenced in 2005 and to increase the amount of spare parts and materials kept in the Karazhanbas oilfield to meet the demands of anticipated higher future oil production volume.

For the year ended December 31, 2004, the Target Group's net cash inflow from operating activities was HK$872.6 million, which was primarily attributable to operating profit before working capital changes of HK$1,710.5 million. This was offset in part by income tax paid of HK$600.6 million, an increase in accounts receivable of HK$162.7 million due to an increase in sales volume and the increase in international oil prices in 2004, and an increase in prepayments, deposits and other receivables of HK$153.7 million reflecting an increase in the amount of advances to contractors and suppliers of goods and services to meet the demands of higher anticipated future oil production volume.

- *Net cash used in investing activities*

For the year ended December 31, 2006, the Target Group's net cash outflow from investing activities was HK$3,216.7 million (US$411.7 million), which was primarily due to an increase in the amount due to an intermediate holding company of HK$2,199.7 million (US$281.5 million) which resulted from the issue by CCEL to CCPL of a promissory note in the principal amount of HK$3,770.0 million pursuant to the Arrangement Agreement, reduced by debt and option repayment notes issued, and loan advances made, by CCEL pursuant to the Arrangement Agreement in aggregate principal amount of HK$1,570.3 million. The net cash outflow was also attributable to purchases of items of property, plant and equipment of HK$1,011.3 million (US$129.4 million) in connection with the introduction of new production technologies, the drilling of new wells and the installation and improvement of supporting infrastructure and facilities in the Karazhanbas oilfield, with a view to increasing production volume.

For the year ended December 31, 2005, the Target Group's net cash outflow from investing activities was HK$802.2 million, which was primarily attributable to purchases of items of property, plant and equipment of HK$856.3 million in connection with the drilling of new wells and the installation and improvement of supporting infrastructure and facilities in the Karazhanbas oilfield, with a view to increasing production volume. This was offset in part by the decrease in other assets of HK$38.2 million reflecting the reduction in the amount of advances to contractors and suppliers in respect of fixed assets for the construction of oil properties, as much of this construction was completed in 2005 and fewer advances were therefore required.

For the year ended December 31, 2004, the Target Group's net cash outflow from investing activities was HK$712.7 million, which was primarily attributable to purchases of items of property, plant and equipment and intangible assets of HK$670.4 million in connection with the drilling of new wells and the installation and improvement of supporting infrastructure and facilities in the Karazhanbas oilfield, with a view to increasing production volume, and an increase in other assets of HK$49.5 million reflecting the increase in the amount of advances to contractors and suppliers in respect of fixed assets required for the construction of oil properties to meet the demands of anticipated higher future oil production.

- *Net cash from/(used in) financing activities*

For the year ended December 31, 2006, the Target Group's net cash inflow from financing activities was HK$515.7 million (US$66.0 million), which was attributable to a net contribution from the owners of CCPL of HK$1,063.5 million (US$136.1 million) resulting from the disposal of the non-Kazakhstan businesses of CCPL as if such disposal was effective as of January 1, 2004 in connection with the change of ownership of CCPL pursuant to the Arrangement Agreement, net proceeds of new bank loans of HK$933.8 million (US$119.5 million) obtained in part to refinance loans reaching maturity and in part to fund working capital and purchases of property, plant and equipment and proceeds from issue of shares of HK$133.0 million (US$17.0 million). This was offset in part by the repayment of bank loans of HK$590.3 million (US$75.5 million) due to such loans reaching maturity, interest paid on bank loans and other borrowings of HK$275.3 million (US$35.2 million), resulting from an increase in the amount of bank loans and other borrowings and an increase in the overall average effective rate interest rate payable on the Target Group's borrowings, and dividends paid to shareholders of HK$560.6 million (US$71.7 million), and to minority shareholders of HK$100.2 million (US$12.8 million).

For the year ended December 31, 2005, the Target Group's net cash outflow from financing activities was HK$1,158.2 million, which was primarily attributable to proceeds from issue of shares of HK$41.3 million, and a net distribution to the owners of CCPL of HK$838.8 million resulting from the disposal of the non-Kazakhstan businesses of CCPL as if such disposal was effective as of January 1, 2004 in connection with the change of ownership of CCPL pursuant to the Arrangement Agreement. The net cash outflow was also attributable to repayment of bank loans of HK$145.1 million due to such loans reaching maturity and interest paid on bank loans and other borrowings of HK$184.7 million resulting from an increase in the amount of bank loans and other borrowings and an increase in the overall average effective rate interest rate payable on the Target Group's

borrowings. This was offset in part by the proceeds of new bank loans of HK$449.0 million obtained in part to refinance loans reaching maturity and in part to fund working capital, purchases of property, plant and equipment and dividend distributions to shareholders and minority shareholder of HK$514.0 million and HK$60.4 million, respectively.

For the year ended December 31, 2004, the Target Group's net cash inflow from financing activities was HK$97.6 million, which was primarily attributable to proceeds of new bank loans of HK$2,242.0 million obtained to fund working capital and purchases of property, plant and equipment. This was almost entirely offset by the repayment of bank loans of HK$1,137.2 million due to such loans reaching maturity, a net distribution to the owners of CCPL of HK$637.1 million resulting from the disposal of the non-Kazakhstan businesses of CCPL as if such disposal was effective as of January 1, 2004 in connection with the change of ownership of CCPL pursuant to the Arrangement Agreement, interest paid on bank loans and other borrowings of HK$148.5 million resulting from an increase in the amount of bank loans and other borrowings and an increase in the overall average effective interest rate payable on the Target Group's borrowings, and dividends paid to shareholders of HK$163.5 million and to minority shareholders of HK$46.9 million.

Indebtedness

The following table sets forth a summary of the Target Group's net indebtedness (cash) as at December 31, 2004, 2005 and 2006:

	As at December 31,			
	2004	2005	2006	2006
	(HK$ millions)	(HK$ millions)	(HK$ millions)	(US$ millions)
Bank loans and overdrafts				
Current portion	77.8	266.5	1,604.4	205.3
Maturity between one and two years	196.2	165.2	97.2	12.5
Maturity between two and five years	995.5	1,109.6	243.1	31.1
Total bank loans and overdrafts	1,269.5	1,541.3	1,944.7	248.9
Bonds				
Maturity between one and two years	—	—	673.5	86.2
Maturity between two and five years	652.3	634.5	—	—
Total bonds	652.3	634.5	673.5	86.2
Total borrowings	1,921.8	2,175.8	2,618.2	335.1
Cash and cash equivalents	274.2	634.1	312.0	39.9
Net indebtedness (cash)	1,647.6	1,541.7	2,306.2	295.2

The Target Group's borrowings are not seasonal. The Target Group's principal credit facilities and borrowings are described below.

- *Credit facilities*

The Target Group had credit facilities of HK$1,516.6 million, HK$1,550.7 million and HK$2,139.3 million (US$273.8 million) for the years ended December 31, 2004, 2005 and 2006, respectively, of which HK$1,269.5 million, HK$1,541.3 million and HK$1,944.7 million (US$248.9 million) had been utilized as at each balance sheet date. All the credit facilities were secured by certain of the Target Group's property, plant and equipment and the proceeds of sales of oil under 60-month contracts.

- *Bonds*

In December 2003, KBM issued, and registered with the Kazakh Stock Exchange, 11,100,000 non-callable coupon bonds in the aggregate amount of 11.1 billion Kazakhstan Tenge with a five year maturity. The bonds bore interest at a rate of 8.0% per annum during the first six months, after which they moved to a floating rate linked to the Kazakhstan inflation index, as reported by the Kazakhstan Agency of Statistics, subject to a maximum rate of 14.0%.

Capital Expenditure

The following table sets forth information about the Target Group's capital expenditure for the years ended December 31, 2004, 2005 and 2006:

		For the year ended December 31,		
	2004	2005	2006	2006
	(HK$ millions)	(HK$ millions)	(HK$ millions)	(US$ millions)
Drilling new wells	247.2	407.5	617.3	79.0
Facility infrastructure—new wells	169.4	185.6	127.6	16.3
Facility infrastructure—field integrity	66.3	83.5	120.2	15.4
Workovers	101.2	78.2	130.8	16.7
Others	99.0	117.6	84.4	10.8
Total capital expenditure	683.1	872.4	1,080.3	138.2

In the years ended December 31, 2004, 2005 and 2006, the Target Group's total capital expenditure was HK$683.1 million, HK$872.4 million and HK$1,080.3 million (US$138.2 million), which represented 18.2%, 16.6% and 16.4% of sales revenue (before payment of royalties and, in the case of the year ended December 31, 2004, hedging losses), respectively.

A large part of the Target Group's capital expenditure relates to oil production and, in particular, the drilling of new wells, the expansion of the production facilities and supporting infrastructure in the Karazhanbas oilfield and the development of new technologies for extracting oil. See "—KBM Business Overview—Production Technologies and Development Plans". Based on the Target Group's current plans, the capital expenditure required for such future production plans is expected to be approximately US$730 million. Such estimated planned capital expenditure may change depending on a variety of factors, including the then prevailing economic and market conditions and other financial considerations.

Contractual Obligations

KBM is obligated to perform its obligations under the work program approved by the Kazakhstan government each year. In 2007, the amount of the capital commitment approved by the Kazakhstan government to drill 150 wells and produce 15.6 million barrels of oil is US$128.4 million. KBM has entered into contracts to fulfill its obligations under the work program. As of December 31, 2006, KBM had contractual obligations of HK$167.2 million (US$21.4 million) due within one year, of which HK$125.8 million (US$16.1 million) represented its contractual obligations incurred for the expansion of its steam generation facilities in anticipation of increased requirements for steam to implement the CSS and steam flooding technologies in the Karazhanbas oilfield and other equipment, HK$35.2 million (US$4.5 million) represented its contractual obligations incurred for the purchase of vehicles in anticipation of an increased requirement for transportation services necessary for the increased scale of production in the Karazhanbas oilfield and the remaining HK$6.3 million (US$0.8 million) represented its contractual obligations incurred to meet increased requirements for repair of the fire suppression system at the oil storage facilities in the Karazhanbas oilfield necessary for the increased scale of production in the Karazhanbas oilfield. KBM generally reviews and, if appropriate, renews its contracts on an annual basis and therefore it does not have any material contractual obligations beyond one year.

Off-Balance Sheet Arrangements

The Target Group does not currently utilize any off-balance sheet financing arrangements.

Quantitative and Qualitative Disclosures about Market Risk

Commodity Price Risk

Commodity price risk relating to international oil prices is the Target Group's most significant market risk exposure. Prevailing market prices for oil are influenced by factors such as actions taken by the Organization of the Petroleum Exporting Countries, political events and the levels of supply of and demand for oil. The Target Group did not hedge against this risk in the years ended December 31, 2005 and 2006.

Foreign Currency Exchange Rate Risk

Substantially all of the Target Groups' cash inflows are denominated in U.S. dollars, while most all of its expenses are denominated in Kazakhstan Tenge. In addition, the Notes will be denominated in U.S. dollars. As a result, the Target Group is exposed to the risk of fluctuations in the exchange rate of the U.S. dollar in relation to the Kazakhstan Tenge. The Kazakhstan Tenge has been appreciating in value in relation to the U.S. dollar since 2003. The Target Group does not use any foreign exchange or forward contracts to manage this exposure.

Interest Rate Risk

The Target Group is exposed to interest rate risk primarily in relation to its floating rate bank loans and the floating rate bonds issued by KBM in 2003.

Credit Risk

The Target Group is exposed to credit risk by the use of financial instruments, primarily in relation to accounts receivable. As of December 31, 2004, 2005 and 2006, 69.5%, 66.6% and 73.1%, respectively, of the Target Group's total trade accounts receivable were from Euro-Asian, and 20.8%, 32.9% and 26.9%, respectively, from Glencore. While the Target Group may be subject to losses up to the contract value of the instruments in the event of non-performance by their counterparties, it has not suffered any such losses in the past and does not expect such losses to occur in the future.

Inflation

Although Kazakhstan experienced high inflation immediately following its independence from the Soviet Union in December 1991, the rate of inflation has decreased significantly since that time to approximately 6.9%, 7.6% and 8.6% in 2004, 2005 and 2006, respectively, according to the Economist Intelligence Unit. As such, management of the Target Group does not think that inflation in Kazakhstan has had a material impact on its business, financial condition or results of operations in recent years.

Taxation

The license for the right to produce hydrocarbons in the Karazhanbas oilfield, which was granted to KBM by the Kazakhstan government on May 7, 1997, requires KBM to pay certain taxes and other amounts. These taxes and other amounts are detailed in the Hydrocarbon Contract, and primarily comprise corporate income tax, withholding tax on payments to persons not resident in Kazakhstan, excess profit tax, value added tax on domestic oil sales and any services provided to third parties in Kazakhstan, excise tax on domestic oil sales, royalties, production bonuses, and property tax, as set out below. ATS and TMS are also required to pay certain taxes, including corporate income tax, withholding tax, excess profit tax, value added tax and property tax, in accordance with Kazakhstan laws and regulations from time to time

- *Corporate income tax*

The Kazakhstan Subsidiaries pay corporate income tax at a rate of 30.0% of taxable income, which is their aggregate income less any deductible expenses. Corporate income tax is payable monthly in advance based on the level of the previous year's taxable income. Any adjustments required as a result of a change in taxable income from year to year are made following the end of the relevant tax year.

The Kazakhstan Subsidiaries' effective rate of corporate income tax is, and is expected to continue to be, higher than the statutory rate as certain of the Kazakhstan Subsidiaries' expenses are not deductible. This is due to restrictions on deductions set by the Kazakhstan tax code either because certain costs do not relate to the generation of income (for example, amounts invested in social projects in Kazakhstan such as the development and sponsorship of schools and an orphanage, and environmental fines and penalties) or because they are specifically restricted by the terms of the Hydrocarbon Contract (for example, foreign exchange losses).

- *Withholding tax*

The Kazakhstan Subsidiaries pay withholding tax on any payments to persons not resident in Kazakhstan at a rate of 15.0% of the amount of dividends and 20.0% of the amount of payments in respect of services provided by such persons. The applicable rates may be lower than those stated in the event that any avoidance of double taxation treaties apply.

- *Excess profit tax*

The Kazakhstan Subsidiaries pay excess profit tax at a progressive rate of up to 30.0% of net income, which is their taxable income less any payments in respect of income tax, including in respect of corporate income tax and withholding tax. Excess profit tax is payable annually following the end of each financial year. KBM is required to calculate and pay excess profit tax if its cumulative internal rate of return exceeds 20.0%, and an increase in the cumulative internal rate of return leads to an increase of the tax rate. As the cumulative internal rate of return from the Karazhanbas oilfield exceeds the relevant thresholds set out in the Hydrocarbon Contract, KBM has been paying the highest level of excess profit tax, namely 30.0%, since 2005.

- *Value added tax*

The Kazakhstan Subsidiaries pay value added tax on domestic oil sales, and any services provided to third parties in Kazakhstan, at a rate of 20.0% of the value of such sales and services.

In addition, the Kazakhstan Subsidiaries are entitled to a tax credit for value added tax receivable in respect of equipment, materials and goods imported into Kazakhstan for the purpose of their oil production, storage and transportation. This tax is charged at a rate of 15.0% of the value of such equipment, materials and goods.

- *Excise tax*

KBM pays excise tax on domestic oil sales at the current rate of approximately seven Euro per tonne of oil sold.

- *Royalties*

KBM pays royalties at a progressive rate of up to 16.0% of the aggregate selling price of oil production less any transportation tariffs, customs duties, levies and other expenses incurred between production and delivery of the oil.

- *Production bonuses*

KBM pays production bonuses on the achievement of certain specified volumes of oil production during the term of the Hydrocarbon Contract. The Hydrocarbon Contract provides for the payment of seven production bonuses at intervals up to an accumulated production volume of 70 million tons of oil. Production in the Karazhanbas oilfield reached initial threshold of 10 million tons, and the first production bonus was therefore paid, in the year ended December 31, 2005.

- *Property tax*

The Kazakhstan Subsidiaries pay property tax at a rate of 1.0% of the average net book value of their fixed assets (excluding vehicles).

Competition

Competition for Reserves

Kazakhstan has been a focus for investment by leading oil and gas companies worldwide. Since its independence in 1991, major western oil companies such as BG Group, Chevron, ENI, ExxonMobil, Shell, Total and LUKOIL have dominated the oil and gas industry in Kazakhstan by acquiring stakes in large-scale projects such as Tengizchevroil, North Caspian and Karachaganak. Investment from Asian oil producers began in the late 1990s led by the acquisition of a 60.0% interest in Mangistaumunaigas in 1997 by Indonesia's Central Asia Petroleum followed by the acquisition of a 60.0% interest in Aktobemunaigas in 1997 and a 67.0% interest in PetroKazakhstan Kumkol in 2005 by CNPC International Ltd., or CNPC International, a wholly owned subsidiary of China National Petroleum Corporation. CNPC International has continued to invest heavily in the country and has been joined by, among others, Inpex, Sinopec and KNOC. LUKOIL and Rosneft have led the investment of Russian oil and gas producers in Kazakhstan with a focus on the offshore Caspian.

Alongside this investment by international and national oil companies, foreign exploration and production companies such as PetroKazakhstan and Nelson Resources launched their Kazakh operations in 1996 and 2000, respectively, and built positions as Kazakh-focused oil producers. There has also been renewed interest, particularly in western Kazakhstan, from numerous smaller companies in the past few years which have been attracted by development opportunities and existing infrastructure. Examples of such companies include, among others, Arawak Energy, Aurado Energy, BMB Munai, Big Sky Energy, Canargo Energy, Caspian Holdings, Transineridian and Victoria Oil and Gas.

The recent push by oil companies to secure access to reserves has led to a rapid increase in global mergers and acquisitions activity. Kazakhstan has seen the acquisition by CNPC International of PetroKazakhstan in October 2005 and the acquisition of the Kazakhstan Subsidiaries by CITIC Group in December 2006.

Competition for Pipeline Access

Except for certain domestic sales required by the Kazakhstan government, substantially all of the oil production from the Karazhanbas oilfield is distributed through export sales. Since Kazakhstan has no access to the open sea, export sales must be transmitted through pipelines and by railroads across national borders to ports with such access. Export sales by oil producers in Kazakhstan are dependent upon intergovernmental agreements on the establishment of transportation quotas, which in turn affect the quotas that can be allocated to oil producers in Kazakhstan. The transportation quotas KBM is able to obtain from the government on a monthly basis are vital for its export sales. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—KBM may not be able to obtain transportation quotas necessary for its export sales". As oil production by oil producers in Kazakhstan increases, competition to obtain transportation quotas from the government may become more intense.

In anticipation of increased production, the Kazakhstan government is developing multiple transportation pipelines. For example, the construction of the Atasu-Alashankou pipeline between Kazakhstan and the PRC was completed in December 2005. The Kazakhstan government is also working on an agreement with the government of Azerbaijan for Kazakhstan oil shipments through the Baku-Tbilisi-Ceyhan pipeline.

Environmental Protection

After completion of the Proposed Acquisition, we will be subject to a variety of Kazakhstan environmental laws, regulations and requirements that govern air emissions, water use and disposal, waste management, impact on wildlife and land use and reclamation. In addition, the exploration and production licenses require that all operations be carried out in conformity with applicable environmental laws and regulations. Licenses may be suspended or cancelled if these requirements are not addressed.

Kazakhstan recently adopted the Environmental Code, which seeks to consolidate all the environmental protection related legislation in Kazakhstan. However, environmental protection related laws and regulations are expected to continue to develop. Accordingly, new regulations are expected to be adopted and current regulations may be amended, changed or re-interpreted. The Kazakhstan Subsidiaries are expected to monitor these changes to the extent possible and seek to adjust their operations to ensure continual compliance with the regulations. The Ministry of Environmental Protection at the national level conducts inspections on an annual basis and, if violations are found, issues orders requiring that corrective actions be taken. The local environmental protection authorities also conduct inspections on a regular basis. In the event that an external body or an internal audit identifies an environmental issue, corrective measures must be taken to address the issue.

According to the Environmental Code, the Kazakhstan Subsidiaries are obliged to obtain an annual permit for the contamination of the environment and must observe all requirements set out in such permit. In addition, the Kazakhstan laws and regulations require that an application be made to the Ministry of Environmental Protection for an environmental permit specifying maximum levels of air emissions, waste water disposal and municipal and industrial waste permitted to be discharged by us.

For example, in response to recent regulations on restrictions of gas flaring, KBM has had to consolidate and upgrade its natural gas utilization system to be in compliance with the new regulation. See "—Production Technologies and Development Plans—Supporting Infrastructure and Facilities". In addition, KBM is required to clean up a pit of heavy oil in the Karazhanbas oilfield left over for many years. Clean up costs are expected to be significant. Pursuant to the Hydrocarbon Contract, KBM is able to seek reimbursement from the Kazakhstan government for such clean up costs. However, there is no assurance that KBM will be able to obtain full reimbursement. See "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—We may be subject to substantial environmental liabilities".

We anticipate that the environmental protection laws and regulations in Kazakhstan will become increasingly strict and therefore likely to increase our compliance costs after completion of the Proposed Acquisition. There is no assurance that we will not be subject to increased risks, compliance costs and liabilities inherent in the oil and gas industry in Kazakhstan which apply to all oil and gas companies operating in Kazakhstan. In the event of the occurrence of significant environmental protection claims and the liabilities arising therefrom, our financial condition and results of operations may be materially adversely affected.

KBM has been in compliance in all material aspects with environmental protection laws and regulations in the past. For the years ended December 31, 2004, 2005 and 2006, it paid pollutant discharge fees of US$0.4 million, US$0.9 million and US$1.7 million. During the same periods, its capital expenditure on environmental protection equipment and facilities was US$0.2 million, US$1.3 million and US$1.5 million, respectively.

Legal Proceedings

de Shazo

On September 20, 2005, de Shazo filed a complaint in the United States District Court for the Southern District of Texas, or US federal court, against Nations, Ecolo, Aequitas Energy, Ltd., Novomundo Trading Ltd., Hasim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The complaint sought US$200 million in damages, additional punitive and exemplary damages, the award of treble damages, costs of the action and a jury trial. Nations filed motions to dismiss in November 2005, and the US federal court dismissed de Shazo's claim on March 26, 2007. De Shazo appealed on April 25, 2007. The appeal will be heard, or determined without oral argument, by the U.S. Court of Appeal for the Fifth Circuit after a briefing schedule is issued by such court and the briefs are subsequently submitted by the relevant parties. Previously, in June 2003, de Shazo had brought another virtually identical lawsuit in Texas state court but had non-suited his own action one day prior to a hearing brought by Nations in Texas state court on a motion to dismiss that claim on similar forum non conveniens grounds.

On July 8, 2004, de Shazo filed a claim in the Alberta Court of Queen's Bench seeking damages against, among others, Nations and KBM. On July 13, 2005, Nations obtained an order from the Alberta Court of Appeal summarily dismissing de Shazo's claim.

On September 29, 2006, Nations obtained a Certificate of Foreign Judgment against de Shazo in Idaho to collect US$0.1 million in outstanding costs arising out of the dismissal of de Shazo's action in Alberta by the Alberta Court of Appeal on August 18, 2005. In response, de Shazo filed a defense to set aside the Certificate of Foreign Judgment and a counterclaim in which he has incorporated by reference the counterclaim being litigated in Texas for US$200 million. In the Idaho counterclaim, de Shazo has requested that the court stay the action in Idaho pending the outcome of action in Texas. Nations believes that there are no grounds for such claim to succeed and as such, no amount has been accrued in its consolidated financial statements.

On October 25, 2006, an indemnity agreement was entered into among Ecolo, Nations, CITIC Group and CCEL whereby Ecolo agreed to indemnify Nations, CITIC Group and CCEL against all losses which may arise from claims filed by de Shazo. In addition, an amount of US$25 million was placed in an escrow account by Ecolo as security for its obligations under the indemnity agreement.

Savicic

On April 20, 2006, Zoran Savicic, or Savicic, and GZF Poly Oil Holding, Ltd., or GZF, brought an action against, among others, Nations, KBM, Canadian Triton International Ltd., or CTI, and Vladimir Katic, or Katic, in the Specialized Inter-Regional Economic Court in Mangistau oblast, in Kazakhstan. The Plantiffs sought 50.0% of the KBM shares. In an ex parte order on the date the claim was initiated, the Kazakhstan court issued an injunction prohibiting the transfer of 50.0% of the KBM shares and 50.0% of the mineral rights held by KBM.

The plaintiffs based their claim on three agreements entered into in Cyprus in December 1994 between GZF and CTI, a Canadian company which is now bankrupt and has been dissolved. A settlement agreement signed by Savicic who, according to the agreement, represents GZF, and Katic who, according to the agreement, represents CTI and Nations, dated February 7, 1998, purported to settle all claims under the three agreements in exchange for Katic transferring 250,000 shares in Nations to Savicic. Nations did not have any obligations under this agreement except to facilitate the transfer of the shares by Katic to Savicic. This transfer never occurred and the plaintiffs claimed the agreements were null and void because Savicic signed the settlement agreement under duress.

Savicic had commenced legal proceedings in Nevada in 2000 against a number of defendants, including Nations, Katic and CTI named in the current proceeding in respect of the same matter and his claim was

dismissed for lack of jurisdiction. Nations received a temporary restraining order from the Nevada court to prevent Savicic and his agents from misrepresenting that the Nevada court had set aside the settlement agreement entered into in 1998 and that the Nevada court had rendered the judgment based on the merits of the case.

On July 19, 2006, the Kazakhstan court awarded a judgment in favor of the plaintiffs in part and ordered Nations to transfer 17.9% of the shares of KBM to GZF. Nations appealed the decision on August 3, 2006. On August 29, 2006, the Mangistau Region Court heard the appeal and set aside the judgment of the court of first instance and dismissed the case. The court also withdrew the encumbrance over KBM's shares, subsoil and land use rights. It further ordered the court of first instance to re-consider the amount of state duty to be paid in connection with this matter. In November 2006, Savicic and GZF made an application for initiation of proceedings. On November 22, 2006, a panel with three judges of the Supervisory Collegium of Mangistau Regional Court unanimously rejected such application and maintained the dismissal of the case.

Meanwhile, Nations, Ecolo and KBM filed a lawsuit in Cyprus against Savicic and GZF to prohibit them from proceeding with the lawsuit in Kazakhstan. On December 12, 2006, Savicic and GZF sought an interim relief on the basis that they planned to file a counterclaim seeking 25.0% of Ecolo's shares in Nations based on similar grounds used in the lawsuit in Kazakhstan. On December 22, 2006, the court issued a consent order pursuant to which Savicic and GZF agreed that the sale of Ecolo's shares in Nations could proceed as long as the sale of shares would be no less than US$200 million after deduction of relevant expenses and taxes and that Savicic and GZF would not take any actions in Cyprus or in any other country to impede such sale. According to Patrikos Pavlou & Co, the counsel representing Nations and KBM in the lawsuit in Cyprus, Savicic consented with full knowledge that the sale of Ecolo's shares in Nations could proceed and that he abandoned the attempt to impede the sale in Cyprus and in other jurisdictions. Consequently, Savicic reduced his claims to monetary damages and abandoned claims over Ecolo's shares in Nations. As a result, the purchaser of Ecolo's shares in Nations would not be subject to claims filed by Savicic.

On May 4, 2007, the parties involved in the above legal proceedings in various jurisdictions, including, among others, Savicic, GZF and Ecolo, entered into a settlement deed. The settlement deed was executed by Ecolo on its own behalf as well as for the benefit of KBM and CCPL. Pursuant to the settlement deed, Ecolo paid US$3.1 million into an escrow account for the benefit of Savicic, GZF and other parties that are entitled to receive the settlement amount under the settlement deed. The parties to the settlement deed agreed to release present and future claims against one another, including those against KBM and CCPL, whether or not the claims are based on grounds relating to the subject matter of the relevant legal proceedings in various jurisdictions.

For risks associated with legal proceedings against KBM, see "Risk Factors—Risks Relating to the Proposed Acquisition and Operation of the Kazakhstan Subsidiaries—KBM is involved in several legal proceedings, the outcome of which may materially adversely affect our operation after completion of the Proposed Acquisition".

MANAGEMENT

Directors

Set out below is certain information about each of the directors of CITIC Resources as of April 27, 2007:

Name	Position	Age	Year Appointed as Director
Mr. Peter Viem Kwok	Chairman	58	2000
Mr. Ting Hung Ma	Vice Chairman	43	2000
Mr. Xuancheng Shou	Vice Chairman	57	2005
Mr. Xinguo Sun	President and Chief Executive Officer	56	2002
Ms. So Mui Li	Executive Director	52	2000
Mr. Zengxin Mi	Executive Director	56	2004
Mr. Yiyong Qiu	Executive Director	50	2002
Mr. Chen Zeng	Executive Director	43	2004
Mr. Jijing Zhang	Executive Director	51	2002
Mr. Anthony Ren Da Fan	Independent Non-executive Director	46	2000
Mr. Man Ngai	Independent Non-executive Director	61	2006
Mr. Brian Link Carl Tsang	Independent Non-executive Director	43	2000

Honorary Chairman

Mr. Dan Kong was appointed as our Honorary Chairman in February 2007, but is not a member of our board of directors.

Officers

Set out below is certain information about each of the members of CITIC Resources' senior management as of April 27, 2007:

Name	Position	Age	Year Appointed as Officer
Mr. Johnathan Jen Wah Cha	General Counsel	42	2005
Mr. Alan Ka Fai Chung	Chief Accountant	40	1996
Mr. Kar Yan Luk	Vice President—Finance	39	2005

Biographies of Directors

Mr. Peter Viem Kwok, aged 58, is the Chairman of CITIC Resources. He has been an Executive Director of CITIC Resources since 2000. He is also a member of the nomination committee of CITIC Resources and a director of several other subsidiaries of our group. He is responsible for the strategic planning and corporate development of our group. He received a Bachelor of Arts degree in commerce from the National Taiwan University, a Master of Philosophy degree in management studies from the University of Hong Kong and a doctoral degree in finance from the University of California at Berkeley. Mr. Kwok has over 31 years' experience in the banking and finance industry and has held senior management positions with various financial institutions. Mr. Kwok is a member of the Chinese People's Political Consultative Conference.

Mr. Ting Hung Ma, aged 43, is a Vice Chairman of CITIC Resources. He has been an Executive Director of CITIC Resources since 2000. He is also a member of the remuneration committee of CITIC Resources and a director of several other subsidiaries of our group. He is responsible for the business development and financial management of our group. He holds a Bachelor of Arts degree in economics from the University of Southern California. He is an independent non-executive director of Universe International Holdings Limited listed on the Hong Kong Stock Exchange. Mr. Ma has over 19 years' experience in the banking and finance industry.

Mr. Xuancheng Shou, aged 57, is a Vice Chairman of CITIC Resources. He has been an Executive Director of CITIC Resources since 2005. He is also a director of several other subsidiaries of our group. He is responsible for the planning and development of our group's oil investments and portfolio. He holds a master's degree and a doctoral degree in engineering from Petroleum University of China. He held a number of high-level positions in the China National Petroleum Corporation group of companies between 1985 and 2004, including China National Oil & Gas Exploration and Development Corporation, CNPC International (Kazakhstan) Co. Ltd., PetroChina Company Limited listed on the Hong Kong Stock Exchange and PetroChina International Limited. He is a director of KBM. Mr. Shou has over 36 years' experience in the oil and gas industry.

Mr. Xinguo Sun, aged 56, is the President and Chief Executive Officer of CITIC Resources. He has been an Executive Director of CITIC Resources since 2002. He is also a member of the remuneration committee of CITIC Resources and a director of several other subsidiaries of our group. He is responsible for the corporate development of our group. He holds a Bachelor of Arts degree from Fudan University and graduated from the Advanced Management Program of Harvard Business School in 2004. He is a director of CITIC Group and Keentech Group Limited, or Keentech. He also holds directorships in several other subsidiaries of CITIC Group. Mr. Sun has over 31 years' experience in project investment, marketing and operation, import and export, securities investment and corporate finance.

Ms. So Mui Li, aged 52, joined in 2000 as an Executive Director and the Company Secretary of CITIC Resources. She is also a director of several other subsidiaries of our group. She is responsible for the financial management and general administration of the Group. She holds a master's degree in business administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, or HKICPA, and the Association of International Accountants. Ms. Li has over 29 years' experience in the accounting and banking field.

Mr. Zengxin Mi, aged 56, joined in 2004 as an Executive Director of CITIC Resources. He is responsible for the strategic development of our group. He holds a master's degree in science from Beijing University of Science and Technology. He is an executive director and the vice president of CITIC Group, the chairman of CITIC USA Holdings Limited, CITIC Australia Pty Limited, CITIC Resources Australia Pty Limited, Asia Satellite Telecommunications Holdings Limited listed on the Hong Kong Stock Exchange and KBM, and a director of CITIC United Asia Investments Limited. He also holds executive management positions in several other subsidiaries of CITIC Group. Mr. Mi has over 23 years' experience in multi-national business, corporate management and various industries.

Mr. Yiyong Qiu, aged 50, joined in 2002 as an Executive Director of CITIC Resources. He is also a director of several other subsidiaries of our group. He is responsible for the corporate development of our group. He holds a bachelor's degree in economics from Xiamen University and is a qualified senior statistician in the People's Republic of China. He is the managing director of CITIC United Asia Investments Limited, a director of CITIC Group, Keentech and DVN (Holdings) Limited listed on the Hong Kong Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group. Mr. Qiu has over 25 years' experience in investment management.

Mr. Chen Zeng, aged 43, joined in 2004 as an Executive Director of CITIC Resources. He is also a director of several other subsidiaries of our group. He is responsible for the management and operations of our group. He holds a master's degree in international finance from Shanghai University of Finance and Economics. He is the managing director of CITIC Australia Pty Limited and CITIC Resources Australia Pty Limited. He is also the Chairman of CATL listed on the Australian Stock Exchange. He also holds directorships in several other subsidiaries of CITIC Group. Mr. Zeng has over 18 years' experience in business operations and development, asset restructuring and the aluminum and coal industry.

Mr. Jijing Zhang, aged 51, joined in 2002 as an Executive Director of CITIC Resources. He is also a member of the nomination committee of CITIC Resources and a director of several other subsidiaries of our group. He is

responsible for the corporate development of our group. He holds a bachelor's degree in engineering from Hefei Polytechnic University in Anhui Province and a master's degree in economics from the Graduate School of Chinese Academy of Social Sciences in Beijing. He is a director, the assistant president and the head of strategy and planning department of CITIC Group, the deputy chairman of CITIC Australia Pty Limited, a director of CITIC Securities Co., Ltd. listed on the Shanghai Stock Exchange, Keentech and KBM, and a non-executive director of China CITIC Bank Corporation Limited, which is listed on the Hong Kong Stock Exchange. Mr. Zhang has over 21 years' experience in corporate management, industrial investment, business finance and the aluminum industry.

Mr. Anthony Ren Da Fan, aged 46, joined in 2000 as an Independent Non-executive Director of CITIC Resources. He is also a member of the audit committee, nomination committee and remuneration committee of CITIC Resources. He holds a master's degree in business administration from the United States. He is the chairman and managing director of AsiaLink Capital Limited. Prior to that, he held senior positions with various international financial institutions. Mr. Fan is an independent non-executive director of Raymond Industrial Limited listed on the Hong Kong Stock Exchange and Roly International Holdings Limited listed on SGX-ST.

Mr. Man Ngai, aged 61, was appointed as an Independent Non-executive Director of CITIC Resources in March 2006. He is also a member of the audit committee, nomination committee and remuneration committee of CITIC Resources. He has been a senior adviser to the Chairmen of Charoen Pokphand Group and Chia Tai Group since 1988. He is also a director of Longtime Company Limited and Orient Telecom & Technology Holdings Limited. Mr. Ngai has over 34 years' experience in various industries in southeastern Asia including telecommunications, trading, hotels and leisure, petrochemicals, real estate and agriculture. In 1995, he was recognized as an "honorary citizen" by the Shenzhen Municipal Government.

Mr. Brian Link Carl Tsang, aged 43, joined in 2000 as an Independent Non-executive Director of CITIC Resources. He is also a member of the audit committee, nomination committee and remuneration committee of CITIC Resources. He is a practicing solicitor in Hong Kong and is a partner of the Hong Kong law firm of Iu, Lai & Li. He holds a bachelor's degree in law from the King's College, London. He is also admitted to practice law in England and Wales, Singapore, New South Wales, Queensland and the Australian Capital Territories. Mr. Tsang is a non-executive director of Pacific Century Premium Developments Limited listed on the Hong Kong Stock Exchange and EVI Education Asia Limited listed on the Hong Kong Stock Exchange. In 2005, he was appointed as an adjudicator of the Registration of Persons Tribunal. In 2006, he was appointed as a member of Disciplinary Panel of HKICPA and a member of the Appeal Panel on Housing.

Biographies of Senior Management Members

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

Mr. Alan Ka Fai Chung, aged 40, joined in 1996 as a Chief Accountant of CITIC Resources. He is an associate member of the Australian Society of Certified Practising Accountants. Prior to joining CITIC Resources, he worked for various multinational companies. Mr. Chung has over 16 years' experience in the accounting field.

Mr. Kar Yan Luk, aged 39, joined in 2005 as a Vice President of CITIC Resources. He is responsible for the financial management of our group. He holds a bachelor's degree in social science from the University of Hong Kong and a master's degree in business administration from the Hong Kong University of Science and Technology. He is an associate member of HKICPA. Mr. Luk has over 17 years' experience in the banking and finance industry.

There are no family relationships between any of CITIC Resources' directors or senior management members. CITIC Resources does not pay its directors any benefits upon termination of their employment as directors of CITIC Resources.

Committees

Audit Committee

CITIC Resources has an audit committee responsible for reviewing and supervising its financial reporting process and internal controls. The audit committee has three members: Mr. Brian Link Carl Tsang, Mr. Anthony Ren Da Fan, and Mr. Man Ngai.

Nomination Committee

CITIC Resources has a nomination committee responsible for reviewing and monitoring the structure, size and composition of its board of directors and for identifying and nominating qualified individuals to serve on its board of directors. The nomination committee has five members: Mr. Peter Viem Kwok, Mr. Jijing Zhang, Mr. Man Ngai, Mr. Anthony Ren Da Fan, and Mr. Brian Link Carl Tsang.

Remuneration Committee

CITIC Resources has a remuneration committee responsible for reviewing and approving the policies and mechanism in relation to the appointment or termination of, remuneration or compensation to, and the succession plans for the senior executives of CITIC Resources. The remuneration committee has five members: Mr. Ting Hung Ma, Mr. Xinguo Sun, Mr. Anthony Ren Da Fan, Mr. Man Ngai and Mr. Brian Link Carl Tsang.

Compensation

CITIC Resources' directors and senior management members receive compensation in the form of salaries, bonuses, pension scheme contributions, housing allowances, other allowances and benefits in kind. In 2006, the aggregate compensation paid and benefits in kind granted by CITIC Resources to its directors were approximately HK$13.6 million (US$1.7 million). Certain directors and senior management members also receive options as part of their compensation. See "—Share Option Scheme".

Share Ownership of Directors and Senior Management

The following table sets forth the number and percentage of ordinary shares and underlying shares owned by our directors and senior management in CITIC Resources and its subsidiary as at April 27, 2007.

Name	Nature of interest	Number of ordinary shares of HK$0.05 each held	Interests in underlying shares pursuant to share options
Mr. Peter Viem Kwok	Corporate	572,966,000[1]	—
Mr. Peter Viem Kwok	Directly beneficially owned	—	50,000,000
Mr. Ting Hung Ma	Corporate	572,966,000[1]	—
Mr. Ting Hung Ma	Directly beneficially owned	—	50,000,000
Mr. Xuancheng Shou	Directly beneficially owned	—	10,000,000
Mr. Xinguo Sun	Directly beneficially owned	—	10,000,000
Ms. So Mui Li	Directly beneficially owned	—	5,000,000
Mr. Zengxin Mi	Directly beneficially owned	—	10,000,000
Mr. Yiyong Qiu	Directly beneficially owned	—	10,000,000
Mr. Chen Zeng	Directly beneficially owned	—	10,000,000
Mr. Jijing Zhang	Family	28,000[2]	—
Mr. Jijing Zhang	Directly beneficially owned	—	10,000,000
Other Employees and Eligible Persons (in aggregate)	Directly beneficially owned	—	25,200,000

Notes:

(1) The shares disclosed above are held by United Star International Inc., a company incorporated in the British Virgin Islands, which is beneficially owned as to 50.0% by Mr. Peter Viem Kwok and 50.0% by Mr. Ting Hung Ma. Accordingly, each of them is deemed to be interested in the 572,966,000 shares.

(2) The shares disclosed above are held by the spouse of Mr. Jijing Zhang. Accordingly, Mr. Jijing Zhang is deemed to be interested in the 28,000 shares.

Interests in ordinary shares and underlying shares of the associated corporations of CITIC Resources:

Name	Name of associated corporation	Relationship with CITIC Resources	Shares/equity derivatives	Number of shares/ equity derivatives held	Nature of interest
Mr. Chen Zeng	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	385,402[1]	Family

Notes:

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

Share Option Scheme

In June 2004, CITIC Resources adopted a share option scheme to provide incentives and rewards to eligible participants who contribute to its success. Pursuant to the share option scheme, CITIC Resources may grant options to eligible participants to subscribe for its ordinary shares. Eligible participants include employees, executives or officers of CITIC Resources or any of its subsidiaries (including their respective executive and non-executive directors) and consultants, business associates and advisers who will provide or have provided services to CITIC Resources. The share option scheme, unless otherwise cancelled or amended, will remain in force for 10 years until June 29, 2014.

The following table sets forth the outstanding options under the share option scheme as of April 27, 2007.

	Number of ordinary shares issuable	Exercise period	Exercise price per share (HK$)
Directors of CITIC Resources			
Mr. Peter Viem Kwok	50,000,000	June 2, 2007 to June 1, 2010	1.080
Mr. Ting Hung Ma	50,000,000	June 2, 2007 to June 1, 2010	1.080
Mr. Xuancheng Shou	10,000,000	June 2, 2006 to June 1, 2010	1.080
Mr. Xinguo Sun	5,000,000	June 2, 2006 to June 1, 2010	1.080
	5,000,000	December 28, 2006 to December 27, 2010	1.060
Ms. So Mui Li	5,000,000	June 2, 2006 to June 1, 2010	1.080
Mr. Zengxin Mi	10,000,000	June 2, 2006 to June 1, 2010	1.080
Mr. Yiyong Qiu	10,000,000	June 2, 2006 to June 1, 2010	1.080
Mr. Chen Zeng	5,000,000	June 2, 2006 to June 1, 2010	1.080
	5,000,000	December 28, 2006 to December 27, 2010	1.060
Mr. Jijing Zhang	10,000,000	June 2, 2006 to June 1, 2010	1.080
	165,000,000		
Other Employees and Eligible Persons			
In aggregate	5,200,000	June 2, 2006 to June 1, 2010	1.080
	20,000,000	March 7, 2008 to March 6, 2012	3.072
	190,200,000		

INDEPENDENT AUDITORS' REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying financial statements of CITIC Resources Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages F-6 to F-81, which comprise the consolidated balance sheet as at 31 December 2006 and 2005, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the years then ended, and a summary of significant accounting policies and other explanatory notes. We did not audit the consolidated financial statements of CITIC Resources Australia Pty Limited and its subsidiaries (the "CRA Group") whose statements reflect the consolidated total assets of A$815,287,000 and A$720,427,000 as at 31 December 2006 and 2005, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the CRA Group, is based solely on the report of the other auditors.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and the report of the other auditors insofar as it relates to the amounts included for the CRA Group. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained and the report of the other auditors are sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2006 and 2005, and of its consolidated profit and its cash flows for the years then ended in accordance with Hong Kong Financial Reporting Standards.

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

20 April 2007

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Freshwater Place
2 Southbank Boulevard
SOUTHBANK VIC 3006
GPO Box 1331L
MELBOURNE VIC 3001
DX 77
Website:www.pwc.com/au
Telephone +61 3 8603 1000
Facsimile +61 3 8603 1999

Independent audit report to the members of CITIC Resources Australia Pty Ltd

Audit opinion

In our opinion, the financial report of CITIC Resources Australia Pty Ltd:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of CITIC Resources Australia Pty Ltd and the CITIC Resources Australia Group (defined below) as at 31 December 2006 and 2005 respectively, and of their performance for the years then ended, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, cash flow statement, statement of changes in equity, accompanying notes to the financial statements, and the directors' declaration for both CITIC Resources Australia Pty Ltd ("the Company") and the CITIC Resources Australia Group ("the Consolidated Entity"), for the years ended 31 December 2006 and 2005 respectively. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgment, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

Liability limited by a scheme approved under Professional Standards Legislation

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

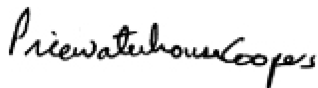
Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

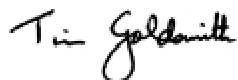
Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001.*



PricewaterhouseCoopers
Chartered Accountants



Tim Goldsmith — Melbourne
Partner — 30 March 2007

CITIC RESOURCES HOLDINGS LIMITED

CONSOLIDATED INCOME STATEMENT

	Notes	2006	2005
		HK$'000	HK$'000 (Restated)
REVENUE	5	7,503,428	5,786,386
Cost of sales		(6,974,598)	(5,376,077)
Gross profit		528,830	410,309
Other income and gains	5	283,245	195,293
Selling and distribution costs		(68,302)	(33,805)
Administrative expenses		(214,910)	(132,526)
Other operating expenses, net		(62,319)	(3,384)
Finance costs	9	(150,355)	(93,730)
PROFIT BEFORE TAX	6	316,189	342,157
Tax	10	(70,152)	(110,642)
PROFIT FOR THE YEAR		246,037	231,515
Attributable to:			
Shareholders of the Company	11	200,815	221,703
Minority interests		45,222	9,812
		246,037	231,515
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12		
Basic		HK4.65 cents	HK5.14 cents
Diluted		HK4.61 cents	N/A
Dividend per share		Nil	Nil

CITIC RESOURCES HOLDINGS LIMITED

CONSOLIDATED BALANCE SHEET

	Notes	2006	2005
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,391,501	1,170,614
Prepaid land lease premiums	14	58,353	—
Goodwill	17	341,512	341,512
Other intangible assets	15	135,701	—
Other assets	16	555,983	573,878
Available-for-sale equity investments	20	845,936	657,035
Prepayments, deposits and other receivables	21	16,346	326,486
Loan receivable	24	21,615	—
Deferred tax assets	35	6,754	11,188
Total non-current assets		4,373,701	3,080,713
CURRENT ASSETS			
Inventories	22	1,112,150	656,138
Accounts receivable	25	939,938	395,749
Prepayments, deposits and other receivables	21	1,867,396	29,185
Loan receivable	24	17,327	—
Equity investments at fair value through profit or loss	26	1,974	1,830
Derivative financial instruments	31	16,380	12,356
Due from related companies	23	51,486	—
Due from the ultimate holding company	23	34,320	—
Other assets	16	62,945	58,365
Cash and bank balances	27	850,744	1,519,595
		4,954,660	2,673,218
Assets of a disposal group classified as held for sale	28	—	266,096
Total current assets		4,954,660	2,939,314
CURRENT LIABILITIES			
Accounts payable	29	533,788	186,288
Tax payable		47,108	71,709
Accrued liabilities and other payables	30	306,789	51,153
Derivative financial instruments	31	286,920	203,541
Due to a minority shareholder	32	38,174	—
Bank and other loans	33	1,588,022	858,393
Provisions	34	53,738	33,229
		2,854,539	1,404,313
Liabilities of a disposal group classified as held for sale	28	—	33,072
Total current liabilities		2,854,539	1,437,385
NET CURRENT ASSETS		2,100,121	1,501,929
TOTAL ASSETS LESS CURRENT LIABILITIES		6,473,822	4,582,642
NON-CURRENT LIABILITIES			
Bank and other loans	33	2,214,540	1,047,223
Deferred tax liabilities	35	519,933	470,985
Derivative financial instruments	31	41,063	11,016
Provisions	34	117,549	86,011
Other payables		75,648	—
Total non-current liabilities		2,968,733	1,615,235
Net assets		3,505,089	2,967,407
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	36	215,909	215,844
Reserves	38(a)	3,009,434	2,725,929
		3,225,343	2,941,773
Minority interests		279,746	25,634
Total equity		3,505,089	2,967,407

CITIC RESOURCES HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company										
	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Available-for-sale revaluation reserve	Hedging reserve	Share option reserve	Accumulated losses	Sub-total	Minority interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2005	215,844	2,561,962	65,527	50,335	203,741	(30,205)	—	(267,558)	2,799,646	19,693	2,819,339
Exchange realignment	—	—	—	(57,175)	—	—	—	—	(57,175)	(1,144)	(58,319)
Net losses on cash flow hedges #	—	—	—	—	—	(122,126)	—	—	(122,126)	—	(122,126)
Change in fair value of available-for-sale equity investments #	—	—	—	—	87,045	—	—	—	87,045	—	87,045
Total income and expense for the year recognized directly in equity	—	—	—	(57,175)	87,045	(122,126)	—	—	(92,256)	(1,144)	(93,400)
Profit for the year	—	—	—	—	—	—	—	221,703	221,703	9,812	231,515
Total income and expense for the year	—	—	—	(57,175)	87,045	(122,126)	—	221,703	129,447	8,668	138,115
Acquisition of interests in subsidiaries by minority shareholders	—	—	—	—	—	—	—	—	—	2,801	2,801
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(5,528)	(5,528)
Equity-settled share option arrangements	—	—	—	—	—	—	12,680	—	12,680	—	12,680
At 31 December 2005	215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	12,680	(45,855)	2,941,773	25,634	2,967,407

Amounts net of deferred tax impact already

CITIC RESOURCES HOLDINGS LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

	Notes	Issued capital	Share premium account	Contributed surplus	Exchange fluctuation reserve	Available-for-sale revaluation reserve	Hedging reserve	Share option reserve	Retained profits/ (accumulated losses)	Sub-total	Minority interests	Total equity
		Attributable to shareholders of the Company										
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006		215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	12,680	(45,855)	2,941,773	25,634	2,967,407
Exchange realignment		—	—	—	5,802	—	—	—	—	5,802	2,016	7,818
Net gains on cash flow hedges #		—	—	—	—	—	72,915	—	—	72,915	—	72,915
Change in fair value of available-for-sale equity investments #		—	—	—	—	(23,507)	—	—	—	(23,507)	—	(23,507)
Total income and expense recognized directly in equity		—	—	—	5,802	(23,507)	72,915	—	—	55,120	2,016	57,226
Profit for the year		—	—	—	—	—	—	—	200,815	200,815	45,222	246,037
Total income and expense for the year		—	—	—	5,802	(23,507)	72,915	—	200,815	256,025	47,238	303,263
Acquisition of interests in subsidiaries by minority shareholders	39(a)	—	—	—	—	—	—	—	—	—	213,432	213,432
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	(6,558)	(6,558)
Issue of new shares upon exercise of share options	38 (b)	65	1,625	—	—	—	—	(286)	—	1,404	—	1,404
Equity-settled share option arrangements	38 (b)	—	—	—	—	—	—	26,141	—	26,141	—	26,141
At 31 December 2006		215,909	2,563,587*	65,527*	(1,038)*	267,279*	(79,416)*	38,535*	154,960*	3,225,343	279,746	3,505,089

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

Amounts net of deferred tax impact already

CITIC RESOURCES HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT

	Notes	2006	2005
		HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		316,189	342,157
Adjustments for:			
Interest income	5	(144,810)	(75,002)
Dividend income from listed investments	5	(55,115)	(19,768)
Gain on sales of coal exploration interests	5	—	(78,463)
Gain on disposal of available-for-sale equity investments	5	(5,235)	—
Gain on conversion of available-for-sale equity investments	5	(17,502)	—
Equity-settled share option expenses	6	26,158	12,680
Depreciation	6	92,560	114,330
Amortization	6	68,113	58,348
Loss on disposal/write-off of items of property, plant and equipment	6	4,568	6,563
Provision/(write-back of provision) for impairment of items of property, plant and equipment	6	(4,893)	12,733
Provision for long service and leave payments	6	6,715	12,779
Provision for impairment of accounts receivable	6	1,816	1,725
Provision against inventories	6	1,515	5,151
Provision for rehabilitation cost	6	8,554	1,292
Provision for abandonment cost	6	112	—
Unrealized losses on embedded derivatives	6	111,667	13,235
Unrealized foreign exchange losses		25,777	—
Warranty income, net	6	(14,908)	—
Finance costs	9	150,355	93,730
		571,636	501,490
Decrease/(increase) in inventories		(302,729)	21,180
Increase in accounts receivable		(502,396)	(95,046)
Decrease/(increase) in prepayments, deposits and other receivables		(59,723)	223,100
Increase in due from related companies		(51,486)	—
Increase/(decrease) in accounts payable		313,906	(24)
Decrease in accrued liabilities and other payables		(116,872)	—
Increase in an amount due to a minority shareholder		38,174	—
Cash (used in)/generated from operations		(109,490)	650,700
Australian income tax paid		(144,835)	(80,491)
PRC income tax paid		(623)	—
Net cash inflow/(outflow) from operating activities		(254,948)	570,209

CITIC RESOURCES HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT (continued)

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

CITIC RESOURCES HOLDINGS LIMITED

BALANCE SHEET

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

1. CORPORATE INFORMATION

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

The principal activity of the Company is investment holding.

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

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

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

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

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

Proposed acquisition of potential oil assets located in Kazakhstan

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

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between the CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right has not been exercised by the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared by the directors for inclusion in the bond offering circular.

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

Basis of consolidation

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

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

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

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

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

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

The principal changes in accounting policies are as follows:

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

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

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

(i) Amendment for financial guarantee contracts

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

(ii) Amendment for the fair value option

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

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

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

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

HKFRS 6 deals with the accounting for exploration and evaluation of mineral resources, including oil and gas.

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

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

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

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

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled assets

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

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

Goodwill

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

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

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

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

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

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

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

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

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

Impairment of non-financial assets other than goodwill

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

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

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

Related parties

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

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

(b) the party is an associate;

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

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

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

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

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

Property, plant and equipment and depreciation

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

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

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

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

Freehold land is not depreciated.

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

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

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

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

Oil and gas properties

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

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

Productive oil and gas properties and other tangible and intangible costs of production properties are amortized using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the depreciation, depletion and amortization provision. Costs

associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

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

Capital works

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

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

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

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

Other intangible assets

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

Other assets

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

Non-current assets and disposal groups held for sale

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

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

Investments and other financial assets

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Fair value

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

Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

Assets carried at cost

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

Available-for-sale financial assets

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

Derecognition of financial assets

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

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

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

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

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

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

Gains and losses are recognized in the income statement when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

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

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

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

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability, or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment.

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

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

Fair value hedges

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

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

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

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

Cash flow hedges

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

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

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

Inventories

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

Cash and cash equivalents

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

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

Provisions

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

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

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

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

Income tax

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

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

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

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

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

Operating leases

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

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

Employee benefits

Share-based payment transactions

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

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

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

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

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

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

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

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

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

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

Share options granted after 7 November 2002 and vested on or after 1 January 2005

The fair value of the options granted under the director and employee option plans is recognized as an employee benefits expense with a corresponding increase in equity. The fair value is measured at the grant date and recognized over the period during which the employees become unconditionally entitled to the options.

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

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

options that are expected to become exercisable. The employee benefits expense recognized during each period takes into account the most recent estimate.

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

Long service payments

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

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

Pension schemes

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

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

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

Paid leave carried forward

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

Borrowing costs

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

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are

taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Judgments

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

Tax

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

Employee benefits—share-based payment transactions

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

Estimation uncertainty

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

Impairment of goodwill

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

Oil and gas reserve and mining reserves

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

(a) Business segments

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

Group Year ended 31 December 2006	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:							
Sales to external customers	1,602,930	274,752	5,074,136	538,006	13,604	—	7,503,428
Other income	37,039	120	9,756	15,193	5,637	—	67,745
	1,639,969	274,872	5,083,892	553,199	19,241	—	7,571,173
Segment results	108,340	76,756	111,025	65,759	15,847	(11,980)	365,747
Interest income and unallocated gains							215,500
Unallocated expenses							(114,703)
Profit from operating activities							466,544
Unallocated finance costs							(150,355)
Profit before tax							316,189
Tax							(70,152)
Profit for the year							246,037
Segment assets	2,034,177	157,624	1,360,989	942,910	1,038,281	55,195	5,589,176
Unallocated assets							3,739,185
Total assets							9,328,361
Segment liabilities	922,399	281,107	261,457	351,228	1,087,969	28,788	2,932,948
Unallocated liabilities							2,890,324
Total liabilities							5,823,272
Other segment information:							
Depreciation and amortization	106,630	10,060	1,460	17,198	11,549	11,534	158,431
Unallocated amounts							2,242
							160,673
Other non-cash expenses	19,750	5,487	842	2,041	—	—	28,120
Unallocated amounts							33,668
							61,788
Capital expenditure	14,955	10,795	2,368	133,111	7,975	—	169,204
Unallocated amounts							4,196
							173,400

Group Year ended 31 December 2005	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Segment revenue:							
Sales to external customers	1,148,078	259,705	4,300,699	—	77,429	475	5,786,386
Other income/(expenses)	(3,138)	78,463	21,602	—	—	10	96,937
	1,144,940	338,168	4,322,301	—	77,429	485	5,883,323
Segment results	173,383	177,792	82,631	—	(6,620)	(15,507)	411,679
Interest income and unallocated gains							98,356
Unallocated expenses							(74,148)
Profit from operating activities							435,887
Unallocated finance costs							(93,730)
Profit before tax							342,157
Tax							(110,642)
Profit for the year							231,515
Segment assets	2,133,100	160,472	849,057	—	266,096	67,119	3,475,844
Unallocated assets							2,544,183
Total assets							6,020,027
Segment liabilities	485,296	74,925	102,084	—	33,072	25,308	720,685
Unallocated liabilities							2,331,935
Total liabilities							3,052,620
Other segment information:							
Depreciation and amortization	98,553	9,135	1,278	—	50,043	11,511	170,520
Unallocated amounts							2,158
							172,678
Other non-cash expenses	34,937	2,482	219	—	—	431	38,069
Unallocated amounts							14,854
							52,923
Capital expenditure	15,646	11,499	2,051	—	114,093	4	143,293
Unallocated amounts							5,831
							149,124

(b) Geographical segments

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

Group	Hong Kong	Mainland China	Australia	Europe	North America	Other Asian countries	Others	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2006								
Segment revenue:								
Sales to external customers.....	—	3,305,764	1,495,282	1,850,518	315,187	494,481	42,196	7,503,428
Other segment information:								
Segment assets...........	1,860,751	1,788,287	4,373,161	215,243	—	1,090,919	—	9,328,361
Capital expenditure ..	280	137,027	28,118	—	—	7,975	—	173,400
Year ended 31 December 2005								
Segment revenue:								
Sales to external customers.....	—	3,052,563	1,373,495	866,188	309,394	105,215	79,531	5,786,386
Other segment information:								
Segment assets...........	1,225,585	333,414	4,461,028	—	—	—	—	6,020,027
Capital expenditure ..	5,245	114,097	29,782	—	—	—	—	149,124

5. REVENUE, OTHER INCOME AND GAINS

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

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

	2006	2005
	HK$'000	**HK$'000**
Revenue		
Sale of goods:		
Aluminium smelting	1,602,930	1,148,078
Coal	274,752	259,705
Import and export of commodities	5,074,136	4,300,699
Manganese	538,006	—
Crude oil	13,604	77,429
Others	—	475
	7,503,428	5,786,386
Other income and gains		
Interest income	144,810	75,002
Handling service fees	7,121	13,326
Dividend income from listed investments	55,115	19,768
Gain on sales of coal exploration interests	—	78,463
Gain on disposal of available-for-sale equity investments	5,235	—
Insurance claim income	25,996	—
Gain on conversion of available-for-sale equity investments	17,502	—
Sale of scraps	11,891	5,148
Others	15,575	3,586
	283,245	195,293
	7,786,673	5,981,679

6. PROFIT BEFORE TAX

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

	Notes	2006	2005
		HK$'000	HK$'000 (Restated)
Cost of inventories sold*		6,974,598	5,376,077
Depreciation	13	92,560	114,330
Amortization of the ESA	16	62,930	58,348
Amortization of other intangible assets	15	4,235	—
Amortization of prepaid land lease premiums	14	948	—
Minimum lease payments under operating leases on land and buildings		8,504	7,215
Auditors' remuneration		7,369	4,374
Employee benefits expense (including directors' remuneration—note 7):			
Wages and salaries		95,218	52,381
Equity-settled share option expenses		26,158	12,680
Pension scheme contributions		289	186
Provision for long service and leave payments		6,715	12,779
		128,380	78,026
Loss on disposal/write-off of items of property, plant and equipment**		4,568	6,563
Provision/(write-back of provision) for impairment of items of property, plant and equipment**		(4,893)	12,733
Exchange (gains)/losses, net**		53,883	(30,754)
Provision against inventories		1,515	5,151
Provision for impairment of accounts receivable**		1,816	1,725
Provision for rehabilitation cost		8,554	1,292
Provision for abandonment cost		112	—
Warranty income, net** #		(14,908)	—

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

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

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

7. DIRECTORS' REMUNERATION

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

	2006	2005
	HK$'000	HK$'000
Fees:		
Executive directors	860	—
Independent non-executive directors	567	330
	1,427	330
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	11,910	6,685
Bonuses	2,865	2,643
Share option benefits	24,618	11,564
Pension scheme contributions	322	274
	39,715	21,166
	41,142	21,496

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

(a) Independent non-executive directors

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

	2006	2005
	HK$'000	HK$'000
Chan Mo Po, Paul	—	90
Fan Ren Da, Anthony	200	120
Ngai Man	167	—
Tsang Link Carl, Brian	200	120
	567	330

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

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006						
Kwok Peter Viem	—	1,873	300	7,825	12	10,010
Ma Ting Hung	—	2,003	300	7,825	12	10,140
Shou Xuancheng	—	2,003	450	1,283	12	3,748
Sun Xinguo	—	2,003	450	1,597	12	4,062
Li So Mui	—	2,003	450	642	12	3,107
Mi Zengxin	215	—	—	1,283	—	1,498
Qiu Yiyong	215	—	—	1,283	—	1,498
Zeng Chen	215	2,025	915	1,597	262	5,014
Zhang Jijing	215	—	—	1,283	—	1,498
	860	11,910	2,865	24,618	322	40,575
2005						
Kwok Peter Viem	—	1,388	225	3,260	12	4,885
Ma Ting Hung	—	1,388	225	3,260	12	4,885
Shou Xuancheng	—	597	113	917	3	1,630
Sun Xinguo	—	597	450	459	3	1,509
Li So Mui	—	1,548	225	458	12	2,243
Mi Zengxin	—	—	—	917	—	917
Qiu Yiyong	—	—	—	917	—	917
Zeng Chen	—	1,167	1,405	459	232	3,263
Zhang Jijing	—	—	—	917	—	917
	—	6,685	2,643	11,564	274	21,166

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

8. FIVE HIGHEST PAID EMPLOYEES

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

	2006	2005
	HK$'000	HK$'000
Salaries, housing allowances, other allowances and benefits in kind	—	481
Bonuses	—	1,465
Pension scheme contributions	—	578
	—	2,524

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

9. FINANCE COSTS

	2006	2005
	HK$'000	HK$'000
Interest expense on bank and other loans repayable:		
Within one year	85,452	43,264
In the second to fifth years, inclusive	64,773	10,219
Beyond five years	9,697	34,054
Total interest	159,922	87,537
Less: Interest capitalized	(22,897)	—
	137,025	87,537
Other finance charges:		
Increase in discounted amounts of provision arising from the passage of time	7,673	2,445
Others*	5,657	3,748
	150,355	93,730

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

10. TAX

Group	2006	2005
	HK$'000	HK$'000
Current—Hong Kong	—	—
Current—Elsewhere		
Charge for the year	103,072	102,371
Overprovision in prior years	(4,533)	—
Deferred—note 35	(28,387)	8,271
Total tax charge for the year	70,152	110,642

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

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

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

For the year ended 31 December 2006, the tax rates applicable to the subsidiaries established and operating in the PRC and Indonesia are 33% and 30% respectively. However, certain PRC subsidiaries of the Group are subject to a full corporate income tax exemption for the first two years and a 50.0% reduction in the succeeding three years, commencing from the first profitable year. No provision for Indonesian tax has been made for the year as the Indonesia operation of the Group did not generate any assessable profits.

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

Group—2006

	Australia	Mainland China	Hong Kong	Indonesia	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) before tax	299,407	68,589	(47,222)	(4,585)	316,189
Tax charge/(credit) at the statutory rates	89,822	22,634	(8,264)	(1,376)	102,816
Lower tax rate/tax holiday or concessions for specific provinces or local authorities	—	(25,638)	—	—	(25,638)
Adjustments in respect of current tax of previous periods	(4,533)	—	—	—	(4,533)
Income not subject to tax	(14,454)	(3,375)	(7,990)	—	(25,819)
Expenses not deductible for tax	1,058	5,988	16,254	—	23,300
Tax losses utilized from previous periods	—	(6,815)	—	—	(6,815)
Increase in unutilized tax losses carried forward	—	5,465	—	1,376	6,841
Tax charge/(credit) at the Group's effective rate	71,893	(1,741)	—	—	70,152

Group—2005

	Australia	Mainland China	Hong Kong	Indonesia	Consolidated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Profit/(loss) before tax	380,231	(23,136)	(14,938)	—	342,157
Tax charge/(credit) at the statutory rates	114,069	(7,635)	(2,614)	—	103,820
Income not subject to tax	(23,727)	—	(6,388)	—	(30,115)
Expenses not deductible for tax	19,413	—	9,002	—	28,415
Increase in unutilized tax losses carried forward	—	8,522	—	—	8,522
Tax charge at the Group's effective rate	109,755	887	—	—	110,642

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

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

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

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

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

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

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

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

	2006	2005
	HK$'000	HK$'000
Earnings		
Profit attributable to ordinary shareholders of the Company, used in the basic earnings per share calculation	200,815	221,703

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

13. PROPERTY, PLANT AND EQUIPMENT

Group 31 December 2006	Notes	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant machinery, tools and equipment	Construction, in progress and Construction material	Furniture and fixtures	Buildings and structures	Capital works	Total
		HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:										
At beginning of year		—	5,832	4,119	977,819	—	1,377	275,926	60,582	1,325,655
Additions		7,975	25	210	41,710	85,714	755	10,700	26,279	173,368
Disposals/write-off		—	—	—	(19,184)	(8,711)	(165)	(3,181)	(163)	(31,404)
Acquisition of subsidiaries	39(a)	—	—	—	117,990	69,172	2,524	122,199	3,996	315,881
Acquisition of a 51% participating interest in the Seram PSC	39(b)	846,530	—	—	—	—	2,067	—	—	848,597
Transfers		—	—	—	15,891	(36,440)		20,549	—	—
At 31 December 2006		854,505	5,857	4,329	1,134,226	109,735	6,558	426,193	90,694	2,632,097
Accumulated depreciation and impairment:										
At beginning of year		—	—	867	125,389	—	238	21,048	7,499	155,041
Provided during the year		3,323	—	742	63,662	—	565	19,253	5,015	92,560
Disposals/write-off		—	—	—	(4,875)	—	(72)	(257)	—	(5,204)
Impairment/(reversal of impairment)		—	—	—	(14,583)	—	—	191	9,499	(4,893)
Exchange realignment		—	—	2	2,091	—	—	767	232	3,092
At 31 December 2006		3,323	—	1,611	171,684	—	731	41,002	22,245	240,596
Net book value:										
At 31 December 2006		851,182	5,857	2,718	962,542	109,735	5,827	385,191	68,449	2,391,501

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

Group 31 December 2005	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Construction in progress and Construction material	Furniture and fixtures	Buildings and structures	Capital works	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:									
At beginning of year	189,612	4,964	2,305	1,015,271	—	3	286,882	57,699	1,556,736
Additions	114,093	1,155	2,239	17,565	—	1,385	8,744	3,943	149,124
Disposals/write-off	—	—	(462)	(1,596)	—	(11)	(5,577)	—	(7,646)
Reclassification to a disposal group held for sale	(303,705)	—	—	—	—	—	—	—	(303,705)
Exchange realignment	—	(287)	37	(53,421)	—	—	(14,123)	(1,060)	(68,854)
At 31 December 2005	—	5,832	4,119	977,819	—	1,377	275,926	60,582	1,325,655
Accumulated depreciation and impairment:									
At beginning of year	3,848	—	373	66,141	—	—	9,278	3,312	82,952
Provided during the year	50,043	—	656	47,436	—	238	11,770	4,187	114,330
Disposals/write-off	—	—	(162)	(921)	—	—	—	—	(1,083)
Impairment	—	—	—	12,733	—	—	—	—	12,733
Reclassification to a disposal group held for sale	(53,891)	—	—	—	—	—	—	—	(53,891)
At 31 December 2005	—	—	867	125,389	—	238	21,048	7,499	155,041
Net book value:									
At 31 December 2005	—	5,832	3,252	852,430	—	1,139	254,878	53,083	1,170,614

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

14. PREPAID LAND LEASE PREMIUMS

Group

	2006	2005
	HK$'000	HK$'000
Arising on acquisitions of subsidiaries (note 39(a))	60,564	—
Cost at 31 December	60,564	—
Amortization	(948)	—
Carrying amount at 31 December	59,616	—
Current portion included in prepayments, deposits and other receivables	(1,263)	—
Non-current portion	58,353	—

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

15. OTHER INTANGIBLE ASSETS

Group

	Mining rights
	HK$'000
Arising on acquisitions of subsidiaries (note 39(a))	139,904
Additions	32
At 31 December 2006	139,936
Amortization provided during the year	(4,235)
Net carrying amount at 31 December 2006	135,701

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

16. OTHER ASSETS

Group

	2006 HK$'000	2005 HK$'000
Cost:		
At beginning of year	737,311	780,367
Exchange realignment	49,615	(43,056)
At 31 December	786,926	737,311
Accumulated amortization:		
At beginning of year	105,068	46,720
Provided during the year	62,930	58,348
At 31 December	167,998	105,068
Net book value:		
At 31 December	618,928	632,243
Non-current portion	555,983	573,878
Current portion	62,945	58,365
	618,928	632,243

Other assets represent the amounts paid for the ESA.

17. GOODWILL

Group

	2006 HK$'000	2005 HK$'000
Cost:		
At beginning and end of year	341,512	341,512

Impairment testing of goodwill

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

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

Aluminium smelting segment

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

Import and export of commodities segment

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

18. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	173,134	173,134
Due from subsidiaries	2,822,924	2,004,583
Due to subsidiaries	(1,716)	(1,716)
	2,994,342	2,176,001
Provision for impairments	(611,700)	(454,500)
	2,382,642	1,721,501

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital		Percentage of equity interest attributable to the Company	Principal activities
Directly held					
SEA Wood Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$	10,000	100	Investment holding
Starbest Venture Limited	British Virgin Islands/ Hong Kong	US$	1	100	Investment holding
CITIC Oil and Gas Holdings Limited	British Virgin Islands/ Hong Kong	US$	100	100	Investment holding
Star Elite Venture Limited*	British Virgin Islands/ Hong Kong	US$	1	100	Investment holding
Indirectly held					
Nusoil Manufacturing Limited	British Virgin Islands/ PRC	US$	100	100	Investment holding
Wing Lam (International) Timber Limited	Hong Kong	HK$	60,000,000	100	Investment holding
Dongguan Xinlian Wood Products Company Limited (note (a))	PRC	HK$	60,000,000	100	Dormant

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

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
CITIC Nominees Pty Limited#	State of Victoria,	A$ 2	100	Investment holding
CITIC Portland Finance I Pty Limited#	State of Victoria,	A$ 2	100	Financing
CITIC Australia Trading Limited (note (c))#	State of Victoria,	A$ 7,635,440	77.66	Investment holding
CITIC Australia Commodity Trading Pty Limited#	State of Victoria,	A$ 500,002	77.66	Import and export of commodities and manufactured goods
CITIC Tyres & Wheels Pty Limited#	State of Victoria,	A$ 100	77.66	Import of tyres and alloy wheels
CITIC Batteries Pty Limited#	State of Victoria,	A$ 2	77.66	Dormant
CITIC Australia Coal Pty Limited#	State of Victoria,	A$ 6,589,637	100	Investment holding
CITIC Australia Coal Exploration Pty Limited#	State of Victoria,	A$ 2,845,375	100	Exploration, development and mining of coal
CITIC Australia Coppabella Pty Limited#	State of Victoria,	A$ 5,000,002	100	Mining and production of coal
CITIC Australia Moorvale West Pty Limited#	State of Victoria,	A$ 2	100	Exploration and development of coal mines
CITIC Olive Downs Pty Limited#	State of Victoria,	A$ 99,958	100	Exploration and development of coal mines
CITIC West Walker Pty Limited#	State of Victoria,	A$ 91,812	100	Exploration and development of coal mines
CITIC West Rolleston Pty Limited#	State of Victoria,	A$ 196,390	100	Exploration and development of coal mines

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital		Percentage of equity interest attributable to the Company	Principal activities
CITIC West/North Burton Pty Limited#	State of Victoria,	A$	34,238	100	Exploration and development of coal mines
CITIC Capricorn Pty Limited#	State of Victoria,	A$	9,549	100	Exploration and development of coal mines
CITIC Bowen Basin Pty Limited#	State of Victoria,	A$	378,353	100	Exploration and development of coal mines
CITIC Nickel Pty Ltd#	State of Victoria,	A$	2	100	Investment holding
CITIC Nickel Australia Pty Limited#	State of Victoria,	A$	1	100	Exploration and development of nickel mines
CITIC Nickel International Pty Limited#	State of Victoria,	A$	1	100	Exploration and development of nickel mines
Beijing Qian Quan Investment Consultant Co. Limited#	Beijing, PRC	RMB	1,243,173	100	Consulting
Beijing Yi Xin Mei Chen Commercial Information Consulting Co. Ltd#	Beijing, PRC	RMB	500,000	100	Consulting
CITIC Mining Equipment Pty Limited* #	State of Victoria,	A$	2	100	Investment holding
Tyre Choice Pty Limited* #	State of Victoria,	A$	2	77.66	Investment holding
CITIC Dameng Holdings Limited	Bermuda/ Hong	HK$	100,000	80	Investment holding
CITIC Dameng Investments Limited (note (d))	British Virgin	US$	1	80	Investment holding
CITIC Dameng Trading Limited	Hong Kong	HK$	10,000	80	Trading
CITIC Dameng Mining Industries Ltd.* ^ (中信大錳礦業有限公司)	PRC	RMB	500,000,000	48	Exploration and development of manganese mines
Guangxi Start Manganese Material Co., Ltd (廣西斯達特錳材料有限公司)* +	PRC	RMB	24,280,000	34.16	Exploration and development of manganese mines
Guangxi Nanning Kuanguang Industry & Trade Co., Ltd (廣西南寧寬廣工貿有限責任公司)* +	PRC	RMB	1,000,000	36.96	Manufacture of manganese and metal products

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital		Percentage of equity interest attributable to the Company	Principal activities
Tiandeng Dameng Ferroalloy Co., Ltd (天等縣大錳鐵合金有限公司)* +	PRC	RMB	6,000,000	28.8	Manufacture and sale of metal products
Guangxi Daxin Dabao Ferroalloy Co., Ltd (廣西大新縣大寶鐵合金有限公司)* +	PRC	RMB	2,680,000	28.8	Iron alloy smelting
CITIC Indonesia Energy Limited*	British Virgin Islands/ Hong Kong	US$	1	100	Investment holding
CITIC Seram Energy Limited* (note (e))	British Virgin Islands/ Indonesia	US$	50,000	100	Investment holding
CITIC New Highland Petroleum Limited*	British Virgin Islands/ Hong Kong	US$	1	100	Investment holding

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

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

Notes:

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

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

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

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

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

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

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

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

19. INTERESTS IN JOINTLY-CONTROLLED ASSETS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	2006	2005
	HK$'000	HK$'000
Non-current assets	2,200,182	2,070,585
Current assets	146,986	114,681
Current liabilities	(318,611)	(99,115)
Non-current liabilities	(92,210)	(397,667)
Share of net assets employed in the Portland Aluminium Smelter joint venture	1,936,347	1,688,484

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

	2006	2005
	HK$'000	HK$'000
Non-current assets	853,295	—
Current assets	203,556	—
Current liabilities	(49,604)	—
Non-current liabilities	(100,483)	—
Share of net assets employed in the Seram joint venture	906,764	—

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

	2006	2005
	HK$'000	HK$'000
Non-current assets	68,602	61,166
Current assets	94,123	58,356
Current liabilities	(43,599)	(31,768)
Non-current liabilities	(14,696)	(10,564)
Share of net assets employed in the other joint ventures	104,430	77,190

20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2006	2005
	HK$'000	HK$'000
Non-current listed equity investments, at fair value:		
Australia	770,538	657,035
Canada	75,398	—
	845,936	657,035

	Group	
	2006	2005
	HK$'000	HK$'000
The cost of the above investments were:		
Australia	296,344	258,522
Canada	130,013	—
	426,357	258,522

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

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

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Current portion

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

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

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

Non-current portion

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

22. INVENTORIES

	Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	184,149	67,468
Work in progress	124,512	37,830
Finished goods	803,489	550,840
	1,112,150	656,138

23. DUE FROM RELATED COMPANIES/THE ULTIMATE HOLDING COMPANY

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

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

24. LOAN RECEIVABLE

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

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Repayable:		
Within three months	4,235	—
Three months to one year	13,092	—
One year to five years	21,615	—
	38,942	—
Portion classified as current assets	(17,327)	—
Portion classified as non-current assets	21,615	—

25. ACCOUNTS RECEIVABLE

	Group	
	2006	2005
	HK$'000	HK$'000
Notes receivables	18,522	—
Trade receivables	921,416	395,749
	939,938	395,749

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

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

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one month	643,465	313,181
One to two months	255,889	76,950
Two to three months	17,794	4,630
Over three months	22,790	988
	939,938	395,749

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

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006	2005
	HK$'000	HK$'000
Current unlisted equity investments, at fair value:		
Australia	1,974	1,830

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

27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	2006	2005	2006	2005
	HK$'000	HK$'000	HK$'000	HK$'000
Cash and bank balances	310,258	166,033	1,955	48
Time deposits*	540,486	1,353,562	20,735	887,632
	850,744	1,519,595	22,690	887,680

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

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

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

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

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

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

	Period from 1 January 2006 to 18 February 2006	2005
	HK$'000	HK$'000
Revenue	13,604	77,429
Expenses	(13,771)	(84,049)
Loss before tax	(167)	(6,620)
Tax	889	(887)
Net profit /(loss) for the period/year	722	(7,507)

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

	2006	2005
	HK$'000	HK$'000
Assets		
Property, plant and equipment, net	—	249,814
Accounts receivable	—	16,282
Assets classified as held for sale	—	266,096
Liabilities		
Accounts payable	—	33,072

29. ACCOUNTS PAYABLE

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one month	455,696	170,572
One to two months	58,416	14,762
Two to three months	5,284	172
Over three months	14,392	782
	533,788	186,288

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

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

30. ACCRUED LIABILITIES AND OTHER PAYABLES

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

31. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2006	
	Assets	Liabilities
	HK$'000	HK$'000
Forward currency contracts and currency options	10,064	8,450
Forward commodity contracts	—	134,310
Interest rate swap and options	6,316	—
Derivative financial instruments	—	185,223
	16,380	327,983
Portion classified as non-current:		
Derivative financial instruments	—	(41,063)
Current portion	16,380	286,920

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

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

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

Forward currency contracts and currency option—cash flow hedges

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

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

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

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

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

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

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

Forward commodity contracts—cash flow hedges

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

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

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

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

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

Interest rate swap contracts and options—cash flow hedges

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

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

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

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

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

US$ interest rate swap:

	2006		2005	
	Weighted average rate	**Notional amount**	**Weighted average rate**	**Notional amount**
	%	**HK$'000**	%	**HK$'000**
Within 1 year	**3.58**	**23,400**	**3.58**	**23,400**
In the fifth year	3.58	296,400	3.58	319,800

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

	2006	2005
	HK$'000	HK$'000
Total fair value losses included in the hedging reserve	78,385	174,468
Total fair value losses included in profit or loss	111,667	13,235
Deferred tax on fair value losses	(9,989)	(56,313)
Net losses on cash flow hedges	180,063	131,390

32. DUE TO A MINORITY SHAREHOLDER

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

33. BANK AND OTHER LOANS

		Group	
	Notes	2006	2005
		HK$'000	HK$'000
Bank loans—unsecured #	(a)	2,465,035	772,594
Bank loans—secured * # (Note)	(b)	878,650	686,405
Unsecured loan from Transport Infrastructure Corridor *	(c)	6,815	7,850
Unsecured loan from Exploration Permit for coal *	(d)	6,242	6,775
Unsecured loans from former minority shareholders	(e)	11,862	11,862
Unsecured loan from a minority shareholder ^	(f)	61,930	61,330
Unsecured loan from CITIC Group #	(g)	327,003	358,800
Unsecured loan from 廣西金孟錳業有限公司^	(h)	45,025	—
		3,802,562	1,905,616

	Company	
	2006	2005
	HK$'000	HK$'000
Bank loans—unsecured #	1,513,200	—

* Fixed rate
\# Floating rate
^ Interest free

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

Notes:

(a) The unsecured bank loans of HK$2,465,035,000 include mainly a revolving term loans denominated in U.S. dollars totaled US$194,000,000 (HK$1,513,200,000), which was interest-bearing at LIBOR + (0.5% to 0.7%). The unsecured bank loans also include trade finance facilities of A$154,218,268 (HK$951,835,000) which were interest-bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited.

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

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

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

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

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

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

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

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

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

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

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

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

Group

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

Company

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

34. PROVISIONS

Group

	Long service and leave payments	Provision for rehabilitation cost	Provision for abandonment cost	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2006	45,877	73,363	—	119,240
Acquisition of a joint venture (note 39(b))	—	—	24,682	24,682
Additions	6,715	34,365	112	41,192
Amount written back	—	(23,225)	—	(23,225)
Exchange realignment	3,600	5,798	—	9,398
At 31 December 2006	56,192	90,301	24,794	171,287
Portion classified as current liabilities	(45,476)	(8,262)	—	(53,738)
Non-current portion	10,716	82,039	24,794	117,549

35. DEFERRED TAX

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

Deferred tax liabilities—2006

	Accelerated tax depreciation	Fair value adjustments	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2006	430,687	40,298	470,985
Acquisitions of subsidiaries (note 39(a))	3,465	7,788	11,253
Deferred tax charged to the consolidated income statement during the year (note 10)	(14,363)	(15,458)	(29,821)
Deferred tax credited to equity during the year	—	30,461	30,461
Exchange realignment	30,613	6,442	37,055
Gross deferred tax liabilities at 31 December 2006	450,402	69,531	519,933

Deferred tax assets—2006

	Losses available for offset against future taxable profit
	HK$'000
At 1 January 2006	11,188
Deferred tax charged to the consolidated income statement during the year (note 10)	(1,434)
Deferred tax credited to equity during the year	(4,484)
Exchange realignment	1,484
Gross deferred tax assets at 31 December 2006	6,754
Net deferred tax liabilities at 31 December 2006	513,179

Deferred tax liabilities—2005

	Accelerated tax depreciation	Fair value adjustments	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2005	449,170	62,955	512,125
Deferred tax charged to the consolidated income statement during the year (note 10)	9,317	(3,971)	5,346
Deferred tax debited to equity during the year	—	(15,046)	(15,046)
Exchange realignment	(27,800)	(3,640)	(31,440)
Gross deferred tax liabilities at 31 December 2005	430,687	40,298	470,985

Deferred tax assets—2005

	Losses available for offset against future taxable profit
	HK$'000
At 1 January 2005	14,984
Deferred tax charged to the consolidated income statement during the year (note 10)	(2,925)
Exchange realignment	(871)
Gross deferred tax assets at 31 December 2005	11,188
Net deferred tax liabilities at 31 December 2005	459,797

36. SHARE CAPITAL

Shares

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

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

Share options

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

37. SHARE OPTION SCHEME

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

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

(a) Purpose — To enable the Company to grant options to Eligible Participants (as defined below) as incentives and rewards for their contributions to the Group.

(b) Eligible Participants — Being employees or executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and consultants, business associates and advisers who will provide or have provided services to the Group.

(c) Total number of shares available for issue under the New Scheme — The total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the total number of shares of the Company in issue.

(d) Maximum entitlement of each Eligible Participant — The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue at the date of grant.

(e) Period during which the shares must be taken up under an option — The period during which an option may be exercised is determined by the board of directors of the Company at its absolute discretion, except that no option may be exercised after 10 years from the date of adoption of the New Scheme, subject to early termination of the New Scheme.

(f) Minimum period for which an option must be held before it can be exercised — The minimum period for which an option must be held before it can be exercised is one year.

(g) Basis of determining the exercise price — The exercise price must be at least the highest of (i) the closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.

(h) Remaining life of the New Scheme — The New Scheme remains in force until 29 June 2014 unless otherwise terminated in accordance with the terms stipulated therein.

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

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

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

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

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

Participants	Number of share options			Date of grant*	Exercise period	Exercise price HK$	Price per share		
	At 1 January 2006	Exercised during the year	At 31 December 2006				At date of grant** HK$	Immediately before the exercise date HK$	At exercise date HK$
Directors									
Kwok Peter Viem	50,000,000	—	50,000,000	02-06-2005	02-06-2007 to 01-(	1.08	1.07	N/A	N/A
Ma Ting Hung...........	50,000,000	—	50,000,000	02-06-2005	02-06-2007 to 01-(	1.08	1.07	N/A	N/A
Shou Xuancheng.......	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
Sun Xinguo...............	5,000,000	—	5,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
	5,000,000	—	5,000,000	28-12-2005	28-12-2006 to 27-1	1.06	1.05	N/A	N/A
	10,000,000	—	10,000,000						
Li So Mui..................	5,000,000	—	5,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
Mi Zengxin	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
Qiu Yiyong	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
Zeng Chen.................	5,000,000	—	5,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
	5,000,000	—	5,000,000	28-12-2005	28-12-2006 to 27-1	1.06	1.05	N/A	N/A
	10,000,000	—	10,000,000						
Zhang Jijing	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	N/A	N/A
	165,000,000	—	165,000,000						
Eligible participants									
In aggregate	12,000,000	(1,300,000)	10,700,000	02-06-2005	02-06-2006 to 01-(	1.08	1.07	1.46 – 1.84	1.42 – 1.88
	177,000,000	(1,300,000)	175,700,000						

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

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

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

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

On 7 March 2007, the Company issued options under the New Scheme in respect of 20,000,000 shares at the exercise price of HK$3.072 per share. The closing price of the shares immediately before the date of grant was HK$3.07 per share.

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

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

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

38. RESERVES

(a) Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on pages F-8 and F-9 of the financial statements.

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

(b) Company

	Share premium account	Contributed surplus	Share option reserve	Accumulated losses	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2005	2,561,962	172,934	—	(360,584)	2,374,312
Equity-settled share options arrangements (note 37)	—	—	12,662	—	12,662
Net profit for the year	—	—	—	17,079	17,079
At 31 December 2005 and 1 January 2006	2,561,962	172,934	12,662	(343,505)	2,404,053
Issue of new shares upon exercise of share options (note 37)	1,625	—	(286)	—	1,339
Equity-settled share options arrangements (note 37)	—	—	26,158	—	26,158
Net loss for the year	—	—	—	(152,093)	(152,093)
At 31 December 2006	2,563,587	172,934	38,534	(495,598)	2,279,457

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

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

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisitions of subsidiaries

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

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

	Notes	Fair value recognized on acquisition	Carrying amount
		HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	13	315,881	315,881
Prepaid land lease premiums	14	60,564	60,564
Other intangible assets	15	139,904	104,013
Cash and bank balances		148,230	148,230
Inventories		16,801	16,801
Accounts receivable		12,624	12,624
Prepayments, deposits and other receivables		6,755	6,755
Accounts payable		(19,188)	(19,188)
Accrued liabilities and other payables		(139,279)	(139,279)
Tax payable		(823)	(823)
Deferred tax liabilities	35	(11,253)	(3,465)
Bank and other loans		(11,114)	(11,114)
Minority interests		(213,432)	(202,191)
		305,670	288,808
Satisfied by deposits paid in 2005		305,670	

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

	2006	2005
	HK$'000	HK$'000
Cash consideration paid	—	—
Cash and bank balances acquired	148,230	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	148,230	—

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

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

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

(b) Acquisition of participating interest in a joint venture

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

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

	Notes	Fair value recognized on acquisition	Carrying amount
		HK$'000	HK$'000
Net assets acquired:			
Oil and gas properties	13	846,530	639,920
Furniture and fixtures	13	2,067	2,067
Deferred tax assets		—	243,549
Inventories		75,611	75,611
Prepayments, deposits and other receivables		99,415	99,415
Accounts payable		(8,121)	(8,121)
Accrued liabilities and other payables		(26,335)	(26,335)
Tax payable		(8,135)	(8,135)
Provisions	34	(24,682)	(24,682)
Long term other payables		(81,398)	(81,398)
		874,952	911,891
Satisfied by:			
Cash		757,723	—
Accrued liabilities and other payables		117,229	—
		874,952	—

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

	2006	2005
	HK$'000	HK$'000
Cash consideration paid	757,723	—
Cash and bank balances acquired	—	—
Net outflow of cash and cash equivalents in respect of the acquisition of participating interest in a joint venture	757,723	—

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

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

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

(d) Major non-cash transactions

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

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

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

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

40. LITIGATION

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

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

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

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

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

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

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

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

(i) *Related to the 2004 financial year*

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

(ii) *Related to the 2005 financial year*

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

subsequent dispute was referred to arbitration in August 2005. In April 2006, the Contractor lodged a consolidated and further amended points of claim in relation to both the 2004 financial year claim and the 2005 financial year claim.

(iii) *Related to the 2006 financial year*

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

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

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

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

41. OPERATING LEASE ARRANGEMENTS

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

	Group	
	2006	2005
	HK$'000	HK$'000
Within one year	12,883	9,348
In the second to fifth years, inclusive	16,803	14,827
Beyond five years	9,848	2,423
	39,534	26,598

42. COMMITMENTS

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

	Group	
	2006	2005
	HK$'000	HK$'000
Contracted, but not provided for:		
Infrastructure, plant and equipment, share of the jointly-controlled entities	27,445	8,911

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

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

43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

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

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

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

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

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

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

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

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

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

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

(e) Outstanding balances with related parties:

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

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

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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

Interest rate risk

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

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

Foreign currency risk

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

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

Credit risk

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

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

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

Liquidity risk

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

45. POST BALANCE SHEET EVENTS

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

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

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

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

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

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

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

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

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

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

46. COMPARATIVE AMOUNTS

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

47. APPROVAL OF THE FINANCIAL STATEMENTS

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

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

14 May 2007

The Board of Directors
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report regarding the financial information of Renowned Nation Limited ("Renowned Nation") and its subsidiaries (hereinafter collectively referred to as the "Renowned Nation Group") as at 31 December 2005 and 31 December 2006 proposed to be acquired as to 100% by CITIC Resources Holdings Limited (the "Company") from CITIC Group, the Company's immediate holding company, pursuant to a conditional sale and purchase agreement (the "Agreement") dated 30 April 2007 entered into between CITIC Group and the Company. The financial information has been prepared on the basis as set out in section 1 below, for inclusion in the circular (the "Circular") to be issued by CITIC Resources Holdings Limited in connection with the proposed acquisition of Renowned Nation (the "Proposed Acquisition").

Renowned Nation is a limited liability company incorporated on 26 July 2005 under the laws of the British Virgin Islands as an international business corporation. Renowned Nation has an authorized share capital of US$50,000 divided into 50,000 shares of US$1.0 par value each, of which one share of US$1.0 par value has been issued to and is beneficially owned by CITIC Group. The principal activity of Renowned Nation is investment holding.

On 29 December 2006, Renowned Nation acquired through CITIC Canada Energy Limited ("CCEL") 100% of Nations Energy Company Ltd. (now renamed as "CITIC Canada Petroleum Limited" ("CCPL")), which holds a 94.6% interest in Joint Stock Company Karazhanbasmunai, and a 100% interest in Argymak TransService LLP and Tulpar Munai Service LLP (hereafter referred to as the "Target Group"). The principal activities of the Target Group are the exploration, development and production of oil from the Karazhanbas field in Western Kazakhstan.

On 29 December 2006, CCEL also granted an option, effective on the same date, to JSC National Company Kazmunaigas ("KMG"), a state-owned energy company in Kazakhstan, to acquire a 50% interest in CCPL. CITIC Netherlands Energy Coöperatief U.A., a wholly-owned subsidiary of Renowned Nation, proposed to enter into a sale and purchase agreement with State Alliance Holdings Limited ("State Alliance"), a wholly-owned subsidiary of CITIC Group, to dispose of its 50% interest in CCEL. As such, the Renowned Nation Group will only retain a 50% interest in CCEL thereafter. The original option granted to KMG to acquire a 50% interest in CCPL will also be amended to become an option granted by State Alliance to KMG.

As at the date of this report, Renowned Nation had direct or indirect interests in the following subsidiaries and jointly-controlled entities, details of which are set out below:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to Renowned Nation		Principal activities
			Direct	Indirect	
Subsidiaries					
KBM Energy Limited (“KEL”)	British Virgin	US$1	100	—	Investment holding
CITIC Netherlands Energy Coöperatief U.A. (“CITIC Netherlands”)	Netherlands/ Hong Kong	EUR100	—	100	Investment holding
CITIC Canada Energy Limited (“CCEL”)	Canada	US$1	—	100	Investment holding
Jointly-controlled entities					
CITIC Canada Petroleum Limited (formerly Nations Energy Company Ltd.) (“CCPL”)	Canada	US$95,721,088	—	50*	Investment Holding
Joint Stock Company Karazhanbasmunai (“KBM”)	Kazakhstan	Ordinary share: 2,045,035,000 Tenge	—	47.3*	Exploration, development and production of oil
		Preference share: 116,077,000 Tenge			
Tulpar Munai Service LLP (“TMS”)	Kazakhstan	100,000 Tenge	—	50*	Oil well drilling, construction and workover services
Argymak TransService LLP (“ATS”)	Kazakhstan	200,000 Tenge	—	50*	Transportation services and other oilfield related logistics services

* 50% interest of these entities have been classified as interests in jointly controlled entities held for sale as at 31 December 2006.

No audited financial statements have been prepared for KEL, CITIC Netherlands and CCEL since their respective dates of incorporation and for CCPL, TMS and ATS as at 31 December 2006 as there are no statutory requirements for these entities to prepare audited financial statements.

The financial statements of KBM for the year ended 31 December 2006 were audited by Ernst & Young Kazakhstan. They have been prepared in accordance with International Financial Reporting Standards.

No consolidated income statement, cash flow statement and statement of changes in equity of Renowned Nation have been presented for the two years ended 31 December 2006 as Renowned Nation only completed, through its wholly-owned subsidiaries, the acquisition of the Target Group on 29 December 2006 and all the other wholly-owned subsidiaries are pure investment vehicles with no business activities prior to the completion of the acquisition.

The financial information (the “Financial Information”), which includes the consolidated balance sheets of the Renowned Nation Group and the balance sheets of Renowned Nation as at 31 December 2005 and 2006 together with the notes thereto set out in this report, have been prepared from the management accounts or audited financial statements of the companies now comprising the Renowned Nation Group, after making such adjustments as considered appropriate and are presented on the basis set out in section 1 below.

The directors of the Company are responsible for the content of the Circular, including the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and

reasonable. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

For the purpose of this report, we have carried out independent audit procedures on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Renowned Nation and Renowned Nation Group as at 31 December 2005 and 2006.

1. BASIS OF PRESENTATION

The Financial Information has been prepared on a going concern basis under the historical cost convention. All Hong Kong Financial Reporting Standards ("HKFRSs") effective for the accounting periods commencing from 1 January 2005 and 2006, together with the relevant transitional provision, have been early adopted by the Renowned Nation Group in the preparation of the Financial Information throughout the year ended 31 December 2005 and 2006.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform with HKFRSs.

2. PRINCIPAL ACCOUNTING POLICIES

The Renowned Nation Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

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

The Renowned Nation Group has commenced its assessment of the impact of these pronouncements but it is not yet in a position to state whether these standards and interpretations would have a material impact on its results of operations and financial position.

Basis of consolidation

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

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

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

Subsidiaries

A subsidiary is an entity whose financial and operating policies of Renowned Nation controls, directly and indirectly, so as to obtain benefits from its activities.

Renowned Nation's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Renowned Nation Group's interests in its jointly-controlled entities are accounted for using proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the Financial Information on a line-by-line basis.

When an investment or interest held in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Goodwill

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

Goodwill arising on acquisition is recognized in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

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

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

- represents the lowest level within the Renowned Nation Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Renowned Nation Group's primary or secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

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

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, goodwill associated with the operation disposed of is included in the carrying amount of the operation

when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

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

Impairment of non-financial assets

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

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

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

Related parties

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

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

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

(c) the party is a member of the key management personnel of the Renowned Nation Group or its holding company;

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

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and oil properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings and structures.......................	20 years
Machinery and equipment	1-13 years
Motor vehicles	5-14 years
Office equipment	3-10 years

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

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

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

Oil properties

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

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

Productive oil properties and other tangible and intangible costs of the production properties are amortized using the unit-of-production method on a property-by-property basis under which the ratio of produced oil to the estimated remaining proved developed reserves is used to determine the depreciation, depletion and amortization provision. Common facilities that are built specifically to service production directly attributed to designated oil properties are amortized based on the proved developed reserves of the respective oil properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil properties are depreciated using the straight-line method over their estimated useful lives of one to twelve years. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

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

Construction in progress

Construction in progress represents capital projects not yet completed. When these assets begin to be used in production, they are transferred to the appropriate asset class. Since construction in progress is not used in production, these assets are not subject to depreciation.

Intangible assets

Intangible assets represent expenditure on acquired software which are stated at cost less impairment losses and are amortized on the straight-line basis over their estimated useful lives of five years. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. The Renowned Nation Group does not have capitalized internally generated intangible assets.

Investments and other financial assets

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

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

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

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

Derecognition of financial assets

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

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

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

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Renowned Nation Group's continuing involvement is the amount

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

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts and other payables, amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortized cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognized in the consolidated income statement when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

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

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

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of crude oil is determined using the first-in, first-out basis, while the cost of materials and supplies inventory is determined using the weighted average basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Crude oil inventory consists primarily of oil in pipelines and tanks.

Cash and cash equivalents

For the purpose of the consolidated balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Interests in jointly-controlled entities held for sale

Interests in jointly-controlled entities held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Provisions

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

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

Provisions for dismantlement are made based on the present values of the future costs expected to be incurred, on a property-by-property basis, in respect of the Renowned Nation Group's expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

Income tax

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

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

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

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CCPL, if applicable.

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

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

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

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

Retirement benefits schemes

The Renowned Nation Group pays certain post retirement insurance, which represents its contribution to the post retirement benefits of its employees.

The Renowned Nation Group, with operations domiciled in Kazakhstan, is required to participate in a post retirement benefits scheme operated by local government authorities. The Renowned Nation Group is required to contribute 25.5% of its domestic employees' salaries to the state pension fund. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the post retirement benefits scheme.

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

Borrowing costs

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

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Renowned Nation Group that are outstanding during the period, other than the borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized incurred during a period should not exceed the amount of borrowing costs incurred during that period.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including the amortization of discounts or premiums relating to the borrowing, and the amortization of ancillary costs incurred in connection with arranging the borrowing.

All other borrowing costs are recognized in the consolidated income statement in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Hong Kong dollars ("HK$") which is the presentation currency of Renowned Nation. Each entity in the Renowned Nation Group maintains its books and records in its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency the transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

Estimation uncertainty

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

Useful lives and impairment of property, plant and equipment

The Renowned Nation Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

An impairment loss for property, plant and equipment is recognized for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is calculated as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is based on the best information available to reflect the amount obtainable at the balance sheet date from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Renowned Nation Group's management estimates future cash flows from the cash generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Oil and gas reserves

Oil and gas reserves are a material factor in the Renowned Nation Group's computation of depreciation and amortization. The Renowned Nation Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Renowned Nation Group uses constant prices. Management believes that constant price assumptions provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data. It is possible that any changes in reserve estimates year on year could significantly affect prospective charges for depreciation and amortization.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations, the Renowned Nation Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Renowned Nation Group's obligation relates to the ongoing closure of all wells. The extent of the Renowned Nation Group's obligations to finance the final closure costs depends on the terms of the respective contract and current legislation. Where neither contract nor legislation include an unambiguous obligation to undertake or finance such final closure costs at the end of the license term because this liability appears at the end of field economical life only, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the government or in the local industry practice.

Since the license terms cannot be extended at the discretion of the Renowned Nation Group, the settlement date of the final asset retirement obligations has been assumed to be the end of the license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all closure costs.

The amount of the asset retirement obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Renowned Nation Group reviews the site restoration provision at each balance sheet date, and adjusts it to reflect the current best estimate.

Income tax

The Renowned Nation Group is subject to income taxes in Kazakhstan. Because various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the officials of the Ministry of Finance in Kazahkstan, objective estimate and judgment based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences are realized.

3. CONSOLIDATED BALANCE SHEET

	Notes	2005	2006
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	(a)	—	18,088,593
Intangible assets	(b)	—	4,563
Other assets	(c)	—	46,050
		—	18,139,206
CURRENT ASSETS			
Inventories	(e)	—	210,194
Accounts receivable	(f)	—	233,317
Prepayments, deposits and other receivables	(g)	—	214,659
Tax recoverable		—	54,371
Cash and cash equivalents	(h)	—	1,769,040
		—	2,481,581
Interests in jointly-controlled entities held for sale	(i)	—	6,810,976
		—	9,292,557
CURRENT LIABILITIES			
Accounts payable	(j)	—	100,036
Tax payable		—	380,676
Accrued liabilities and other payables	(k)	—	986,785
Due to the ultimate holding company	(l)	—	14,616,929
Interest-bearing bank and other borrowings	(m)	—	1,580,113
		—	17,664,539
NET CURRENT LIABILITIES		—	(8,371,982)
TOTAL ASSETS LESS CURRENT LIABILITIES		—	9,767,224
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	(m)	—	506,879
Deferred tax liabilities	(n)	—	9,109,278
Provision for dismantlement	(o)	—	91,289
		—	9,707,446
NET ASSETS		—	59,778
EQUITY			
Issued capital	(p)	—	—
Reserves		—	4,165
		—	4,165
Minority interests		—	55,613
		—	59,778

3. BALANCE SHEET OF RENOWNED NATION

	Notes	2005	2006
		HK$'000	HK$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	(d)	—	1,773,635
CURRENT LIABILITIES			
Accrued liabilities and other payables	(k)	—	777,910
Due to the ultimate holding company	(l)	—	995,725
		—	1,773,635
NET CURRENT LIABILITIES		—	(1,773,635)
NET ASSETS		—	—
EQUITY			
Issued capital	(p)	—	—

Notes:

(a) Property, plant and equipment

Renowned Nation Group 31 December 2006	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—	—	—	—	—	—	—
Acquisition of jointly-controlled entities	17,833,100	35,406	58,080	9,570	14,774	137,663	18,088,593
At 31 December 2006	17,833,100	35,406	58,080	9,570	14,774	137,663	18,088,593
Accumulated depreciation, depletion and amortization:							
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—	—	—	—	—	—	—
Depreciation provided during the year	—	—	—	—	—	—	—
At 31 December 2006	—	—	—	—	—	—	—
Net book value:							
At 31 December 2006	17,833,100	35,406	58,080	9,570	14,774	137,663	18,088,593
At 31 December 2005	—	—	—	—	—	—	—

As at 31 December 2006, certain of the property, plant and equipment of the Renowned Nation Group with a net book value of approximately HK$606 million (2005: Nil) were pledged to secure certain bank loans of the Renowned Nation Group (note (m)).

(b) Intangible assets

	Renowned Nation Group 2006
	HK$'000
Cost:	
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Acquisition of jointly-controlled entities	4,563
At 31 December 2006	4,563
Accumulated amortization:	
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Amortization provided during the year	—
At 31 December 2006	—
Net book value:	
At 31 December 2006	4,563
At 31 December 2005	—

(c) Other assets

Other assets represent advances to suppliers and contractors for construction projects related to oil properties. The carrying value of other assets approximates to its fair value.

(d) Interests in subsidiaries

	Renowned Nation	
	2005	2006
	HK$'000	HK$'000
Unlisted shares, at cost	—	1,773,635

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

(e) Inventories

	Renowned Nation Group	
	2005	2006
	HK$'000	HK$'000
Spare parts and materials	—	203,222
Crude oil	—	10,953
	—	214,175
Less: Provision for obsolete inventories	—	(3,981)
	—	210,194

(f) Accounts receivable

The Renowned Nation Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days. Each customer has a maximum credit limit. The Renowned Nation Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. The carrying value of the accounts receivable approximates to its fair value.

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

	Renowned Nation Group	
	2005	2006
	HK$'000	HK$'000
Within one month	—	233,317

(g) Prepayments, deposits and other receivables

	Renowned Nation Group	
	2005	2006
	HK$'000	HK$'000
Advances to suppliers	—	81,893
Prepaid expenses	—	14,641
Value-added tax receivables	—	95,565
Employee receivables	—	37,379
Others	—	1,872
	—	231,350
Less: Provision for impairment	—	(16,691)
	—	214,659

(h) Cash and cash equivalents

	2005	2006
	HK$'000	HK$'000
Cash and bank balances	—	1,769,040

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

(i) Interests in jointly-controlled entities held for sale

On 29 December 2006, the Renowned Nation Group acquired a 100% interest in CCPL from an independent third party. CCPL is an investment holding company which holds a 94.6% interest in KBM, a 100% interest in ATS and a 100% interest in TMS.

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

	Fair value recognized on acquisition	Carrying amount
	HK$'000	HK$'000
Property, plant and equipment	18,088,593	2,783,025
Intangible assets	4,563	4,563
Other assets	46,050	46,050
Inventories	210,194	210,194
Accounts receivable	233,317	233,317
Prepayments, deposits and other receivables	214,021	214,021
Tax recoverable	54,371	54,371
Due from the intermediate holding company	2,199,657	2,199,657
Cash and cash equivalents	155,997	155,997
Accounts payable	(100,036)	(100,036)
Tax payable	(380,676)	(380,676)
Accrued liabilities and other payables	(208,886)	(181,658)

	Fair value recognized on acquisition	Carrying amount
	HK$'000	HK$'000
Interest-bearing bank and other borrowing	(2,086,992)	(1,309,082)
Deferred tax liabilities	(9,109,278)	(913,913)
Provision for dismantlement	(91,289)	(91,289)
Minority interests	(55,613)	(55,613)
	9,173,993	2,868,928
Interests in jointly-controlled entities held for sale	6,810,976	—
	15,984,969	2,868,928

Satisfied by:

	HK$'000
Cash	14,211,334
Due to the ultimate holding company	995,725
Other payables	777,910
	15,984,969

On 29 December 2006, CCEL granted an option to KMG to acquire a 50% equity interest in CCPL. Hence, an amount of HK$6,810,976,000 has been reclassified as interests in jointly-controlled entities held for sale.

(j) Accounts payable

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

	Renowned Nation Group	
	2005	2006
	HK$'000	HK$'000
Within one month	—	99,479
Two to three months	—	2
Over three months	—	555
	—	100,036

The accounts payable are non-interest-bearing and are normally settled on 90-day terms.

(k) Accrued liabilities and other payables

	Renowned Nation Group		Renowned Nation	
	2005	2006	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Accrued payroll	—	33,549	—	—
Accrued penalty for early repayment of bank borrowings	—	32,284	—	—
Interest payable	—	71,936	—	—
Royalties payable	—	10,870	—	—
Other taxes payable	—	22,245	—	—
Payable for the acquisition of jointly-controlled entities	—	777,910	—	777,910
Other payables	—	37,991	—	—
	—	986,785	—	777,910

Accrued liabilities and other payables are non-interest-bearing and are normally settled on 30-day terms.

(l) Due to the ultimate holding company

	Renowned Nation Group		Renowned Nation	
	2005	2006	2005	2006
	HK$'000	HK$'000	HK$'000	HK$'000
Due to the ultimate holding company	—	14,616,929	—	995,725

The amount due to the ultimate holding company represents debt repayment notes of HK$14,617 million (2005: Nil) and HK$996 million (2005: Nil) issued by the Renowned Nation Group to CITIC Group in respect of the acquisition of the Target Group by Renowned Nation according to the Arrangement Agreement entered into by CITIC Group on 29 December 2006. The amounts are unsecured, interest-free and have no fixed terms of repayment.

The carrying value of the amount due to the ultimate holding company approximates to its fair value.

(m) Interest-bearing bank and other borrowings

	2005			2006		
	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000
Current						
Current portion of long term bank loans—secured	—	—	—	11.8%	2007	24,308
Bank loans—secured	—	—	—	LIBOR+4%	2007	1,555,805
Total current			—			1,580,113
Non-current						
Bank loans—secured	—	—	—	11.8%	2008-2011	170,160
Bonds	—	—	—	9.9%	2008	336,719
Total non-current			—			506,879
			—			2,086,992

	Renowned Nation Group	
	2005	2006
	HK$'000	HK$'000
Analyzed into:		
Bank loans and overdrafts repayable:		
Within one year	—	1,580,113
In the second year	—	48,617
In the third to fifth years, inclusive	—	121,543
	—	1,750,273
Bonds repayable in the second year		336,719
	—	2,086,992

(i) The Renowned Nation Group's credit facilities amounted to HK$2,139 million as at 31 December 2006, of which approximately HK$1,945 million had been utilized as at 31 December 2006.

The banking facilities of the Renowned Nation Group are secured by:

(a) Certain of the property, plant and equipment of the Renowned Nation Group with a net book value of approximately HK$606 million were pledged to secure certain bank loans of the Renowned Nation Group (note (a))

(b) Sales proceeds from crude oil sales under 60-month contracts, with the aggregate shipment of 600,000 barrels of oil per month in total from June 2004 until May 2009.

(ii) In December 2003, the Renowned Nation Group issued and registered 11,100,000 non-callable coupon bonds in the aggregate amount of 11.1 billion Tenge with the Kazakh Stock Exchange with a five-year maturity. The bonds bear interest at a rate of 8% per annum during the first six months at the bond nominal value and then a floating rate depending on the inflation index, as reported by the Kazakstani Agency of Statistics starting on the seventh month, payable semi-annually. The maximum floating rate is capped at 14%.

(iii) Except for the floating rate bond which is denominated in Tenge, all other borrowings are in United States dollars.

Other interest rate information:

	Renowned Nation Group			
	2005		2006	
	Fixed rate	Floating rate	Fixed rate	Floating rate
	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans—secured	—	—	194,468	1,555,805
Bonds	—	—	—	336,719
	—	—	194,468	1,892,524

The carrying amounts of the Renowned Nation Group's current and non-current borrowings approximate to their fair values.

(n) Deferred tax liabilities

The movements in deferred tax liabilities are as follows:

Renowned Nation Group	Depreciation allowance in excess of related depreciation
	HK$'000
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Acquisition of jointly-controlled entities	9,109,278
At 31 December 2006	9,109,278

At 31 December 2005 and 2006, there were no significant unrecognized deferred tax assets.

(o) Provision for dismantlement

The Renowned Nation Group is legally required to restore its oil fields to their original condition. Estimated future site restoration is based on engineering estimates of the anticipated method and extent of site restoration, in accordance with the current legislation, industry practices and costs. The associated cost is capitalized and the liability is discounted and an accretion expense is recognized with the credit-adjusted risk-free interest rate in effect when the liability is initially recognized.

	HK$'000
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Acquisition of jointly-controlled entities	91,289
At 31 December 2006	91,289

(p) Share capital

	Renowned Nation							
	2005				2006			
Authorized:								
500,000 ordinary shares of US $1.0each	US$	50,000	HK$	389,000	US$	50,000	HK$	389,000
Issued and fully paid:								
1 ordinary share of US$1.0	US$	1	HK$	7.8	US$	1	HK$	7.8

On incorporation, Renowned Nation issued 1 ordinary share of US$1.0 at a price of US$1.0 per share to its shareholder.

(q) Contingent liabilities

Taxation

In 2005, the taxation authority of Kazakhstan conducted a tax audit on the accounting records of KBM for the three years ended 31 December 2004. In December 2005, as a result of the tax audit, KBM received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional taxes in the amount of HK$409,551,000 (6,686,552,000 Tenge) as well as penalties and fines of HK$303,156,000 (4,949,490,000 Tenge) (the "Tax Claim").

On 10 July 2006, KBM received a favorable decision from the Astana city court. On 6 September 2006, KBM also received a favorable decision from the Collegiums of Judges of Astana city. The taxation authority could appeal against the court's and Collegiums' decision within twelve months after the announcement of the decision.

KBM's management believes that KBM is in compliance with the tax legislation and KBM will be successful in the appeal process. Therefore, KBM has not recorded any provision for the amounts of the Tax Claim as at 31 December 2006.

de Shazo litigation

On 20 September 2005, Thomas de Shazo ("de Shazo") filed a summons and complaint (the "Complaint") in the Southern District of Texas in the United States District Court against CCPL, Ecolo, Aequitas Energy, Ltd., Novomundo Trading Ltd., Hashim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The US federal court dismissed de Shazo's claim on 26 March 2007 and de Shazo appealed on 25 April 2007. The Complaint is claiming an amount of US$200 million which includes damages, additional punitive and exemplary damages, the award of treble damages, the costs of the action and a jury trial.

On 29 September 2006, CCPL obtained a Certificate of Foreign Judgment against de Shazo in Idaho, United States, to collect US$0.1 million in outstanding costs arising out of the dismissal of de Shazo's action in Alberta, Canada, by the Alberta Court of Appeal on 18 August 2005. In response, de Shazo has filed a defense to set aside the certificate of Foreign Judgment and a counterclaim in which he has incorporated by reference the counterclaim being litigated in Texas for US$200 million. In the Idaho counterclaim, de Shazo has requested the court to stay the action in Idaho pending the outcome of the action in Texas. CCPL believes that there are no grounds for such claim to succeed and as such, no provision has been made in these financial statements as at 31 December 2006.

Savicic litigation

On 20 April 2006, the plaintiffs, Mr. Savicic and GZF Poly Oil Holding Ltd. ("GZF") brought an action against CCPL, KBM, Canadian Triton International Ltd. and Vladimir Katic in the Specialized Inter-Regional Economic Court in Mangistau oblast, in Kazakhstan. The Plaintiffs sought 50% of the KBM shares.

On 19 July 2006, the Kazakhstan court awarded a judgment in favor of the plaintiffs in part and ordered CCPL to transfer 17.9% of the shares of KBM to GZF. CCPL appealed the decision on 3 August 2006. On 29 August 2006, the Mangistau Region Court heard the appeal and set aside the judgment of the court of first instance and dismissed the case. The plaintiffs have the right to file a supervisory appeal with the Supreme Court of the Republic of Kazakhstan within one year from the resolution made by Mangistau Court.

CCPL believes that if the plaintiffs file a supervisory appeal with the Supreme Court of the Republic of Kazakhstan, there are no ground for such claim to succeed and as such, no provision has been made in the Financial Information as at 31 December 2006. On 4 May 2007, Ecolo Investments Limited entered into a settlement agreement for itself and for the benefit of CCPL and KBM pursuant to which Mr. Savicic and GZF released, discharged and cancelled all their respective claim against CCPL and KBM.

(r) Commitments

Commitments under the license

In accordance with the License for hydrocarbon exploration and production, KBM has to perform a minimal work program for 2007. This minimal work program was agreed with the Governmental Agency ZAPKAZNEDRA. In accordance with this minimal work program, KBM has a capital commitment obligation for US$128.4 million, to drill 150 wells and produce 2,335,000 tons of crude oil.

Governmental influence, pricing and transportation issues

The current political and economic situation in Kazakhstan is such that the government, from time to time, attempts to influence oil producers to supply production to domestic refineries at prices that are substantially lower than the prices for export sales. Prices for domestic sales have approximated 40% of the world market prices for the year ended 31 December 2006.

Management considers such volumes sold locally are reasonable in terms of Kazakhstan's current economic situation. However, management is unable to predict what future actions may be taken by the government to influence its future commercial operations and/or export sales.

KBM's oil production must be transported through pipelines owned by the state oil transportation company, KazTransOil ("KTO"). KTO has a monopoly on the transport market and as such, is able to have a direct impact on transportation costs incurred by KBM as well as volumes of crude oil that KBM is able to export. As such, there is no assurance that KBM will be able to export all, or significant portions, of its production.

(s) Financial risk management and policies

The Renowned Nation Group's principal financial instruments include cash and cash equivalents, accounts receivable, all current liabilities and long term debts. The carrying values of cash, accounts receivable and current liabilities approximate to their fair values because of the short term nature of these instruments. The carrying value of the long term debts also approximates to its fair value as virtually all debts have been obtained under market conditions, which were still applicable at year end. The main purpose of these financial instruments is to raise finance for the Renowned Nation Group's operations.

The nature of the Renowned Nation Group's operations exposes it to fluctuations in foreign currency exchange rates, interest rates and credit risk.

Foreign currency exchange rate risk

The Renowned Nation Group's revenues from the sale of crude oil are denominated in United States dollars and substantial portions of the operating costs are denominated in Tenge. The Renowned Nation Group manages this exposure by operating in a manner that minimizes the need to convert between these currencies.

Interest rate risk

The Renowned Nation Group manages its interest rate risk through utilising fixed and floating rate debts to finance its operations. The floating rate debt exposes the Renowned Nation Group to fluctuations in interest payments due to changes in interest rate.

Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and other receivables represents the Renowned Nation Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Renowned Nation Group's accounts receivable are related to the sale of crude oil to third party customers. The Renowned Nation Group performs ongoing credit evaluations of the customers' financial conditions and generally does not require collateral on accounts receivable. The Renowned Nation Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

Fair values

The fair values of financial instruments, consisting of cash, receivables, payables and obligations under debt instruments, are considered to be equal to their carrying values. Adequate provisions are made in respect of the accounts receivable.

Business risk

The Renowned Nation Group's business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes and the Renowned Nation Group is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environment, influence of the national authorities over price setting and competition in the industry.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

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

14 May 2007

The Board of Directors
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report on the combined financial information of the Kazakhstan oil exploration and production business of CITIC Canada Petroleum Limited (formerly known as Nations Energy Company Ltd.) ("CCPL") and its subsidiaries, Joint Stock Company Karazhanbasmunai ("KBM"), Argymak TransService LLP ("ATS") and Tulpar Munai Service LLP ("TMS") (hereafter referred to as the "Target Group") for the three years ended 31 December 2004, 2005 and 2006 (the "Relevant Periods").

The financial information has been prepared on the basis as set out in Section 1 below, for inclusion in the circular ("Circular") to be issued by CITIC Resources Holdings Limited (the "Company", together with its subsidiaries, the "Group") in connection with the proposed acquisition (the "Proposed Acquisition") of the Target Group from CITIC Group by the Company, pursuant to a conditional sale and purchase agreement (the "Agreement") dated 30 April 2007 entered into between CITIC Group and the Company.

CCPL was incorporated in Canada on 19 April 1996 under the Business Corporations Act of Alberta, Canada, and holds a 94.6% interest in KBM, a 100% interest in ATS and a 100% interest in TMS during the Relevant Periods. CCPL is principally engaged in the identification, evaluation and negotiation of oil development projects and investment holding.

KBM is a joint stock company formed under the laws of the Republic of Kazakhstan on 23 April 1993. KBM is engaged in the exploration, development and production of oil from the Karazhanbas field in Western Kazakhstan. Pursuant to a subsoil use contract entered into between KBM and the Government of Kazakhstan on 23 May 1997, a license for the development, exploration and production of hydrocarbons in the Karazhanbas field was granted to KBM. The license is valid until 7 June 2020.

ATS is a limited liability partnership formed under the laws of the Republic of Kazakhstan. ATS is principally engaged in the provision of transportation services and other oilfield related logistics services to KBM in the Republic of Kazakhstan.

TMS is a limited liability partnership formed under the laws of the Republic of Kazakhstan. TMS is principally engaged in the provision of oil-well drilling, construction and work over services to KBM.

The financial statements of CCPL for the years ended 31 December 2004 and 2005 were audited by Ernst & Young Kazakhstan and Deloitte & Touche LLP, respectively. They have been prepared in accordance with generally accepted accounting principles in Canada.

The financial statements of KBM for the years ended 31 December 2004, 2005 and 2006 were audited by Ernst & Young Kazakhstan, Deloitte & Touche LLP and Ernst & Young Kazakhstan, respectively. They have been prepared in accordance with International Financial Reporting Standards.

No statutory financial statements have been prepared for ATS and TMS as the entities are not subject to any statutory financial reporting requirements under their jurisdiction of incorporation.

The financial information (the "Financial Information") includes the combined balance sheets of the Target Group as at 31 December 2004, 2005 and 2006, and the combined income statements, combined statements of changes in equity and combined cashflow statements of the Target Group for the years then ended together with the notes thereto set out in this report. The Financial Information of the Target Group for the Relevant Periods has been prepared on a carve out basis reflecting the combined results of operations and financial positions of CCPL (on a stand-alone basis and after excluding the non-Kazakh business) and its 94.6% interest in KBM, 100% interest in TMS and 100% interest in ATS and, where considered appropriate after adjustments and/or additional disclosures as considered necessary. Further details of the basis of presentation are included in Section 1 below.

The directors of the Company are responsible for the content of the Circular, including the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out independent audit procedures on the Financial Information in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA.

Opinion in respect of the Relevant Periods

In our opinion, for the purpose of this report, the Financial Information, on the basis of presentation set out in Section 1 below, gives a true and fair view of the combined results and cash flows of the Target Group for each of the Relevant Periods and of the state of affairs of the Target Group as at 31 December 2004, 2005 and 2006.

1. BASIS OF PRESENTATION

On 30 April 2007, the Company entered into an agreement with its ultimate holding company, CITIC Group, a company established in the People's Republic of China, subject to the approval of its independent shareholders, to acquire a 100% interest in Renowned Nation Limited ("Renowned Nation"), which indirectly holds a 50% interest in CCPL. CCPL is a private investment holding company incorporated in Canada, which holds a 94.6% interest in KBM, a 100% interest in TMS and a 100% interest in ATS. The principal activities of the Target Group are the exploration, development and production of oil from the Karazhanbas field in Western Kazakhstan.

CITIC Group acquired 100% of CCPL through Renowned Nation and its subsidiaries (the "Renowned Nation Group") on 29 December 2006. On 29 December 2006, CITIC Canada Energy Limited ("CCEL"), the immediate holding company of CCPL, also granted an option, effective on the same date, to JSC National Company Kazmunaigas ("KMG"), a state-owned energy company in Kazakhstan, to acquire a 50% interest in CCPL. CITIC Netherlands Energy Coöperatief U.A., a wholly-owned subsidiary of the Renowned Nation, proposed to enter into a sale and purchase agreement with State Alliance Holdings Limited ("State Alliance"), a wholly-owned subsidiary of CITIC Group, to dispose of its 50% interest in CCEL. As such, the Renowned Nation Group will only retain a 50% interest in CCPL thereafter. The original option granted to KMG to acquire a 50% interest in CCPL will also be amended to become an option granted by State Alliance to KMG.

Prior to the acquisition of CCPL by CITIC Group, CCPL disposed of certain assets primarily consisting of equity investments in certain entities not operating in the Republic of Kazakhstan, and liabilities not relating to the Target Group (hereinafter referred to as the "Non-Kazakh Business"). For the purpose of this report, the Financial Information of the Target Group for the Relevant Periods has been prepared on a carve out basis reflecting the combined results of operations and financial positions of CCPL (on a stand-alone basis and after excluding the Non-Kazakh Business) and its 94.6% interest in KBM, 100% interest in TMS and 100% interest in ATS as if the disposal of the Non-Kazakh Business had occurred retrospectively. All significant intercompany transactions and balances, including any unrealized profits arising from intercompany transactions, have been eliminated on combination.

The directors of the Company believe that 1) all historical revenues and costs of operations relating to the Target Group have been reflected in the Financial Information; and 2) income and expenses that were specifically related to the Non-Kazakh Business are excluded from the Financial Information.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared on a going concern basis under the historical cost convention. All Hong Kong Financial Reporting Standards ("HKFRSs") effective for the accounting periods commencing from 1 January 2005 and 2006, together with the relevant transitional provision, have been early adopted by the Target Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform with HKFRSs.

The Target Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKAS 1 Amendment Capital Disclosures

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

The Target Group has commenced its assessment of the impact of pronouncements but it is not yet in a position to state whether these standards and interpretations would have a material impact on its results of operations and financial position.

Subsidiaries

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

Minority interests represent the interests of outside shareholders not held by CCPL in the results and net assets of its subsidiaries. KBM is a 94.6%-owned subsidiary of CCPL with the remaining 5.4% interest in KBM being owned by the holders of KBM's preferred shares. These preferred shares are non-voting and have a priority over the owners of the common shares of KBM to receive dividends annually in the predetermined, guaranteed amount of 20% of the par value of the preferred shares which belong to such shareholders. These preferred shareholders are also entitled to obtain a part of KBM's assets in the event of liquidation.

Impairment of non-financial assets

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

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

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

Related parties

A party is considered to be related if:

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

(b) the party is a member of the key management personnel of the Target Group or its holding company;

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

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

Property, plant and equipment and depreciation

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and oil properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is

normally charged to the combined income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalized as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings and structures..	20 years
Machinery and equipment	1-13 years
Motor vehicles	5-14 years
Office equipment and others...................................	3-10 years

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

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

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

Oil properties

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

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

Productive oil properties and other tangible and intangible costs of the production properties are amortized using the unit-of-production method on a property-by-property basis under which the ratio of produced oil to the estimated remaining proved developed reserves is used to determine the depreciation and amortization provision. Common facilities that are built specifically to service production directly attributed to designated oil properties are amortized based on the proved developed reserves of the respective oil properties on a pro rata basis. Common facilities that are not built specifically to service identified oil properties are depreciated using the straight-line method over their estimated useful life of one to twelve years. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

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

Construction in progress

Construction in progress represents capital projects not yet completed. When these assets begin to be used in production, they are transferred to the appropriate class of assets. Since construction in progress is not used in production, it is not subject to depreciation.

Intangible assets

Intangible assets represent expenditure on acquired software and are stated at cost less impairment losses and are amortized on the straight-line basis over their estimated useful lives of five years. The amortization period and the

amortization method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. The Target Group does not have capitalized internally-generated intangible assets.

Investments and other financial assets

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

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

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

Loans and receivables

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

Impairment of financial assets

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

Assets carried at amortized cost

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

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

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

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

Derecognition of financial assets

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

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

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

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

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

Financial liabilities at amortized cost (including interest-bearing loans and borrowings)

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

Gains and losses are recognized in the combined income statement when the liabilities are derecognized as well as through the amortization process.

Derecognition of financial liabilities

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

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

Derivative financial instruments and hedging

The Target Group uses commodity contracts to hedge its risks associated with commodity price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

The fair value of commodity contracts is calculated by reference to the current commodity prices for contracts with similar maturity profiles.

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

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability; or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognized firm commitment; or
- hedges of a net investment in a foreign operation.

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

Fair value hedges

Changes in the fair value of a hedging derivative are recognized in the combined income statement. Changes in the fair value of the hedged item attributable to the risk hedged are recorded as a part of the carrying amount of the hedged item and are also recognized in the combined income statement.

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

Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk hedged. If the hedged item is derecognized, the unamortized fair value is recognized immediately in the combined income statement.

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

Cash flow hedges

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

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

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

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of crude oil is determined using the first-in, first-out basis, while the costs of materials and supplies inventory is determined using the weighted average basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Crude oil inventory consists primarily of oil in pipelines and tanks.

Cash and cash equivalents

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

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

Provisions

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

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

Provisions for dismantlement are made based on the present values of the future costs expected to be incurred, on a property-by-property basis, in respect of the Target Group’s expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the combined income statement or in equity if it relates to items that are recognized in the same or different periods directly in equity.

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

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

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

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

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

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

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

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

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

Revenue recognition

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

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

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

Employee benefits

Share-based payment transactions

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

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in note 4(o) to the Financial Information. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CCPL, if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognized for equity-settled transactions at each

balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Target Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the combined income statement for a period represents the movement in the cumulative expense recognized as at the beginning and end of that period.

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

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

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

Retirement benefits schemes

The Target Group pays certain post-retirement insurance, which represents its contributions to the post-retirement benefits of its employees.

CCPL operates a defined contribution pension plan for its full-time employees. Contributions are made based on a percentage of the employee's basic salaries and are charged to the combined income statement as they become payable in accordance with the pension plan.

The Target Group, with operations domiciled in Kazakhstan, is required to participate in a post-retirement benefits scheme operated by local government authorities. The Target Group is required to contribute 25.5% of its domestic employees' salaries to the state pension fund. The contributions are charged to the combined income statement as they become payable in accordance with the rules of the post-retirement benefits scheme.

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

Dividends

Final dividends, if any, proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the equity holders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognized as a liability.

Borrowing costs

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

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Target Group that are outstanding during the period, other than the borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalized incurred during a period should not exceed the amount of borrowing costs incurred during that period.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortization of discounts or premiums relating to the borrowing, and amortization of ancillary costs incurred in connection with arranging the borrowing.

All other borrowing costs are recognized in the combined income statement in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Hong Kong dollars ("HK$"). Each entity in the Target Group maintains its books and records in its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the combined income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

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

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

Estimation uncertainty

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

Useful lives and impairment of property, plant and equipment

The Target Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

An impairment loss for property, plant and equipment is recognized for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is calculated as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is based on the best information available to reflect the amount obtainable at the balance sheet date from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Target Group's management estimates future cash flows from the cash generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Oil and gas reserves

Oil and gas reserves are a material factor in the Target Group's computation of depreciation and amortization. The Target Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under the SPE methodology, the Target Group uses constant prices. Management believes that constant price assumptions provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

It is possible that any changes in reserve estimates could significantly affect prospective charges for depreciation and amortization.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations, the Target Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Target Group's obligation relates to the ongoing closure of all wells. The extent of the Target Group's obligations to finance the final closure costs depends on the terms of the respective contract and current legislation. Where neither contract nor legislation include an unambiguous obligation to undertake or finance such final closure costs at the end of the license term because this liability appears at the

end of field economical life only, no liability has been recognized. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

Since the license terms cannot be extended at the discretion of the Target Group, the settlement date of the final asset retirement obligations has been assumed to be the end of the license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all closure costs.

The amount of the asset retirement obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Target Group reviews the site restoration provision at each balance sheet date, and adjusts it to reflect the current best estimate.

Income tax

The Target Group is subject to income taxes in Kazakhstan. Because various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the officials of the Ministry of Finance in Kazahkstan, objective estimate and judgment based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences are realized.

3. COMBINED INCOME STATEMENTS

	Notes	Year ended 31 December		
		2004	2005	2006
		HK$'000	HK$'000	HK$'000
REVENUE	(a)	3,293,107	5,107,472	6,377,844
Cost of sales	(b)	(896,339)	(1,126,544)	(1,643,879)
Gross profit		2,396,768	3,980,928	4,733,965
Other income	(a)	3,733	8,090	18,684
Selling and distribution costs		(517,189)	(482,332)	(446,746)
Administrative expenses		(469,095)	(415,960)	(621,191)
Other operating expenses, net		(76,283)	(92,372)	(109,816)
Finance costs	(e)	(150,932)	(181,497)	(265,747)
PROFIT BEFORE TAX	(b)	1,187,002	2,816,857	3,309,149
Tax	(f)	(1,140,465)	(1,620,787)	(1,901,437)
PROFIT FOR THE YEAR		46,537	1,196,070	1,407,712
Attributable to:				
Equity holders of the holding company		33,719	1,125,068	1,313,172
Minority interests		12,818	71,002	94,540
		46,537	1,196,070	1,407,712
Dividends	(g)	163,512	514,026	560,558

Notes:

(a) Revenue and other income

Revenue, which is also the Target Group's turnover, represents revenue from the sale of crude oil. All significant intra-group transactions have been eliminated on combination.

	Year ended 31 December		
	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Revenue			
Sale of crude oil, net*	3,402,327	5,263,030	6,579,492
Less: Royalties	(109,220)	(155,558)	(201,648)
	3,293,107	5,107,472	6,377,844
Other income			
Interest income	1,527	6,528	15,975
Others	2,206	1,562	2,709
	3,733	8,090	18,684

* In April 2004, KBM entered into an oil price hedge agreement for a series of costless collars covering 600,000 barrels per month from April to December 2004 with an average ceiling price of HK$254 and an average floor price of HK$231. Upon settlement of the hedge contract in 2004, KBM recorded a hedge loss of HK$349,355,000 and the amount was included in revenue from the sale of crude oil for the year ended 31 December 2004. All hedge contracts were settled as at 31 December 2004 and no hedge arrangements were made in 2005 and 2006.

(b) Profit before tax

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

	Notes	Year ended 31 December		
		2004	2005	2006
		HK$'000	HK$'000	HK$'000
Cost of inventories sold*		896,339	1,126,544	1,643,879
Depreciation and amortization		310,829	365,719	531,179
Auditors' remuneration		1,457	1,700	4,875
Employee benefits expense (including directors' remuneration)	(c)			
Wages, salaries and allowances		323,688	366,045	589,651
Equity-settled share option expenses	4(o)	58,749	43,307	66,039
Pension scheme contributions		35,641	38,594	45,182
		418,078	447,946	700,872
Loss on disposal of items of property, plant and equipment		2,642	14,198	17,320
Foreign exchange differences, net**		(3,650)	10,242	4,203
Repairs and maintenance		165,519	163,468	306,093
Withholding tax**		80,592	68,482	86,591
Provision for/write off obsolete inventories		—	35,988	63,256
Provision for impairment of other receivables		1,829	—	31,571

* Depreciation and amortization of HK$303,068,000, HK$361,863,000 and HK$523,470,000 are included in cost of inventories sold for the year ended 31 December 2004, 2005 and 2006, respectively.

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

(c) Directors' and senior executives' remuneration

Target Group

	Year ended 31 December		
	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Fees	1,713	1,869	2,134
Other emoluments:			
Salaries, allowances and benefits in kind	5,001	5,406	6,561
Performance related bonuses*	1,319	2,256	6,745
Share option benefits**	3,077	2,477	4,569
Pension scheme contributions	11	12	13
	9,408	10,151	17,888
	11,121	12,020	20,022

* During the Relevant Periods, certain directors of the Target Group are entitled to bonus payments which are determined as a percentage of the profit after tax of the Target Group.

** During the Relevant Periods, certain directors were granted share options, in respect of their services to the Target Group, under the share option scheme of CCPL, further details of which are set out in note 4(o) to the Financial Information. The fair value of such options which has been recognized to the combined income statement over the vesting period, was determined as at the date of grant and the amount included in the Financial Information for the Relevant Periods is included in the above directors' remuneration disclosures.

(d) Five highest paid employees

The five highest paid employees for the year ended 31 December 2004, 2005 and 2006 included nil, one and two directors, respectively. Details of whose remuneration are set out in note (c) above. Details of the remuneration of the remaining five, four and three non-director, highest paid employees for the Relevant Periods are as follows:

Target Group

	Year ended 31 December		
	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Salaries, allowances and benefits in kind	16,679	15,614	14,851
Bonuses	4,165	3,407	7,018
Share option benefits*	12,375	7,044	6,556
Pension scheme contributions	96	165	207
	33,315	26,230	28,632

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

	Number of employees		
	2004	2005	2006
HK$5,500,001 to HK$6,000,000	2	—	—
HK$6,000,001 to HK$6,500,000	—	2	—
HK$6,500,001 to HK$7,000,000	—	1	—
HK$7,000,001 to HK$7,500,000	2	1	—
HK$8,000,001 to HK$8,500,000	1	—	—
HK$9,000,001 to HK$9,500,000	—	—	2
HK$10,000,001 to HK$10,500,000	—	—	1
	5	4	3

* During the Relevant Periods, share options were granted to the non-director, highest paid employees in respect of their services to the Target Group, further details of which are included in the disclosures in note 4(o) to the Financial Information. The fair value of such options, which has been recognized to the combined income statement over the vesting period, was determined as at the date of grant and the amounts included in the Financial Information for the Relevant Periods is included in the above non-director, highest paid employees' remuneration disclosures.

(e) Finance costs

Target Group

	Year ended 31 December		
	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Interest expense on bank loan repayable within five years	67,826	120,232	202,326
Interest on other loans (including bonds)	58,479	57,768	61,191
Increase in discounted amounts of borrowings arising from the passage of time	22,192	6,672	11,775
Total interest	148,497	184,672	275,292
Less: Interest capitalized in property, plant and equipment (note 4(a))	(5,684)	(12,841)	(21,528)
	142,813	171,831	253,764
Other finance charges: Increase in discounted amounts of provision arising from the passage of time (note 4(n))	8,119	9,666	11,983
	150,932	181,497	265,747

The interest rates used for interest capitalization represented the cost of capital arising from the related borrowings at the rates of 7.6%, 8.9% and 9.7% per annum for the years ended 31 December 2004, 2005 and 2006, respectively.

(f) Tax

Target Group

	Note	2004	2005	2006
		HK$'000	HK$'000	HK$'000
Kazakhstan:				
Current		487,231	1,447,386	1,928,475
Deferred	4(m)	653,234	173,401	(27,038)
Total tax charge for the year		1,140,465	1,620,787	1,901,437

CCPL and its subsidiaries are required to file tax returns in the respective jurisdictions in which they are registered. The primary operating jurisdiction is Kazakhstan and substantially all of the Target Group's income is earned in Kazakhstan. KBM, TMS and ATS are separate taxpayers under the Kazakhstan tax legislation.

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

IRR	EPT rate	Effective EPT rate
20%-22%	4%	2.8%
22%-24%	8%	5.6%
24%-26%	12%	8.4%
26%-28%	18%	12.6%
28%-30%	24%	16.8%
More than 30%	30%	21%

With effect from 2005, the IRR of KBM exceeded 30% and KBM is subject to 30% EPT. After taking into account the corporate income tax effect, the effective EPT rates of KBM are nil, 21% and 21% for the years ended 31 December 2004, 2005 and 2006, respectively.

2004

	Canada		Kazakhstan		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	607,794		1,405,475		1,187,002	
Tax at the statutory tax rate	205,860	33.9	421,643	30.0	627,503	52.9
Effect on change of tax rate	—	—	672,727	47.9	672,727	56.7
Income not subject to corporate income tax	(282,093)	(46.4)	—	—	(282,093)	(23.8)
Expenses not deductible for tax	76,233	12.5	46,095	3.2	122,328	10.3
Tax charge at the Target Group's effective rate	—	—	1,140,465	81.1	1,140,465	96.1

2005

	Canada		Kazakhstan		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	878,894		3,030,980		2,816,857	
Tax at the statutory tax rate	295,484	33.6	909,294	30.0	1,204,778	42.8
Income not subject to corporate income tax	(378,009)	(43.0)	—	—	(378,009)	(13.4)
Expenses not deductible for tax	82,525	9.4	61,056	2.0	143,581	5.1
EPT	—	—	561,565	18.5	561,565	19.9
Deferred EPT	—	—	88,872	2.9	88,872	3.2
Tax charge at the Target Group's effective rate	—	—	1,620,787	53.4	1,620,787	57.6

2006

	Canada	%	Kazakhstan	%	Total	%
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	1,446,772		3,762,037		3,309,149	
Tax at the statutory tax rate	470,056	32.5	1,128,611	30.0	1,598,667	48.3
Income not subject to corporate income tax	(620,721)	(42.9)	—	—	(620,721)	(18.7)
Expenses not deductible for tax	150,665	10.4	15,822	0.4	166,487	5.0
EPT	—	—	745,996	19.8	745,996	22.5
Deferred EPT	—	—	11,008	0.3	11,008	0.3
Tax charge at the Target Group's effective rate	—	—	1,901,437	50.5	1,901,437	57.4

(g) Dividends

The Board of Directors of CCPL declared and paid dividends to the then shareholders in the amount of HK$163,512,000 (HK$0.58 per ordinary share), HK$514,026,000 (HK$1.82 per ordinary share) and HK$560,558,000 (HK$1.98 per ordinary share) in respect of the years ended 31 December 2004, 2005 and 2006, respectively.

4. COMBINED BALANCE SHEETS

	Notes	2004	2005	2006
		HK$'000	HK$'000	HK$'000
NON-CURRENT ASSETS				
Property, plant and equipment	(a)	4,432,091	4,771,763	5,566,049
Intangible assets	(b)	10,287	10,285	9,125
Other assets	(c)	101,099	60,140	92,099
		4,543,477	4,842,188	5,667,273
CURRENT ASSETS				
Inventories	(d)	213,532	290,871	420,387
Accounts receivable	(e)	360,777	437,193	466,633
Prepayments, deposits and other receivables	(f)	267,451	290,287	428,042
Tax recoverable		46,808	91,373	108,741
Due from the intermediate holding company	(g)	—	—	2,199,657
Due from related parties	(h)	12,822	25,357	—
Due from ex-shareholders	(h)	19,627	—	—
Cash and cash equivalents	(i)	274,195	634,087	311,993
		1,195,212	1,769,168	3,935,453
CURRENT LIABILITIES				
Accounts payable	(j)	112,191	133,181	200,072
Tax payable		—	556,097	761,351
Accrued liabilities and other payables	(k)	198,960	230,328	363,312
Due to ex-shareholders	(h)	8,084	83,485	—
Interest-bearing bank and other borrowings	(l)	77,779	266,520	1,604,406
		397,014	1,269,611	2,929,141
NET CURRENT ASSETS		798,198	499,557	1,006,312
TOTAL ASSETS LESS CURRENT LIABILITIES		5,341,675	5,341,745	6,673,585
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	(l)	1,843,983	1,909,256	1,013,758
Deferred tax liabilities	(m)	1,678,449	1,797,801	1,827,825
Provision for dismantlement	(n)	107,366	116,841	182,578
		3,629,798	3,823,898	3,024,161
Minority interests		103,339	110,566	111,225
OWNERS' EQUITY	(6)	1,608,538	1,407,281	3,538,199

Notes:

(a) Property, plant and equipment

Target Group

31 December 2004	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At beginning of year (i)	3,328,117	21,758	5,955	81,485	20,123	190,781	3,648,219
Additions	79,885	869	6,060	19,366	8,807	568,121	683,108
Disposals	(9,237)	—	(2,396)	(302)	(2,175)	—	(14,110)
Transfers	530,869	1,704	81	3	(61)	(532,596)	—
Exchange realignment	413,477	7,180	990	10,557	1,019	18,941	452,164
At 31 December 2004	4,343,111	31,511	10,690	111,109	27,713	245,247	4,769,381
Accumulated depreciation and amortization:							
At beginning of year (i)	—	—	—	54	2,225	—	2,279
Depreciation provided during the year	282,891	1,288	3,601	16,186	4,385	—	308,351
Disposals	(1,115)	—	(1,730)	(195)	(820)	—	(3,860)
Exchange realignment	29,686	176	521	64	73	—	30,520
At 31 December 2004	311,462	1,464	2,392	16,109	5,863	—	337,290
Net book value:							
At 31 December 2004	4,031,649	30,047	8,298	95,000	21,850	245,247	4,432,091

31 December 2005	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At beginning of year	4,343,111	31,511	10,690	111,109	27,713	245,247	4,769,381
Additions	26,309	—	40	364	1,969	843,745	872,427
Disposals	(23,828)	(890)	(58)	(3,044)	(2,351)	—	(30,171)
Transfers	842,836	3,804	7,842	15,990	7,275	(877,747)	—
Exchange realignment	(143,921)	(1,012)	(376)	(3,597)	(741)	(7,334)	(156,981)
At 31 December 2005	5,044,507	33,413	18,138	120,822	33,865	203,911	5,454,656
Accumulated depreciation and amortization:							
At beginning of year	311,462	1,464	2,392	16,109	5,863	—	337,290
Depreciation provided during the year	339,245	1,244	3,085	16,776	2,851	—	363,201
Disposals	(2,667)	(35)	(14)	(692)	(368)	—	(3,776)
Exchange realignment	(12,977)	(58)	(47)	(654)	(86)	—	(13,822)
At 31 December 2005	635,063	2,615	5,416	31,539	8,260	—	682,893
Net book value:							
At 31 December 2005	4,409,444	30,798	12,722	89,283	25,605	203,911	4,771,763

31 December 2006	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost:							
At beginning of year	5,044,507	33,413	18,138	120,822	33,865	203,911	5,454,656
Additions	42,460	—	31	19	7,556	1,030,216	1,080,282
Disposals	(28,780)	(220)	(534)	(1,525)	(728)	—	(31,787)
Transfers	903,456	(40)	5,767	22,890	9,017	(941,090)	—
Exchange realignment	280,982	1,898	999	6,733	1,450	11,054	303,116
At 31 December 2006	6,242,625	35,051	24,401	148,939	51,160	304,091	6,806,267
Accumulated depreciation and amortization:							
At beginning of year	635,063	2,615	5,416	31,539	8,260	—	682,893
Depreciation provided during the year	499,205	1,575	3,561	18,571	5,332	—	528,244
Disposals	(5,317)	(53)	(327)	(607)	(154)	—	(6,458)
Transfers	24	—	—	22	(46)	—	—
Exchange realignment	33,162	140	289	1,685	263	—	35,539
At 31 December 2006	1,162,137	4,277	8,939	51,210	13,655	—	1,240,218
Net book value:							
At 31 December 2006	5,080,488	30,774	15,462	97,729	37,505	304,091	5,566,049

Notes:

(i) KBM prepared its financial statements in accordance with Kazakhstani Accounting Standards ("KASs") before 1 January 2004. In accordance with Kazakhstan's legislation, all joint stock companies are required to adopt International Financial Reporting Standards ("IFRSs") from 1 January 2005. KBM elected 1 January 2004 to be its date of transition to IFRSs and prepared financial statements for the year ended 31 December 2004. Under IFRS 1, "First-time Adoption of International Financial Reporting Standards", KBM elected to measure its property, plant and equipment at the date of transition to IFRSs at their fair value and use such fair value as the deemed cost on that date.

(ii) Included in the additions for the years ended 31 December 2004, 2005 and 2006 were amounts of approximately HK$6 million, HK$13 million and HK$22 million, respectively, in respect of interest capitalized in property, plant and equipment (note 3(e)).

(iii) As at 31 December 2004, 2005 and 2006, certain of the property, plant and equipment of the Target Group with total net book values of approximately HK$665 million, HK$661 million and HK$606 million, respectively, were pledged to secure certain bank loans of the Target Group (note (l)).

(b) Intangible assets

Target Group

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Cost:			
At beginning of year	11,885	15,363	17,695
Additions	2,064	2,839	1,182
Exchange realignment	1,414	(507)	998
At end of year	15,363	17,695	19,875
Accumulated amortization:			
At beginning of year	2,238	5,076	7,410
Amortization provided during the year	2,478	2,518	2,935
Exchange realignment	360	(184)	405
At end of year	5,076	7,410	10,750
Net book value:			
At end of year	10,287	10,285	9,125

(c) Other assets

Other assets represent advances to suppliers and contractors for construction projects related to oil properties. The carrying value of other assets approximates to its fair value.

(d) Inventories

Target Group

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Spare parts and materials	195,604	299,997	406,445
Crude oil	17,928	26,511	21,905
Less: Provision for obsolete inventories	—	(35,637)	(7,963)
	213,532	290,871	420,387

(e) Accounts receivable

The Target Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days. Each customer has a maximum credit limit. The Target Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize credit risk. Overdue balances are reviewed regularly by senior management. The carrying value of the accounts receivable approximates to its fair value.

An aged analysis of the Target Group's accounts receivable as at the balance sheet dates, based on the invoice date, is as follows:

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Within one month	360,777	437,193	466,633

(f) Prepayments, deposits and other receivables

Target Group

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Advances to suppliers	90,613	86,928	163,786
Prepaid expenses	7,805	13,792	29,282
Value-added tax receivables	154,896	132,873	191,131
Employee receivables	16,435	57,390	74,759
Others	2,224	2,185	2,466
	271,973	293,168	461,424
Less: Provision for impairment	(4,522)	(2,881)	(33,382)
	267,451	290,287	428,042

(g) Due from the intermediate holding company

The amount due from the intermediate holding company represents a promissory note, with the principal sum of HK$3,770 million, issued by CCEL to CCPL on 29 December 2006, which is unsecured, interest-free and has no fixed terms of repayment. The amounts included a debt repayment note of HK$324 million, an option repayment note of HK$882 million issued by CCPL to CCEL on 29 December 2006 and loan advances of HK$364 million. The amount is unsecured, interest-free and has no fixed terms of repayment.

The carrying value of the balance with the intermediate holding company of CCPL approximates to its fair value.

(h) Due from/(to) related parties and ex-shareholders

The amounts due from/(to) related parties and ex-shareholders of CCPL are unsecured, interest-free and have no fixed terms of repayment. The carrying values of the balances with related parties and ex-shareholders of CCPL approximate to their fair values.

(i) Cash and cash equivalents

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Cash and bank balances	274,195	401,123	311,993
Time deposits	—	232,964	—
	274,195	634,087	311,993

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

(j) Accounts payable

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

Target Group

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Within one month	109,337	132,602	198,958
One to two months	2	16	—
Two to three months	184	—	3
Over three months	2,668	563	1,111
	112,191	133,181	200,072

The accounts payable are non-interest-bearing and are normally settled on 90-day terms.

(k) Accrued liabilities and other payables

Target Group

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Accrued payroll	40,830	63,003	67,098
Accrued penalties for early settlement of bank borrowings	—	—	64,567
Interest payable	56,604	64,966	89,420
Royalties payable	14,002	18,732	21,739
Other tax payables	79,632	52,457	44,491
Other payables and accruals	7,892	31,170	75,997
	198,960	230,328	363,312

Accrued liabilities and other payables are non-interest-bearing and are normally settled on 30-day terms.

(l) Interest-bearing bank and other borrowings

Target Group

	2004			2005			2006		
	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000	Effective interest rate	Maturity	HK$'000
Current									
Current portion of long term bank loans—secured	10%	2005	77,779	10%	2006	266,520	11.8%	2007	48,617
Bank loans—secured	—	—	—	—	—	—	LIBOR+4%	2007	1,555,789
Total current			77,779			266,520			1,604,406
Non-current									
Bank loans—secured	10%	2006	38,890	10%	2007-2010	121,146	11.8%	2008-2011	340,320
	LIBOR+4%	2009	1,152,753	LIBOR+4%	2010	1,153,592	—	—	—
			1,191,643			1,274,738			340,320
Bonds	8.85%	2008	652,340	9.35%	2008	634,518	9.9%	2008	673,438
Total non-current			1,843,983			1,909,256			1,013,758
			1,921,762			2,175,776			2,618,164

	2004	2005	2006
	HK$'000	HK$'000	HK$'000
Analyzed into:			
Bank loans and overdrafts repayable:			
Within one year	77,779	266,520	1,604,406
In the second year	196,182	165,167	97,234
In the third to fifth years, inclusive	995,461	1,109,571	243,086
	1,269,422	1,541,258	1,944,726
Bonds repayable:			
In the second year	—	—	673,438
In the third to fifth years, inclusive	652,340	634,518	—
	652,340	634,518	673,438
	1,921,762	2,175,776	2,618,164

Notes:

(i) The Target Group's credit facilities amounted to HK$1,517 million, HK$1,551 million and HK$2,139 million as at 31 December 2004, 2005 and 2006, of which approximately HK$1,269 million, HK$1,541 million and HK$1,945 million had been utilized as at each balance sheet date, respectively.

The banking facilities of the Target Group are secured by:

(a) Certain of the property, plant and equipment of the Target Group with net book values of approximately HK$665 million, HK$661 million and HK$606 million, as at 31 December 2004, 2005 and 2006 respectively.

(b) Sales proceeds from crude oil sales under 60-month contracts, with the aggregate shipment of 600,000 barrels of oil per month in total from June 2004 until May 2009.

(ii) In December 2003, the Target Group issued and registered 11,100,000 non-callable coupon bonds in the aggregate amount of 11.1 billion Tenge with the Kazakh Stock Exchange with a five-year maturity. The bonds bear interest at a rate of 8% per annum during the first six months at the bond nominal value and then a floating rate depending on the inflation index, as reported by the Kazakstani Agency of Statistics starting on the seventh month, payable semi-annually. The maximum floating rate is capped at 14%.

(iii) Except for the floating bond which is denominated in Tenge, all other borrowings are in United States dollars.

Other interest rate information:

	2004		2005		2006	
	Fixed rate	Floating rate	Fixed rate	Floating rate	Fixed rate	Floating rate
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Bank loans—secured	116,669	1,152,753	387,666	1,153,592	388,937	1,555,789
Bonds	—	652,340	—	634,518	—	673,438
	116,669	1,805,093	387,666	1,788,110	388,937	2,229,227

The carrying amounts of the Target Group's current and non-current borrowings approximate to their fair values.

(m) Deferred tax liabilities

The movements in deferred tax liabilities during the Relevant Periods are as follows:

Target Group

	2004 Depreciation allowance in excess of related depreciation	2005 Depreciation allowance in excess of related depreciation	2006 Depreciation allowance in excess of related depreciation
	HK$'000	HK$'000	HK$'000
At beginning of year	896,205	1,678,449	1,797,801
Deferred tax charged/(credited) to the combined income statement during the year (note 3(f))	653,234	173,401	(27,038)
Effect on change in tax base	—	—	(45,408)
Exchange differences	129,010	(54,049)	102,470
At end of year	1,678,449	1,797,801	1,827,825

At 31 December 2004, 2005 and 2006, there were no significant unrecognized deferred tax assets.

(n) Provision for dismantlement

The Target Group is legally required to restore its oil fields to their original condition. Estimated future site restoration is based on engineering estimates of the anticipated method and extent of site restoration, in accordance with the current legislation, industry practices and costs. The associated cost is capitalized and the liability is discounted and an accretion expense is recognized with the credit-adjusted risk-free interest rate in effect when the liability is initially recognized. The combined income statement charge for each of the Relevant Periods represents the amortization charge on the dismantlement liabilities capitalized in accordance with HKAS 37 and is included in the accumulated depreciation and amortization in note 3(b) to the Financial Information.

	Notes	2004	2005	2006
		HK$'000	HK$'000	HK$'000
At beginning of year		82,332	107,366	116,841
Additions during the year and capitalized in oil properties		7,073	3,291	47,469
Increase in a discounted amount of provision arising from the passage of time*	3(e)	8,119	9,666	11,983
Exchange realignment		9,842	(3,482)	6,285
At end of year		107,366	116,841	182,578

* The discount rate used for calculating the amount of provision arising from the passage of time is 10% for the years ended 2004, 2005 and 2006, respectively.

(o) Share option scheme

CCPL introduced an Incentive Stock Option Plan ("the Plan") in 2001. Pursuant to the Plan, CCPL granted to the Target Group's employees and directors stock options which have an exercise period of ten years or nine years and eleven months from the grant date. Options vest over three years from the date of grant. The exercise prices for options granted in 2001, 2002, 2003, 2004 and 2006 are US$0.85, US$1.93, US$2.86, US$3.32 and US$3.91 per share, respectively. The exercise price is equal to the fair market value of CCPL's shares at the date the stock option was granted. CCPL undertakes an independent annual valuation of the fair market value of its shares to set the exercise price for the option granted, subject to the Board of Directors' approval, and until such time as the CCPL's shares are publicly traded.

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

	2006	2004
Dividend yield (%)	4.78	1.09
Risk-free interest rate (%)	4.06	4.42
Expected life of option (year)	10	10

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur.

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

The following share options were outstanding under the Plan of the Target Group as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share HK$
Directors								
Djojohadikusumo, Hashim	—	380,000	—	—	380,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
Wilson, David	150,000	—	—	—	150,000	01-01-2001	01-01-2001 to 01-01-2011	6.63
	300,000	—	—	—	300,000	01-01-2002	01-01-2002 to 01-01-2012	15.05
	320,000	—	—	—	320,000	01-01-2003	01-01-2003 to 01-01-2013	22.27
	—	300,000	—	—	300,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
	770,000	300,000	—	—	1,070,000			
Other employees								
In aggregate	2,727,236	—	(54,233)	—	2,673,003	01-01-2001	01-01-2001 to 01-01-2011	6.63
	5,243,669	—	—	(82,334)	5,161,335	01-01-2002	01-01-2002 to 01-01-2012	15.05
	8,043,000	—	—	(178,001)	7,864,999	01-01-2003	01-01-2003 to 01-01-2013	22.27
	—	9,814,000	—	—	9,814,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
	16,013,905	9,814,000	(54,233)	(260,335)	25,513,337			
	16,783,905	10,494,000	(54,233)	(260,335)	26,963,337			

The following share options were outstanding under the Plan of the Target Group as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share
								HK$
Directors								
Djojohadikusumo, Hashim	380,000	—	—	—	380,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
Wilson, David	150,000	—	—	—	150,000	01-01-2001	01-01-2001 to 01-01-2011	6.63
	300,000	—	—	—	300,000	01-01-2002	01-01-2002 to 01-01-2012	15.05
	320,000	—	—	—	320,000	01-01-2003	01-01-2003 to 01-01-2013	22.27
	300,000	—	—	—	300,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
	1,070,000	—	—	—	1,070,000			
Other employees								
In aggregate	2,673,003	—	(361,665)	—	2,311,338	01-01-2001	01-01-2001 to 01-01-2011	6.63
	5,161,335	—	(883,334)	—	4,278,001	01-01-2002	01-01-2002 to 01-01-2012	15.05
	7,864,999	—	(836,666)	(65,002)	6,963,331	01-01-2003	01-01-2003 to 01-01-2013	22.27
	9,814,000	—	(271,666)	(233,667)	9,308,667	01-01-2004	01-01-2004 to 01-01-2014	25.86
	25,513,337	—	(2,353,331)	(298,669)	22,861,337			
	26,963,337	—	(2,353,331)	(298,669)	24,311,337			

The following share options were outstanding under the Plan of the Target Group as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2006	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share
								HK$
Directors								
Djojohadikusumo, Hashim	380,000	—	(380,000)	—	—	01-01-2004	01-01-2004 to 01-01-2014	25.86
	—	380,000	(380,000)	—	—	21-08-2006	21-08-2006 to 01-01-2015	30.37
	380,000	380,000	(760,000)	—	—			
Wilson, David	150,000	—	(150,000)	—	—	01-01-2001	01-01-2001 to 01-01-2011	6.63
	300,000	—	(300,000)	—	—	01-01-2002	01-01-2002 to 01-01-2012	15.05
	320,000	—	(320,000)	—	—	01-01-2003	01-01-2003 to 01-01-2013	22.27
	300,000	—	(300,000)	—	—	01-01-2004	01-01-2004 to 01-01-2014	25.86
	—	310,000	(310,000)	—	—	21-08-2006	21-08-2006 to 01-01-2015	30.37
	1,070,000	310,000	(1,380,000)	—	—			
Other employees								
In aggregate	2,311,338	—	(2,272,005)	(39,333)	—	01-01-2001	01-01-2001 to 01-01-2011	6.63
	4,278,001	—	(4,254,668)	(23,333)	—	01-01-2002	01-01-2002 to 01-01-2012	15.05
	6,963,331	—	(6,963,331)	—	—	01-01-2003	01-01-2003 to 01-01-2013	22.27
	9,308,667	—	(9,273,667)	(35,000)	—	01-01-2004	01-01-2004 to 01-01-2014	25.86
	—	11,034,000	(11,034,000)	—	—	21-08-2006	21-08-2006 to 01-01-2015	30.37
	22,861,337	11,034,000	(33,797,671)	(97,666)	—			
	24,311,337	11,724,000	(35,937,671)	(97,666)	—			

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

(p) Contingent liabilities

Taxation

In 2005, the taxation authority of Kazakhstan conducted a tax audit on the accounting records of KBM for the three years ended 31 December 2004. In December 2005, as a result of the tax audit, KBM received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional taxes in the amount of HK$409,551,000 (6,686,552,000 Tenge) as well as penalties and fines of HK$303,156,000 (4,949,490,000 Tenge) (the "Tax Claim").

On 10 July 2006, KBM received a favorable decision from the Astana city court. On 6 September 2006, KBM also received a favorable decision from the Collegiums of Judges of Astana city. The taxation authority could appeal against the court's and Collegiums' decision within twelve months after the announcement of the decision.

KBM's management believes that KBM is in compliance with the tax legislation and KBM will be successful in the appeal process. Therefore, KBM has not recorded any provision for the amounts of the Tax Claim as at 31 December 2006.

de Shazo litigation

On 20 September 2005, Thomas de Shazo ("de Shazo") filed a summons and complaint (the "Complaint") in the Southern District of Texas in the United States District Court against CCPL, Ecolo, Aequitas Energy, Ltd., Novomundo Trading Ltd., Hashim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The US federal court dismissed de Shazo's claim on 26 March 2007 and de Shazo appealed on 25 April 2007. The Complaint is claiming an amount of US$200 million which include damages, additional punitive and exemplary damages, the award of treble damages, the costs of the action and a jury trial.

On 29 September 2006, CCPL obtained a Certificate of Foreign Judgment against de Shazo in Idaho, United States, to collect US$0.1 million in outstanding costs arising out of the dismissal of de Shazo's action in Alberta, Canada, by the Alberta Court of Appeal on 18 August 2005. In response, de Shazo has filed a defense to set aside the Certificate of Foreign Judgment and a counterclaim in which he has incorporated by reference the counterclaim being litigated in Texas for US$200 million. In the Idaho counterclaim, de Shazo has requested the court to stay the action in Idaho pending the outcome of the action in Texas. CCPL believes that there are no grounds for such claim to succeed and as such, no provision has been made in the Financial Information as at 31 December 2006.

Savicic litigation

On 20 April 2006, the plaintiffs, Mr. Savicic and GZF Poly Oil Holding Ltd. ("GZF") brought an action against CCPL, KBM, Canadian Triton International Ltd. and Vladimir Katic in the Specialized Inter-Regional Economic Court in Mangistau oblast, in Kazakhstan. The plaintiffs sought 50% of the KBM shares.

On 19 July 2006, the Kazakhstan court awarded a judgment in favor of the plaintiffs in part and ordered CCPL to transfer 17.9% of the shares of KBM to GZF. CCPL appealed the decision on 3 August 2006. On 29 August 2006, the Mangistau Region Court heard the appeal and set aside the judgment of the court of first instance and dismissed the case. The plaintiffs have the right to file a supervisory appeal with the Supreme Court of the Republic of Kazakhstan within one year from the resolution made by Mangistan Region Court.

CCPL believes that if the plaintiffs file a supervisory appeal with the Supreme Court of the Republic of Kazakhstan, there are no ground for such claim to succeed and as such, no provision has been made in the Financial Information as at 31 December 2006. On 4 May 2007, Ecolo Investments Limited entered into a settlement agreement for itself and for the benefit of CCPL and KBM pursuant to which Mr. Savicic and GZF released, discharged and cancelled all their respective claim against CCPL and KBM.

(q) Commitments

Capital Commitments

In accordance with the License for hydrocarbon exploration and production, KBM has to perform a minimal work program for 2007. This minimal work program was agreed with the Governmental Agency ZAPKAZNEDRA. In accordance with this minimal work program, KBM has a capital commitment obligation for US$128.4 million to drill 150 wells and produce 2,335,000 tons of crude oil.

Governmental influence, pricing and transportation issues

The current political and economic situation in Kazakhstan is such that the government, from time to time, attempts to influence oil producers to supply production to domestic refineries at prices that are substantially lower than the prices for export sales. Prices for domestic sales have approximated 40% of the world market prices for the year ended 31 December 2006.

Management considers such volumes sold locally are reasonable in terms of Kazakhstan's current economic situation. However, management is unable to predict what future actions may be taken by the government to influence its future commercial operations and/or export sales.

KBM's oil production must be transported through pipelines owned by the state oil transportation company, KazTransOil ("KTO"). KTO has a monopoly on the transport market and as such, is able to have direct impact on transportation costs incurred by KBM as well as volumes of crude oil that KBM is able to export. As such, there is no assurance that KBM will be able to export all, or significant portions, of its production.

(r) Financial risk management

The Target Group's principal financial instruments include cash and cash equivalents, accounts receivable, all current liabilities and long term debts. The carrying values of cash, accounts receivable and current liabilities approximate to their fair values because of the short term nature of these instruments. The carrying value of the long term debts also approximates to its fair value as virtually all debts have been obtained under market conditions, which were still applicable at year end. The main purpose of these financial instruments is to raise finance for the Target Group's operations.

The nature of the Target Group's operations exposes it to fluctuation in foreign currency exchange rates, interest rates and credit risk.

Foreign currency exchange rate risk

The Target Group's revenues from the sale of crude oil are denominated in United States dollars and substantial portions of operating costs are denominated in Tenge. The Target Group manages this exposure by operating in a manner that minimizes the need to convert between these currencies.

Interest rate risk

The Target Group manages its interest rate risk through utilising fixed and floating rate debts to finance its operations. The floating rate debt exposes the Target Group to fluctuations in interest payments due to changes in interest rate.

Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and other receivables and the amount due from the intermediate holding company represents the Target Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Target Group's accounts receivable are related to the sales of crude oil to third party customers. The Target Group performs ongoing credit evaluations of the customers' financial conditions and generally does not require collateral on accounts receivable. The Target Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

Fair values

The fair values of financial instruments, consisting of cash, receivables, payables and obligations under debt instruments, are considered to be equal to their carrying values. Adequate provisions are made in respect of the accounts receivable.

Business risk

The Target Group's business activities are within the Republic of Kazakhstan. Laws and regulations affecting businesses operating in the Republic of Kazakhstan are subject to rapid changes. The Target Group is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environment, influence of the national authorities over price setting and competition in the industry.

5. SEGMENT INFORMATION

Segment information is presented by way of the Target Group's secondary reporting basis, by geographical segment.

No primary segment, by business segment, is presented as over 90% of the Target Group's revenue and assets were derived from the exploration , development and production of oil for sale to industrial and commercial customers.

The following tables present revenue and certain assets and expenditure information for the Target Group's geographical segments for the years ended 31 December 2004, 2005 and 2006.

	Kazakhstan	European Union	Others	Combined
	HK$'000	HK$'000	HK$'000	HK$'000
Year ended 31 December 2004				
Segment revenue:				
Sales to external customers	141,896	3,151,211	—	3,293,107
Other segment information:				
Segment assets	5,191,567	360,777	186,345	5,738,689
Capital expenditure	684,916	—	256	685,172
Year ended 31 December 2005				
Segment revenue:				
Sales to external customers	275,006	4,832,466	—	5,107,472
Other segment information:				
Segment assets	6,029,553	434,772	147,031	6,611,356
Capital expenditure	874,556	—	710	875,266
Year ended 31 December 2006				
Segment revenue:				
Sales to external customers	301,510	6,076,334	—	6,377,844
Other segment information:				
Segment assets	6,844,416	465,736	2,292,574	9,602,726
Capital expenditure	1,081,169	—	295	1,081,464

6. COMBINED STATEMENT OF CHANGES IN EQUITY

The movements in the owners' equity of the Target Group for the Relevant Periods prepared on the basis set out in Section 1 above, are as follows:

	HK$'000
At 1 January 2004	2,057,587
Profit for the year attributable to equity holders of the holding company	33,719
Exercise of share options	359
Equity-settled share option arrangements	58,749
Dividend declared	(163,512)
Net distribution to equity owners	(462,660)
Return of share capital	(174,412)
Translation differences arising on combination	258,708
At 31 December 2004 and 1 January 2005	1,608,538
Profit for the year attributable to equity holders of the holding company	1,125,068
Exercise of share options	41,277
Equity-settled share option arrangements	43,307
Dividend declared	(514,026)
Net distribution to equity owners	(838,800)
Translation differences arising on combination	(58,083)
At 31 December 2005 and 1 January 2006	1,407,281
Profit for the year attributable to equity holders of the holding company	1,313,172
Exercise of share options	132,999
Equity-settled share option arrangements	66,039
Dividend declared	(560,558)
Net contribution from equity owners	1,063,480
Translation differences arising on combination	115,786
At 31 December 2006	3,538,199

7. COMBINED CASH FLOW STATEMENTS

	Notes	2004	2005	2006
		HK$'000	HK$'000	HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		1,187,002	2,816,857	3,309,149
Adjustments for:				
Finance costs	3(e)	150,932	181,497	265,747
Interest income	3(a)	(1,527)	(6,528)	(15,975)
Depreciation and amortization	3(b)	310,829	365,719	531,179
Loss on disposal of items of property, plant and equipment	3(b)	2,642	14,198	17,320
Equity-settled share option expenses	3(b)	58,749	43,307	66,039
Provision for/write off obsolete inventories	3(b)	—	35,988	63,256
Provision for impairment of other receivables	3(b)	1,829	—	31,571
		1,710,456	3,451,038	4,268,286
Increase in inventories		(34,024)	(120,001)	(176,261)
Increase in accounts receivable		(162,650)	(87,692)	(4,623)
Increase in prepayments, deposits and other receivables		(153,713)	(31,195)	(152,848)
(Increase)/decrease in amounts due from related parties		(11,875)	(12,936)	26,796
Increase in accounts payable		47,371	24,497	59,331
Increase in accrued liabilities and other payables		77,641	37,587	119,910
Cash generated from operations		1,473,206	3,261,298	4,140,591
Overseas tax paid		(600,629)	(937,317)	(1,785,997)
Net cash inflow from operating activities		872,577	2,323,981	2,354,594
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		1,527	6,528	15,975
Purchases of items of property, plant and equipment	7(a)	(670,351)	(856,295)	(1,011,285)
Proceeds from disposal of items of property, plant and equipment		7,608	12,197	8,009
Additions to intangible assets		(2,064)	(2,839)	(1,182)
(Increase)/decrease in other assets		(49,451)	38,171	(28,545)
Increase in the amount due from the intermediate holding company		—	—	(2,199,657)
Net cash outflow from investing activities		(712,731)	(802,238)	(3,216,685)

	Notes	2004	2005	2006
		HK$'000	HK$'000	HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issue of shares		359	41,277	132,999
New bank loans		2,242,000	448,984	933,773
Repayment of bank loans		(1,137,219)	(145,109)	(590,277)
Interest paid		(148,497)	(184,672)	(275,292)
Dividend paid		(163,512)	(514,026)	(560,558)
Dividends paid to minority shareholders		(46,879)	(60,442)	(100,193)
Net contribution from/(distribution to) equity owners		(637,072)	(838,800)	1,063,480
Increase in balances with ex-shareholders		(11,543)	94,667	(88,224)
Net cash inflow/(outflow) from financing activities		97,637	(1,158,121)	515,708
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		257,483	363,622	(346,383)
Cash and cash equivalents at beginning of year		16,417	274,195	634,087
Effect of foreign exchange rate changes, net		295	(3,730)	24,289
CASH AND CASH EQUIVALENTS AT END OF YEAR		274,195	634,087	311,993
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances		274,195	634,087	311,993

(a) Major non-cash transactions

During the Relevant Periods, the Target Group capitalized interest expenses of HK$5,684,000, HK$12,841,000 and HK$21,528,000 for the years ended 31 December 2004, 2005 and 2006 in property, plant and equipment, respectively (note 3(e)).

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(A) PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

The following unaudited pro forma financial information on the Enlarged Group was prepared by the Directors of the CITIC Resources Holdings Limited (the "Company").

The accompanying unaudited pro forma financial information of the Enlarged Group has been prepared to illustrate the effect of the Company's proposed acquisition (the "Proposed Acquisition") of Renowned Nation Limited and its subsidiaries (collectively referred to as the "Renowned Nation Group"), the Share Offering and this offering.

Renowned Nation Limited through CITIC Canada Energy Limited ("CCEL") holds a 100% interest of CITIC Canada Petroleum Limited ("CCPL", formerly known as Nations Energy Company Ltd.), which holds a 94.6% interest in Joint Stock Company Karazhanbasmunai ("KBM") as well as 100% interests in both Argymak TransService LLP ("ATS") and Tulpar Munai Service LLP ("TMS"). CCPL, together with KBM, ATS and TMS, are collectively referred as the "Target Group". The operating results and cash flow of the Renowned Nation Group were principally derived from the Target Group.

The accompanying unaudited pro forma financial information is based upon the historical financial statements of the CITIC Resources Holdings Limited and its subsidiaries (collectively referred to as the "Group") after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Proposed Acquisition, the Share Offering and this offering that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, is summarized in the accompanying notes.

The accompanying unaudited pro forma financial information is based on a number of assumptions, estimates and uncertainties, and currently available information. As a result of these assumptions, estimates and uncertainties, the accompanying unaudited pro forma financial information does not purport to describe the financial position or the results of operations or cashflows that would have been presented had the Proposed Acquisition, the Share Offering and this offering been completed. Further, the accompanying unaudited pro forma financial information does not purport to predict the Group's future financial position, results of operations or cash flows.

The unaudited pro forma financial information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out on page F-2 of this offering circular, the Accountants' Report of the Renowned Nation Group as set out on page F-82 of this offering circular, the Accountants' Report of the Target Group as set out on page F-106 of this offering circular, and other financial information included elsewhere in this offering circular.

1. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP UPON COMPLETION OF THE TRANSACTION

Set out below is an unaudited pro forma combined balance sheet of the Enlarged Group as at 31 December 2006 which has been prepared for the purpose of illustration as if the Proposed Acquisition, the Share Offering and this offering had taken place on 31 December 2006.

The unaudited pro forma combined balance sheet of the Enlarged Group has been prepared based on:

(1) the audited consolidated balance sheet of the Group as at 31 December 2006, as set out on page F-2 of this offering circular; and

(2) the audited consolidated balance sheet of Renowned Nation Group as at 31 December 2006, as set out on page F-82 of this offering circular.

	Group: as at 31 December 2006	Renowned Nation Group: as at 31 December 2006	Group: pro forma adjustments —disposal of a 50% equity interest in CCEL	Group: pro forma adjustments— repayment of Bank Loans by CCEL	Share offering	Bond issuance	Pro forma Enlarged Group: as at 31 December 2006
			(Expressed in HK$'000)				
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	
NON-CURRENT ASSETS							
Property, plant and equipment	2,391,501	18,088,593					20,480,094
Prepaid land lease premiums	58,353	—					58,353
Other intangible assets	135,701	4,563					140,264
Other assets	555,983	—					555,983
Goodwill	341,512	—					341,512
Available-for-sale equity investments	845,936	—					845,936
Prepayments, deposits and other receivables	16,346	—					16,346
Loan receivable	21,615	—					21,615
Deferred tax assets	6,754	—					6,754
Other assets	—	46,050					46,050
Total non-current assets	4,373,701	18,139,206					22,512,907
CURRENT ASSETS							
Inventories	1,112,150	210,194					1,322,344
Accounts receivable	939,938	233,317					1,173,255
Prepayments, deposits and other receivables	1,867,396	214,659	—	—	—	(1,555,820)	526,235
Tax recoverable	—	54,371					54,371
Loan receivable	17,327	—					17,327
Equity investments at fair value through profit or loss	1,974	—					1,974
Derivative financial instruments	16,380	—					16,380
Other assets	62,945	—					62,945
Cash and cash equivalents	850,744	1,769,040	—	(1,610,274)	1,722,000	1,342,269	4,073,779
Due from related companies	51,486	—					51,486
Due from the ultimate holding company	34,320	—					34,320
	4,954,660	2,481,581					7,334,416
Interests in jointly controlled entities held for sale	—	6,810,976	(6,810,976)	—	—	—	—
Total current assets	4,954,660	9,292,557					7,334,416

	Group: as at 31 December 2006	Renowned Nation Group: as at 31 December 2006	Group: pro forma adjustments —disposal of a 50% equity interest in CCEL	Group: pro forma adjustments —repayment of Bank Loans by CCEL	Share offering	Bond issuance	Pro forma Enlarged Group: as at 31 December 2006
			(Expressed in HK$'000)				
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	(Note 6)	
CURRENT LIABILITIES							
Accounts payable	533,788	100,036					633,824
Tax payable	47,108	380,676					427,784
Accrued liabilities and other payables	306,789	986,785	—	(54,454)	—	—	1,239,120
Derivative financial instruments	286,920	—					286,920
Due to a minority shareholder	38,174	—					38,174
Interest-bearing bank and other borrowings	1,588,022	1,580,113	—	(1,555,820)	—	—	1,612,315
Provisions	53,738	—					53,738
Due to the ultimate holding company	—	14,616,929	(6,810,976)	—	—	(7,805,953)	—
Total current liabilities	2,854,539	17,664,539					4,291,875
NET CURRENT ASSETS/ (LIABILITIES)	2,100,121	(8,371,982)					3,042,541
TOTAL ASSETS LESS CURRENT LIABILITIES	6,473,822	9,767,224					25,555,448
NON-CURRENT LIABILITIES							
Interest-bearing bank and other borrowings	2,214,540	506,879	—	—	—	7,592,402	10,313,821
Deferred tax liabilities	519,933	9,109,278					9,629,211
Derivative financial instruments	41,063	—					41,063
Provisions	117,549	91,289					208,838
Other payables	75,648	—					75,648
Total non-current liabilities	2,968,733	9,707,446					20,268,581
Net assets	3,505,089	59,778					5,286,867
EQUITY							
Issued capital	215,909	—	—	—	35,000	—	250,909
Reserves	3,009,434	4,165	—	—	1,687,000	—	4,700,599
	3,225,343	4,165					4,951,508
Minority interests	279,746	55,613					335,359
Total equity	3,505,089	59,778					5,286,867

Notes:

1. The balances are extracted from the audited consolidated financial statements of the Group as set out on page F-2 of this offering circular.
2. The balances are extracted from the audited consolidated financial statements of the Renowned Nation Group as set out on page F-82 of this offering circular.
3. The pro forma adjustments relate to the proposed disposal by Renowned Nation Limited of its 50% equity interest in CITIC Canada Energy Limited ("CCEL") to State Alliance Holdings Limited ("State Alliance") at its carrying value. For the purpose of this unaudited pro forma financial information, these amounts are calculated based on the consolidated financial position of CCEL Group as at 31 December 2006.
4. The pro forma adjustments relate to the repayment of bank loans and the related accrued interest expenses ("Bank Loans") of the Renowned Nation Group amounting to HK$1,555,820,000 (equivalent to US$200,000,000) and HK$54,453,700 (equivalent to US$7,000,000) as at 31 December 2006 by CCEL pursuant to the original sale and purchase agreement entered into by CITIC Group.
5. On February 28, 2007, the Company issued 570,000,000 new shares at a price of HK$2.46 (US$0.31) per share. On April 19, 2007, the Company issued 130,000,000 new shares at a price of HK$2.46 (US$0.31) per share. The pro forma consolidation adjustment reflects the net proceeds from the aforesaid share issuances, without assuming any interest or other income that may be generated from such net proceeds.
6. The net proceeds from this offering of HK$7,592,402,000 will be used to finance the Proposed Acquisition.

2. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP UPON COMPLETION OF THE TRANSACTION

Set out below is an unaudited pro forma combined income statement of the Enlarged Group for the year ended 31 December 2006 which has been prepared for the purpose of illustration as if the Proposed Acquisition had taken place on 1 January 2006.

	Group: for the year ended 31 December 2006	Target Group: combined for the year ended 31 December 2006	Group: pro forma adjustments —disposal of a 50% equity interest in CCEL	Group: pro forma adjustments —other adjustments	Interest	Pro forma Enlarged Group: for the year ended 31 December 2006
			(Expressed in HK$'000)			
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5)	
REVENUE	7,503,428	6,377,844	(3,188,922)	—	—	10,692,350
Cost of sales	(6,974,598)	(1,643,879)	821,940	(480,933) (i)	—	(8,277,470)
Gross profit	528,830	4,733,965				2,414,880
Other income and gains	283,245	18,684	(9,342)	—	—	292,587
Selling and distribution costs	(68,302)	(446,746)	223,373	—	—	(291,675)
Administrative expenses	(214,910)	(621,191)	310,595	—	—	(525,506)
Other operating expenses, net	(62,319)	(109,816)	54,908	—	—	(117,227)
Finance costs	(150,355)	(265,747)	132,873	76,069 (iii)	(552,674)	(759,834)
PROFIT BEFORE TAX	316,189	3,309,149				1,013,225
Tax	(70,152)	(1,901,437)	950,719	257,516 (ii)	—	(763,354)
PROFIT FOR THE YEAR	246,037	1,407,712				249,871
Attributable to:						
Shareholders of the Company	200,815	1,313,172	(656,586)	(139,391)	(552,674)	165,336
Minority interests	45,222	94,540	(47,270)	(7,957)	—	84,535
	246,037	1,407,712				249,871

Notes:

1. The amounts are extracted from the audited consolidated financial statements of the Group as set out on page F-2 of this offering circular.
2. The amounts are extracted from the audited combined financial information of the Target Group as set out on page F-106 of this offering circular.
3. The pro forma adjustments relate to the proposed disposal by the Renowned Nation Group of its 50% equity interest in CCEL to State Alliance. For the purpose of this unaudited pro forma financial information, the disposal of its 50% equity interest in CCEL is assumed to take place on 1 January 2006 and these amounts are calculated based on the combined financial position of the Target Group for the year ended 31 December 2006.
4. The other pro forma adjustments reflect the following:
   (i) the additional depreciation arising from the preliminary fair value adjustments of the assets and liabilities of both the Renowned Nation Group and the Target Group;
   (ii) the deferred tax adjustments related to the additional depreciation as stated in (i) above; and
   (iii) the reduction in interest expenses on Bank Loans of the Renowned Nation Group.
5. The finance cost incurred from this offering amounted to HK$552,674,000.

3. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP UPON COMPLETION OF THE TRANSACTION

Set out below is an unaudited pro forma combined cash flow statement of the Enlarged Group for the year ended 31 December 2006 which has been prepared for the purpose of illustration as if the Proposed Acquisition had taken place on 1 January 2006.

(Expressed in HK$'000)

	Group: for the year ended 31 December 2006	Target Group: for the year ended 31 December 2006	Group: pro forma adjustments—disposal of a 50% equity interest in CCEL	Group: pro forma adjustments —repayment of Bank Loans and interest expenses	Group: pro forma adjustments —payment of a cash consideration	Group: —payment of interest	Bond issuance	Additional depreciation	Share offering	Pro forma Enlarged Group: for the year ended 31 December 2006
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5 (i))	(Note 5 (ii))	(Note 5 (iii))	(Note 5(iv))	(Note 6)	
CASH FLOWS FROM OPERATING ACTIVITIES										
Profit before tax	316,189	3,309,149	(1,654,575)	—	—	76,069	(552,674)	(480,933)	—	1,013,225
Adjustments for:										
Finance costs	150,355	265,747	(132,873)	—	—	(76,069)	552,674	—	—	759,834
Interest income	(144,810)	(15,975)	7,988							(152,797)
Dividend income from listed investments	(55,115)	—	—							(55,115)
Equity-settled share option expenses	26,158	66,039	(33,020)							59,177
Depreciation	92,560	528,244	(264,122)	—	—	—	—	480,933	—	837,615
Amortization	68,113	2,935	(1,467)							69,581
Loss on disposal/write-off of items of property, plant and equipment	4,568	17,320	(8,660)							13,228
Provision for long service and leave payments	6,715	—	—							6,715
Provision for rehabilitation cost	8,554	—	—							8,554
Provision for abandonment cost	112	—	—							112
Write-back of provision for impairment of items of property, plant and equipment	(4,893)	—	—							(4,893)
Provision for impairment of accounts receivable	1,816	—	—							1,816
Provision against inventories	1,515	63,256	(31,628)							33,143
Provision for impairment of other receivables	—	31,571	(15,786)							15,785
Gain on conversion of available-for-sale equity investments	(17,502)	—	—							(17,502)
Warranty income, net	(14,908)	—	—							(14,908)
Unrealized losses on embedded derivatives	111,667	—	—							111,667
Unrealized foreign exchange losses	25,777	—	—							25,777
Gain on disposal of available-for-sale equity investments	(5,235)	—	—							(5,235)
	571,636	4,268,286								2,705,779
Increase in inventories	(302,729)	(176,261)	88,131							(390,859)

(Expressed in HK$'000)

	Group: for the year ended 31 December 2006	Target Group: for the year ended 31 December 2006	Group: pro forma adjustments—disposal of a 50% equity interest in CCEL	Group: pro forma adjustments —repayment of Bank Loans and interest expenses	Group: pro forma adjustments —payment of a cash consideration	Group: —payment of interest	Bond issuance	Additional depreciation	Share offering	Pro forma Enlarged Group: for the year ended 31 December 2006
	(Note 1)	(Note 2)	(Note 3)	(Note 4)	(Note 5 (i))	(Note 5 (ii))	(Note 5 (iii))	(Note 5(iv))	(Note 6)	
Increase in prepayments, deposits and other receivables	(59,723)	(152,848)	76,424	—	1,555,820	—	—	—	—	1,419,673
Increase in accounts receivable	(502,396)	(4,623)	2,312							(504,707)
(Increase)/decrease in amounts due from related companies	(51,486)	26,796	(13,398)							(38,088)
(Decrease)/increase in accrued liabilities and other payables	(116,872)	119,910	(59,955)							(56,917)
Increase in accounts payable	313,906	59,331	(29,666)							343,571
Increase in an amount due to a minority shareholder	38,174	—	—							38,174
Cash (used in)/generated from operations	(109,490)	4,140,591								3,516,626
Income tax paid	(145,458)	(1,785,997)	892,998							(1,038,457)
Net cash inflow/(outflow) from operating activities	(254,948)	2,354,594								2,478,169
CASH FLOWS FROM INVESTING ACTIVITIES										
Interest received	142,403	15,975	(7,988)							150,390
Dividends received from listed investments	55,115	—	—							55,115
Purchases of items of property, plant and equipment	(173,368)	(1,011,285)	505,643							(679,010)
Purchase of other intangible assets	(32)	(1,182)	591							(623)
Proceeds from disposal of items of property, plant and equipment	21,632	8,009	(4,004)							25,637
Increase in other assets	—	(28,545)	14,272							(14,273)
Increase in the amount due from the intermediate holding company	—	(2,199,657)	1,099,828							(1,099,829)
Proceeds from disposal of available-for-sale equity investment	31,221	—	—							31,221
Net cash inflow from acquisition of subsidiaries	148,230	—	—							148,230

(Expressed in HK$'000)

	Group: for the year ended 31 December 2006	Target Group: for the year ended 31 December 2006	Group: pro forma adjustment—disposal of a 50% equity interest on CCEL	Group: pro forma adjustments —repayment of Bank Loans and interest expenses	Group: pro forma adjustments —payment of a cash consideration	Group: —payment of interest	Bond issuance	Additional depreciation	Share offering	Pro forma Enlarged Group for the year ended 31 December 2006
	(Note 1)	**(Note 2)**	**(Note 3)**	**(Note 4)**	**(Note 5(i))**	**(Note 5(ii))**	**(Note 5(iii))**	**(Note 5 (iv))**	**(Note 6)**	
Repayment of loan receivable	15,990	—								15,990
Net cash outflow from acquisition of participating interest in Seram Island Non-Bula Block, Indonesia	(757,723)	—								(757,723)
Deposits paid for potential investment projects	(1,560,000)	—								(1,560,000)
Payments of interest, legal and professional fees and other charges incurred in relation to potential investment projects	(35,177)	—								(35,177)
Payment to the ultimate holding company for the Proposed Acquisition	—	—	—	—	(7,805,953)	—	—	—	—	(7,805,953)
Net cash outflow from investing activities	(2,111,709)	(3,216,685)								(11,526,005)
CASH FLOWS FROM FINANCING ACTIVITIES										
Proceeds from issue of share capital	1,404	132,999	(66,500)	—	—	—	—	—	1,722,000	1,789,903
Dividend paid	—	(560,558)	280,279							(280,279)
Dividends paid to minority shareholders	(6,558)	(100,193)	50,097							(56,654)
New bank and other loans	6,019,860	933,773	(466,887)	—	—	—	7,592,402	—	—	14,079,148
Repayment of bank and other loans	(4,183,162)	(590,277)	295,139	(1,555,820)	—	—	—	—	—	(6,034,120)
Interest paid	(140,677)	(275,292)	137,646	(54,454)	—	76,069	(526,500)	—	—	(783,208)
Increase in the amount due to ex-shareholders	—	(88,224)	44,112							(44,112)
Net capital contribution from equity owners	—	1,063,480	(531,740)							531,740
Increase in the amount due to the ultimate holding company	—	—	—	1,610,274	—	—	—	—	—	1,610,274
Net cash inflow from financing activities	1,690,867	515,708								10,812,692
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(675,790)	(346,383)								1,764,856
Cash and cash equivalents at beginning of year	1,519,595	634,087	(317,044)							1,836,638
Effect of foreign exchange rate changes, net	6,939	24,289	(12,144)							19,084
CASH AND CASH EQUIVALENTS AT END OF YEAR	850,744	311,993								3,620,578
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS										
Cash and bank balances	310,258	311,993	(155,997)	—	(6,250,133)	76,069	7,065,902	—	1,722,000	3,080,092
Non-pledged time deposits with original maturity of less than three months when acquired	540,486	—								540,486
	850,744	311,993								3,620,578

Notes:

1. The balances are extracted from the audited consolidated financial statements of the Group as set out on page F-2 of this offering circular.
2. The balances are extracted from the audited combined financial information of the Target Group as set out on page F-106 of this offering circular.
3. The pro forma adjustments relate to the proposed disposal by Renowned Nation Group of its 50% equity interest in CCEL to State Alliance. For the purpose of this unaudited pro forma financial information, the disposal of its 50% equity interest in CCEL is assumed to take place on 1 January 2006 and these amounts are calculated based on the combined financial position of the Target Group for the year ended 31 December 2006.
4. The pro forma adjustments related to the repayment of bank loans and related accrued interest expenses ("Bank Loans") of the Renowned Nation Group amounting to HK$1,555,820,000 (equivalent to US$200,000,000) and HK$54,453,700 (equivalent to US$7,000,000) as at 31 December 2006 by CCEL pursuant to the original sale and purchase agreement entered into by CITIC Group.
5. The pro forma consolidation adjustments reflect the following:
   (i) the payment of cash consideration of HK$6,250,133,000 (HK$7,805,953,000 net of deposit of HK$1,555,820,000 deposit paid) by the Group to CITIC Group to acquire 50% equity interest in Renowned Nation;
   (ii) the interest savings on repayment of Bank Loans of the Renowned Nation Group;
   (iii) the net proceeds from this offering of HK$7,592,402,000 and interest expense arising from this offering of HK$526,500,000; and
   (iv) the additional depreciation arising from the preliminary fair value adjustments of the assets and liabilities of both the Renowned Nation Group and the Target Group.
6. On February 28, 2007, the Company issued 570,000,000 new shares at a price of HK$2.46 (US$0.31) per share. On April 19, 2007, the Company issued 130,000,000 new shares at a price of HK$2.46 (US$0.31) per share. The pro forma consolidation adjustment reflects the net proceeds from the aforesaid share issuances, without assuming any interest or other income that may be generated from such net proceeds.