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## IMPORTANT

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in CITIC Resources Holdings Limited, you should at once hand this circular to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected, for transmission to the purchaser or transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for securities of CITIC Resources Holdings Limited.

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### **CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

*Website: [www.citicresources.com](http://www.citicresources.com)*

(Stock Code: 1205)

### **DISCLOSEABLE TRANSACTION**

#### **CONVERSION OF PARTICIPATING INTEREST IN THE KONGNAN BLOCK, DAGANG OIL PROJECT INTO COMMON SHARES OF IVANHOE ENERGY INC. AND LOAN DUE FROM IVANHOE ENERGY INC.**

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A letter from the board of directors of CITIC Resources Holdings Limited containing information on this discloseable transaction is set out on pages 4 to 8 of this circular.

13 March 2006

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## DEFINITIONS

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*Unless the context otherwise requires, the following terms and expressions used in this circular shall have the following meanings:*

|                             |  |
|-----------------------------|--|
| “Board”                     | the board of Directors   |
| “Company”                   | CITIC Resources Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange   |
| “Contractor”                | the contractor under the Petroleum Contract  |
| “Conversion Agreement”      | an agreement dated 18 February 2006 and made between Ivanhoe Energy, Pan-China, Sunwing Energy and Richfirst   |
| “Conversion Shares”         | 8,591,434 Ivanhoe Shares   |
| “Dagang Oil Project”        | the development and production of oil at the Kongnan Block pursuant to the Petroleum Contract  |
| “Directors”                 | the directors of the Company   |
| “Farmout Agreement”         | a farmout agreement dated 18 January 2004, as amended and supplemented by three supplemental agreements dated 15 December 2005, 17 January 2006 and 17 February 2006 respectively, and each made between Richfirst, Pan-China, Sunwing Energy and Ivanhoe Energy, relating to the assignment of the Participating Interest to Richfirst from Pan-China |
| “Group”                     | the Company and its subsidiaries   |
| “Ivanhoe Energy”            | Ivanhoe Energy Inc., a company incorporated in Yukon, Canada   |
| “Ivanhoe Loan”              | the sum of US\$7,386,135 repayable by Ivanhoe Energy to Richfirst  |
| “Ivanhoe Shares”            | common shares in the share capital of Ivanhoe Energy which are quoted and listed on the NASDAQ Capital Market and the Toronto Stock Exchange respectively  |
| “Joint Operating Agreement” | a joint operating agreement dated 18 January 2004 and made between Richfirst and Pan-China relating to the ongoing participation in the Dagang Oil Project   |
| “Kongnan Block”             | an area comprising of six blocks covering 22,400 gross acres within the Dagang Oilfield, the PRC   |

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## DEFINITIONS

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| “Latest Practicable Date”                | 10 March 2006  |
| “Listing Rules”                          | the Rules Governing the Listing of Securities on the Stock Exchange  |
| “Pan-China”                              | Pan-China Resources Ltd., a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Sunwing Energy  |
| “Participating Interest”                 | the interest of Richfirst in, and representing 40% of, the Contractor’s rights and obligations, in the Petroleum Contract  |
| “Petroleum Contract”                     | a 30-year petroleum development and production sharing contract dated 8 September 1997 (as amended) entered into between Pan-China and China National Petroleum Corporation for the development and production of petroleum in the Kongnan Block |
| “PRC”                                    | the People’s Republic of China   |
| “Qualifying Sunwing Listing Transaction” | a transaction involving the issue of Sunwing Shares by the Sunwing Listed Entity and their listing on the New York Stock Exchange or NASDAQ or such other exchange as shall be approved by Richfirst   |
| “Restricted Sales Period”                | the period of 12 months following the date of the Conversion Agreement   |
| “Richfirst”                              | Richfirst Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of the Company   |
| “SFO”                                    | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)  |
| “Shares”                                 | ordinary shares of HK\$0.05 each in the share capital of the Company   |
| “Shareholders”                           | holders of Shares  |
| “Starbest”                               | Starbest Venture Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company   |
| “Stock Exchange”                         | The Stock Exchange of Hong Kong Limited  |

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## DEFINITIONS

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|-------------------------|---|
| “Sunwing Energy”        | Sunwing Energy Ltd., a company incorporated in Bermuda with limited liability and a wholly-owned subsidiary of Ivanhoe Energy |
| “Sunwing Listed Entity” | Sunwing Energy or a company owning all of the issued and outstanding shares of Sunwing Energy                                 |
| “Sunwing Shares”        | shares in the capital of the Sunwing Listed Entity  |
| “United States”         | the United States of America  |
| “A\$”                   | Australian dollars, the lawful currency of Australia  |
| “C\$”                   | Canadian dollars, the lawful currency of Canada   |
| “HK\$”                  | Hong Kong dollars, the lawful currency of Hong Kong   |
| “US\$”                  | United States dollars, the lawful currency of the United States   |

*In this circular, amounts in US\$, C\$ and A\$ have been converted into HK\$ or vice versa at the rate of US\$1.00 = HK\$7.8, C\$1.00 = HK\$6.713 and A\$1.00 = HK\$5.723 for illustration purposes only. No representation is made that any amounts in US\$, C\$, A\$ or HK\$ have been or could have been or can be converted at the above rate or at any other rates or at all.*

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## LETTER FROM THE BOARD

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### **CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

*Website: [www.citicresources.com](http://www.citicresources.com)*

*(Stock Code: 1205)*

*Executive Directors:*

Mr. KWOK Peter Viem (*Chairman*)  
Mr. MA Ting Hung (*Vice Chairman*)  
Mr. SHOU Xuancheng (*Vice Chairman*)  
Mr. SUN Xinguo (*President and Chief Executive Officer*)  
Ms. LI So Mui  
Mr. MI Zengxin  
Mr. QIU Yiyong  
Mr. ZENG Chen  
Mr. ZHANG Jijing

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Independent Non-executive Directors:*

Mr. FAN Ren Da, Anthony  
Mr. NGAI Man  
Mr. TSANG Link Carl, Brian

*Head Office and Principal*

*Place of Business:*  
Suites 3001-3006  
30/F, One Pacific Place  
88 Queensway  
Hong Kong

13 March 2006

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION**

#### **CONVERSION OF PARTICIPATING INTEREST IN THE KONGNAN BLOCK, DAGANG OIL PROJECT INTO COMMON SHARES OF IVANHOE ENERGY INC. AND LOAN DUE FROM IVANHOE ENERGY INC.**

#### **BACKGROUND**

In 2004, Starbest acquired the entire issued share capital of Richfirst. Richfirst's sole asset is the Participating Interest, representing 40% of the Contractor's rights and obligations in the Petroleum Contract regarding the development and production of oil in the Dagang Oil Project and acquired by Richfirst pursuant to the Farmout Agreement. The Participating Interest was held by Richfirst in accordance with the Farmout Agreement and Joint

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## LETTER FROM THE BOARD

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Operating Agreement. Details of the acquisition of Richfirst by Starbest and of the Participating Interest were disclosed by the Company in its circular to Shareholders dated 11 August 2004 and the acquisition of Richfirst by Starbest was approved by Shareholders in a special general meeting on 26 August 2004.

Pursuant to the Farmout Agreement, Richfirst has a right to convert the Participating Interest into Ivanhoe Shares.

On 18 February 2006, Richfirst entered into the Conversion Agreement pursuant to which Richfirst has agreed with Pan-China, Ivanhoe Energy and Sunwing Energy that it shall convert the Participating Interest, having a value of US\$27,386,135 (HK\$213,611,853), into Ivanhoe Shares and the Ivanhoe Loan.

### **CONVERSION AGREEMENT**

#### **Date**

18 February 2006

#### **Parties to Conversion Agreement**

- (1) Ivanhoe Energy
- (2) Pan-China
- (3) Sunwing Energy
- (4) Richfirst

To the best of the Directors' information, knowledge and belief, and having made all reasonable enquiries, Ivanhoe Energy and its ultimate beneficial owners are third parties independent of the Company and connected persons of the Company.

The Directors believe that the terms of the Conversion Agreement are fair and reasonable and in the interests of Shareholders as a whole.

#### **Part Conversion of Participating Interest into Ivanhoe Shares**

As at the date of the Conversion Agreement, the book value of the Participating Interest is US\$27,386,135 (HK\$213,611,853). There will be no gain or loss arising from the conversion of the Participating Interest.

Pursuant to the Conversion Agreement, Richfirst shall convert US\$20,000,000 (HK\$156,000,000) of the value of the Participating Interest into the Conversion Shares, being 8,591,434 Ivanhoe Shares and representing about 3.7% of all Ivanhoe Shares issued and outstanding following completion of the conversion.

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## LETTER FROM THE BOARD

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Each Conversion Share shall be issued to Richfirst at an issue price of US\$2.3279 (HK\$18.1576). This issue price has been determined in accordance with the terms of the Farmout Agreement and represents the volume weighted average trading price per Ivanhoe Share for the 30 trading days on the Toronto Stock Exchange leading up to and including 16 February 2006, less an 8% discount.

The closing price per Ivanhoe Share on the Toronto Stock Exchange on 17 February 2006, the trading day on the Toronto Stock Exchange immediately preceding the date of the Conversion Agreement, was C\$2.79 (HK\$18.73).

### **Limits on Sale of Conversion Shares**

Richfirst has agreed to limit the sales of Conversion Shares during the Restricted Sales Period and shall not:

- (1) during any period of five consecutive trading days, sell more than 250,000 Conversion Shares; and
- (2) during any period of 20 consecutive trading days, sell more than 750,000 Conversion Shares.

### **Part Conversion of Participating Interest into Ivanhoe Loan**

Pursuant to the Conversion Agreement, Richfirst shall, after converting US\$20,000,000 (HK\$156,000,000) of the value of the Participating Interest into the Conversion Shares, convert the remaining value of the Participating Interest of US\$7,386,135 (HK\$57,611,853) into the Ivanhoe Loan which shall be repayable by Ivanhoe Energy to Richfirst.

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

### **Conversion of Ivanhoe Loan into Sunwing Shares**

Pursuant to the Conversion Agreement, if, at any time whilst the Ivanhoe Loan is outstanding, the Sunwing Listed Entity effects a Qualifying Sunwing Listing Transaction, Ivanhoe Energy shall have the right to require Richfirst to apply the Ivanhoe Loan (or such amount thereof as shall be outstanding) to subscribe for Sunwing Shares in the Qualifying Sunwing Listing Transaction.

The subscription price payable by Richfirst in respect of each Sunwing Share in the Qualifying Sunwing Listing Transaction shall be a price equal to the issue price of each Sunwing Share issued in the Qualifying Sunwing Listing Transaction, less a 10% discount.



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## LETTER FROM THE BOARD

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### **Reassignment of Participating Interest to Pan-China**

Following conversion of the Participating Interest into Ivanhoe Shares and the Ivanhoe Loan, the Participating Interest shall be deemed to have been re-assigned to Pan-China.

### **FINANCIAL EFFECT OF THE CONVERSION**

As at the date of the Conversion Agreement, the book value of the Participating Interest is US\$27,386,135 (HK\$213,611,853). US\$20,000,000 (HK\$156,000,000) of the value of the Participating Interest shall be converted into the Conversion Shares and US\$7,386,135 (HK\$57,611,853) of the value of the Participating Interest shall be converted into the Ivanhoe Loan. No gain or loss shall arise from the conversion of the Participating Interest.

### **REASONS FOR THE CONVERSION BY RICHFIRST**

The Directors view the conversion of the Participating Interest into the Conversion Shares and the Ivanhoe Loan to be in the interests of the Company as it will provide the Company with an exposure to all of Ivanhoe Energy's oil and energy interests and not just the Dagang Oil Project.

### **INFORMATION ON IVANHOE ENERGY, SUNWING ENERGY AND PAN-CHINA**

Ivanhoe Energy is an independent international oil and gas exploration and development company building long-term growth in its reserve base and production. Core operations are in the United States and the PRC, with business development opportunities worldwide. Ivanhoe Shares are quoted and listed on the NASDAQ Capital Market and the Toronto Stock Exchange respectively.

Based on its audited financial statements for the two years ended 31 December 2003 and 2004, the total assets of Ivanhoe Energy were US\$106,574,000 (HK\$831,277,200) and US\$118,486,000 (HK\$924,190,800) respectively.

Based on its audited financial statements for the two years ended 31 December 2003 and 2004, the net loss of Ivanhoe Energy was US\$30,179,000 (HK\$235,396,200) and US\$20,725,000 (HK\$161,655,000) respectively.

Sunwing Energy is the corporate flagship for Ivanhoe Energy's operations in the PRC. Sunwing Energy's interests include enhanced oil recovery operations in the Dagang Oil Project and a gas exploration on the 900,000-acre Zitong block in Sichuan Province, the PRC.

Pan-China is a wholly-owned subsidiary of Sunwing Energy. It is the operator of the Dagang Oil Project.

### **INFORMATION ON THE COMPANY AND RICHFIRST**

The principal activity of the Company is investment holding and the Group is an integrated provider of key energy resources and commodities.

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## LETTER FROM THE BOARD

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Richfirst is an indirect wholly-owned subsidiary of the Company. Based on its audited financial statements for the year ended 31 December 2004, the net asset value and the net profit of Richfirst were US\$666,000 (HK\$5,194,800) and US\$666,000 (HK\$5,194,800) respectively.

### **DISCLOSEABLE TRANSACTION**

As the applicable percentage ratios (prescribed by Chapter 14 of the Listing Rules) concerning the conversion by Richfirst of the Participating Interest into Ivanhoe Shares and the Ivanhoe Loan exceed 5% but are less than 25%, the conversion by Richfirst of the Participating Interest constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

### **ADDITIONAL INFORMATION**

Your attention is drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
For and on behalf of the Board  
**Kwok Peter Viem**  
*Chairman*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group.

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (other than information relating to Ivanhoe Energy, Sunwing Energy and Pan-China) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular by the Directors have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement contained herein misleading.

The issue of this circular has been approved by the Directors.

## 2. DISCLOSURE OF INTERESTS

### (a) Disclosure of interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) and which have been notified to the Company and the Stock Exchange were as follows:

#### *Interests in the Shares and underlying Shares*

| Name of Director    | Nature of interest          | Number of<br>Shares held | Interests in<br>underlying<br>shares pursuant<br>to share<br>options | Percentage of<br>the total issued<br>share capital of<br>the Company |
|---------------------|-----------------------------|--------------------------|--|--|
| Mr. Kwok Peter Viem | Corporate                   | 572,966,000 (Note)       | -  | 13.27  |
| Mr. Kwok Peter Viem | Directly beneficially owned | -                        | 50,000,000   | 1.16   |
| Mr. Ma Ting Hung    | Corporate                   | 572,966,000 (Note)       | -  | 13.27  |
| Mr. Ma Ting Hung    | Directly beneficially owned | -                        | 50,000,000   | 1.16   |
| Mr. Shou Xuancheng  | Directly beneficially owned | -                        | 10,000,000   | 0.23   |
| Mr. Sun Xinguo      | Directly beneficially owned | -                        | 10,000,000   | 0.23   |
| Ms. Li So Mui       | Directly beneficially owned | -                        | 5,000,000  | 0.12   |

| Name of Director | Nature of interest          | Number of Shares held | Interests in underlying shares pursuant to share options | Percentage of the total issued share capital of the Company |
|------------------|-----------------------------|-----------------------|--|---|
| Mr. Mi Zengxin   | Directly beneficially owned | -                     | 10,000,000   | 0.23  |
| Mr. Qiu Yiyong   | Directly beneficially owned | -                     | 10,000,000   | 0.23  |
| Mr. Zeng Chen    | Directly beneficially owned | -                     | 10,000,000   | 0.23  |
| Mr. Zhang Jijing | Family                      | 28,000                | -  | -   |
| Mr. Zhang Jijing | Directly beneficially owned | -                     | 10,000,000   | 0.23  |

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

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

| Name of director | Name of associated corporation  | Relationship with the Company | Shares/equity derivatives | Number of shares/equity derivatives held | Nature of interest          | Exercise period of share option | Exercise price per share A\$ | Percentage of the total issued share capital of the associated corporation |
|------------------|---------------------------------|-------------------------------|---------------------------|--|-----------------------------|---------------------------------|------------------------------|--|
| Mr. Zeng Chen    | CITIC Australia Trading Limited | Subsidiary                    | Ordinary shares           | 333,332                                  | Family                      | N/A                             | N/A                          | 0.40   |
|                  |                                 |                               | Share option              | 166,668                                  | Directly beneficially owned | 19 June 2005 to 18 June 2007    | 0.35                         | N/A  |
| Mr. Zhang Jijing | CITIC Australia Trading Limited | Subsidiary                    | Ordinary shares           | 200,000                                  | Family                      | N/A                             | N/A                          | 0.24   |

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

Save as disclosed herein:

- (i) so far as is known to the Directors, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had an interest or a short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;
- (ii) as at the Latest Practicable Date, none of the Directors was a director or employee of a company which has an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;
- (iii) as at the Latest Practicable Date, none of the Directors or their associates was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole; and
- (iv) as at the Latest Practicable Date, none of the Directors or their associates had any interests in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**(b) Disclosure of interests of substantial Shareholders**

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

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

Notes:

- (1) The figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited (“**CITIC Projects**”) and CITIC Australia Pty Limited (“**CA**”). CITIC Group is a company incorporated in the PRC.
- (2) The figure represents an attributable interest of CITIC Projects through its interest in Keentech Group Limited (“**Keentech**”). CITIC Projects is a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of CITIC Group.
- (3) Keentech, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects.
- (4) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Group.
- (5) The figure represents an attributable interest of each of Mr. Kwok Peter Viem and Mr. Ma Ting Hung respectively as the beneficial owner of 50% each of United Star International Inc. These interests are also included as corporate interests of Mr. Kwok Peter Viem and Mr. Ma Ting Hung, as disclosed under the heading “Disclosure of interests of Directors” above.
- (6) The share options granted to Mr. Kwok Peter Viem and Mr. Ma Ting Hung are personal interests of them respectively.

## (c) Disclosure of substantial shareholding in other members of the Group

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

Note:

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

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

### 3. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or claims of material importance and no litigation or claim is known to the Directors to be pending or threatened against the Company or any of its subsidiaries save as disclosed below:

- (a) In January 1999, Dongguan Xinlian Wood Products Company Limited (“**Dongguan Xinlian**”), a wholly-owned subsidiary of the Company held through Wing Lam (International) Timber Limited (“**Wing Lam**”), received a writ of summons (the “**Claim**”) from China Foreign Trade Development Company (the “**Plaintiff**”) claiming for US\$6,362,000 (HK\$49,624,000) and related interest in respect of six re-export contracts purported to have been entered into by Dongguan Xinlian prior to it becoming a Group subsidiary. A 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 this 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 of this, the People’s High Court of Guangdong Province issued a judgment (the “**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 Judgment and a decision that

Dongguan Xinlian is not liable to the Plaintiff in respect of the Judgment. In December 2004, the People's High Court of Guangdong Province overturned the 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 Judgment against Dongguan Xinlian was maintained (the "**New Judgment**").

As advised by the Group's legal advisers, there were a number of conflicts and discrepancies with regard to the Judgment and the New Judgment. The Judgment and the New 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 New Judgment. In February 2006, Dongguan Xinlian commenced an appeal process against the New 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 2005. In light of the indemnity from the Ex-shareholders and the advice of the Group's legal advisers, the Board believe that the outcome of the Claim will not have a material adverse impact on the financial results of the Group.

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

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

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 9 heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. The Contractor then referred the dispute to arbitration.



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

In July 2005, the Contractor lodged a further notice of dispute in relation to alleged additional costs resulting from approval of the 2005 financial year mine plan. The claims were rejected by the superintendent and the subsequent dispute was referred to arbitration in August 2005. Preliminary hearings were held in November 2005 where the arbitrator directed that the Contractor lodge its points of claim by the end of January 2006. As at 31 December 2005, the Contractor has sought extension for lodgement of the points of claim until early March 2006.

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

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

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

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

#### **4. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into, or was proposing to enter into, any service contract with any member of the Group which will not be determinable by the employer within one year without payment of compensation (other than statutory compensation).

#### **5. MISCELLANEOUS**

- (a) The share registrar and transfer office of the Company is Tengis Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) The secretary of the Company is Ms. Li So Mui. She holds a Masters Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. Ms. Li has over 27 years' experience in the accounting and banking field.

- (c) The qualified accountant of the Company is Mr. Chung Ka Fai, Alan. He is an associate member of the Australian Society of Certified Practising Accountants. Mr. Chung has over 14 years' experience in the accounting field and previously worked for a number of multinational companies.
  
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.