IMPORTANT

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, together with the enclosed form of proxy, 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.

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Website: www.citicresources.com

(Stock Code: 1205)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF RICHFIRST HOLDINGS LIMITED
AND
SHAREHOLDER'S LOAN

Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders

SOMERLEY LIMITED

A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders (as defined in this circular) is set out on page 15 of this circular.

A letter from the Independent Financial Adviser (as defined in this circular) containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 31 of this circular.

A notice convening a special general meeting of CITIC Resources Holdings Limited to be held at Pacific Place Conference Centre, Tien Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 26 August 2004 at 3:00 p.m. is set out on pages 130 and 131 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting (or any adjourned meeting thereof) should you wish to do so.

11 August 2004

CONTENTS

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

"Acquisition"	the acquisition of the Sale Shares and the Shareholder's Loan subject to and in accordance with the Agreement
"Agreement"	an agreement dated 29 June 2004 made between Starbest, CITIC Group and the Company relating to the sale and purchase of the Sale Shares and the Shareholder's Loan
"API"	the American Petroleum Institute's scale for specific gravity for liquid hydrocarbons, measured in degrees. The lower the API gravity, the heavier the liquid and, generally, the lower its commercial value
"associate"	has the meaning ascribed thereto in the Listing Rules
"Board"	the board of Directors
"CA"	CITIC Australia Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability and a wholly-owned subsidiary of CITIC Group
"CITIC Group"	CITIC Group, a company incorporated in the PRC
"CITIC Group Guarantee"	the guarantee provided by CITIC Group to CNPC described in the section headed "Company to Reimburse CITIC Group under CITIC Group Guarantee" in the letter from the Board in this circular
"CNPC"	China National Petroleum Corporation
"Company"	CITIC Resources Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed thereto in the Listing Rules
"connected transaction"	has the meaning ascribed thereto in the Listing Rules
"Contractor"	the contractor under the Petroleum Contract
"controlling shareholder"	has the meaning ascribed thereto in the Listing Rules
"Coppabella and Moorvale Joint Venture"	a unified unincorporated cooperative joint venture that owns and operates the Coppabella and Moorvale coal mines in the State of Queensland, Australia

"CPS"	CITIC Portland Surety Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability, an indirect wholly owned subsidiary of the Company
"CRA"	CITIC Resources Australia Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability, an indirect wholly owned subsidiary of the Company
"CRA Group"	CRA and its subsidiaries (including CPS)
"Directors"	the directors of the Company, including its independent non-executive directors
"Enlarged Group"	the Group and Richfirst
"Farmout Agreement"	an agreement dated 18 January 2004 (as amended) between Richfirst, Pan-China, Sunwing and Ivanhoe relating to, amongst other things, the assignment of the Participating Interest from Pan-China to Richfirst
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board comprising of Mr. Fan Ren Da, Anthony and Mr. Tsang Link Carl, Brian, being the independent non-executive directors of the Company who are not interested or involved in the Acquisition, which has been appointed by the Board for the purpose of advising the Independent Shareholders on the Acquisition
"Independent Financial Adviser"	Somerley Limited, a deemed licensed corporation under the SFO permitted to engage in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) of the regulated activities as defined in the SFO
"Independent Shareholders"	Shareholders who do not have a material interest in the Acquisition or who are not otherwise required by the Stock Exchange to abstain from voting
"Ivanhoe"	Ivanhoe Energy Inc., a company incorporated in the State of Yukon, Canada
"Ivanhoe Shares"	common shares in the share capital of Ivanhoe which are quoted and listed on Nasdaq and the Toronto Stock Exchange respectively

"Keentech"	Keentech Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of CITIC Group
"Kongnan Block"	an area comprising of six blocks covering 22,400 gross acres within the Dagang Oilfield, PRC and which is located about 125 miles south-east of Beijing
"Latest Practicable Date"	6 August 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Pan-China"	Pan-China Resources Limited, a company incorporated in the British Virgin Islands with limited liability
"Participating Interest"	an interest representing 40% of the Contractor's rights and obligations in the Petroleum Contract which Richfirst has acquired under the Farmout Agreement
"Petroleum Contract"	a 30-year petroleum development and production sharing contract entered into between Pan-China and CNPC on 8 September 1997 (as amended) for the development and production of petroleum in the Kongnan Block
"Portland Joint Venture"	an unincorporated co-operative joint venture that owns and operates the Portland Aluminium Smelter in the State of Victoria, Australia
"PRC"	the People's Republic of China
"Richfirst"	Richfirst Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of CITIC Group
"Sale Shares"	ordinary shares representing the entire issued share capital of Richfirst
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder's Loan"	a shareholder's loan of US$20,000,000 advanced by CITIC Group to Richfirst
"Shareholders"	holders of Shares

"Share Option Scheme"	the share option scheme approved by Shareholders and adopted by the Company on 30 June 2004
"Shares"	ordinary shares of HK$0.05 each in the share capital of the Company
"Special General Meeting"	the special general meeting of the Company to be held on 26 August 2004 and convened pursuant to the notice contained in this circular
"Starbest"	Starbest Venture Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed thereto in the Listing Rules
"Sunwing"	Sunwing Energy Limited, a company incorporated in Bermuda with limited liability
"Sunwing Shares"	common shares in the share capital of Sunwing
"USI"	United Star International Inc., a company incorporated in the British Virgin Islands with limited liability
"A$"	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 of America

Unless otherwise stated, amounts in A$ and US$ have been translated into HK$ at an exchange rate of A$1 to HK$6.0 and US$1 to HK$7.8 respectively for illustrative purposes only.

Unless otherwise stated, amounts in C$ have been translated into US$ at an exchange rate of C$1.3 to US$1 for illustrative purposes only.

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

Executive Directors:
Mr. KWOK Viem, Peter *(Chairman)*
Mr. MA Ting Hung *(Vice Chairman)*
Ms. LI So Mui
Mr. MI Zengxin
Mr. QIU Yiyong
Mr. SUN Xinguo
Mr. ZENG Chen
Mr. ZHANG Jijing

Independent Non-executive Directors:
Mr. FAN Ren Da, Anthony
Mr. TSANG Link Carl, Brian

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business:
Room 2602, 26th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

11 August 2004

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

**ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF RICHFIRST HOLDINGS LIMITED
AND
SHAREHOLDER'S LOAN**

INTRODUCTION

On 29 June 2004, the Board announced that Starbest, a wholly-owned subsidiary of the Company, had conditionally agreed with CITIC Group to acquire the entire issued share capital of Richfirst and the benefit of a shareholder's loan advanced by CITIC Group to Richfirst for an aggregate purchase price of US$21,200,000 (about HK$165,360,000).

Assuming completion of the Acquisition, Richfirst will become an indirect wholly-owned subsidiary of the Company.

This circular contains (1) details of the Agreement and the Acquisition, (2) a letter from the Independent Board Committee with its advice to the Independent Shareholders, (3) a letter from the Independent Financial Adviser with its opinion and advice to the Independent Board Committee and the Independent Shareholders, and (4) a notice convening the Special General Meeting.

BACKGROUND

As Shareholders will be aware, the Company is engaged in the expansion of the Group's business focus to reposition the Group as an integrated provider of key commodities and strategic natural resources such as base metals and oil to the PRC market.

In March 2004, the Company completed the acquisition of CRA and CPS thereby gaining interests in, amongst others, the aluminium and coal industries and related commodities trading.

The Acquisition, if completed, will benefit the Company as it will allow the Company to participate in the production of petroleum at Kongnan Block and provide the Company with an exposure to the production and sale of oil, another important natural resource for the PRC market; it will be another step in the diversification and expansion of the Company's business interests and it will advance the Company's plans to position the Group as an integrated provider of key commodities and strategic natural resources to the PRC market.

INFORMATION ON THE AGREEMENT

Date

29 June 2004

Parties to the Agreement

(1) CITIC Group

(2) Starbest, a wholly-owned subsidiary of the Company

(3) the Company

Assets to be acquired under the Agreement

Pursuant to the Agreement, Starbest has conditionally agreed to acquire:

(A) the Sale Shares; and

(B) the Shareholder's Loan.

Aggregate Purchase Price

The aggregate purchase price payable by Starbest to CITIC Group in respect of the Sale Shares and the Shareholder's Loan is US$21,200,000 (about HK$165,360,000) and shall be payable in cash in one lump sum at completion of the Acquisition. No deposit is payable by the Company under the Agreement. The Company proposes to fund the purchase price from its existing working capital.

The aggregate purchase price has been determined on an arm's length basis between Starbest and CITIC Group and is a price acceptable to Starbest and CITIC Group with reference to the investment costs of CITIC Group (of about US$1,200,000 (about HK$9,360,000)) and the value of the Shareholder's Loan (of US$20,000,000 (about HK$156,000,000)).

Conditions

Completion of the Acquisition is subject to the following conditions being satisfied or waived:

(A) completion to the satisfaction of Starbest of legal, financial and business due diligence in relation to Richfirst (including the Kongnan Block and all operations relating thereto);

(B) all necessary approvals from Shareholders having been obtained including, without limitation, the Company having convened a special general meeting at which resolutions shall have been duly passed by the Independent Shareholders to approve, inter alia, the purchase of the Sale Shares by Starbest in compliance with all applicable laws, rules and regulations including, without limitation, the Listing Rules and the bye-laws of the Company;

(C) the conditions precedent specified in and all transactions described in or which are contemplated by the Farmout Agreement having been satisfied (or waived with the prior written consent of Starbest) and completed to the satisfaction of Starbest (as determined by Starbest in its sole and absolute discretion);

(D) the obtaining of any consents or approvals from any third party or government agency deemed by Starbest to be necessary for the continued operation of Richfirst's business and/or in connection with the transfer of the Sale Shares and/or the acquisition of control of the Participating Interest by Starbest; and

(E) the issue of a legal opinion in a form acceptable to Starbest by PRC legal counsel appointed by Starbest confirming that, amongst other things, the assignment of the Participating Interest pursuant to the Farmout Agreement will not constitute a breach of the terms of the Petroleum Contract or any law of the PRC and that the choice of Hong Kong law as the governing law of the Farmout Agreement for the purpose of assigning the Participating Interest to Richfirst is an effective and valid choice of law and is not in breach of any relevant law of the PRC concerning such assignment of the Participating Interest.

Pursuant to the Agreement, Starbest has the discretion to waive in whole or in part the conditions set out in paragraphs (A) and (C) above. As at the Latest Practicable Date, the Company has been advised by CITIC Group that Richfirst and Pan-China have completed the Farmout Agreement and the Company is verifying whether the condition set out in paragraph (C) above has been satisfied. As at the Latest Practicable Date, no other condition has been satisfied.

If all the conditions have not been satisfied or waived (as the case may be) on or before 30 September 2004, the Agreement shall lapse and no party shall have any claim against any other in respect thereof save for any antecedent breach.

The Company currently has no intention of waiving any of the conditions.

Completion

Completion of the Acquisition will take place on the date falling 7 business days after the date on which the last of the conditions to be satisfied shall have been satisfied or waived (as the case may be) or such later date as the parties to the Agreement may agree provided that such date shall not be later than 12 October 2004 unless it is extended by agreement amongst the parties. If in any respect the obligations of CITIC Group or Starbest are not complied with at the time completion is due to take place, the party not in default may defer completion, or proceed to completion so far as practicable or terminate the agreement but without prejudice to any claim by any party in respect of any antecedent breach.

INFORMATION ON CITIC GROUP

CITIC Group is a PRC state-owned enterprise which holds major interests in many industries including banking, financial services, information technology, investment services, real estate, engineering services and infrastructure investment. CITIC Group has been an indirect controlling shareholder of the Company since 25 June 2002.

INFORMATION ON RICHFIRST AND THE PARTICIPATING INTEREST

Richfirst

Richfirst is a wholly-owned subsidiary of CITIC Group and was incorporated on 3 December 2003 for the purpose of acquiring and holding the Participating Interest.

For the period from 3 December 2003 (date of its incorporation) to 31 December 2003 and for the three months ended 31 March 2004, Richfirst did not have any net profit/(loss) before and after tax and extraordinary items. As at 31 March 2004, the total asset value and net asset value of Richfirst were US$10,000,100 (about HK$78,000,780) and US$100 (about HK$780) respectively.

The Company is not required to make additional capital contributions to Richfirst. It may be called upon in respect of the CITIC Group Guarantee described below.

Additional financial information relating to Richfirst is set out in Appendix III to this circular.

Participating Interest

Richfirst holds the Participating Interest which it has acquired from Pan-China for a consideration of US$20,000,000 (about HK$156,000,000) pursuant to the Farmout Agreement.

The Participating Interest comprises of and represents 40% of the Contractor's rights and obligations in the Petroleum Contract. Pan-China holds the remaining 60% of the Contractor's rights and obligations in the Petroleum Contract. The Petroleum Contract is a 30-year petroleum development and production sharing contract relating to the development and production of petroleum in the Kongnan Block.

The Kongnan Block covers an area of 22,400 gross acres within the Dagang Oilfield, PRC and is located about 125 miles south-east of Beijing. Pan-China has conducted extensive pilot testing in respect of the Kongnan Block (that saw production of about 500 barrels of oil per day at the end of 2003). An overall development program of the Kongnan Block which calls for the drilling of up to 115 new oil wells and the re-completion of 28 existing wells over a 3-year period has been approved by CNPC. The Kongnan Block contains an estimated 52 million barrels of gross proven plus probable reserves. Once fully developed, gross production volumes are expected to reach a peak of 14,000 barrels per day.

In January 2004, Pan-China successfully drilled and completed its first development oil well (the "**Nan 105 Well**") at the Kongnan Block. The initial test of the Nan 105 Well produced 330 barrels of 35 degree API oil per day, with no water. As at the Latest Practicable Date, production from the Kongnan Block was about 950 barrels of oil per day.

Pan-China and Richfirst, as the Contractor, will be responsible for the costs relating to the development of the Kongnan Block. CNPC will earn 18% of the net revenue and Pan-China and Richfirst will earn 82% of the net revenue (divided as to 60% to Pan-China and as to 40% to Richfirst) from oil production at the Kongnan Block until the development costs of the Kongnan Block have been recovered. Recovery of such costs is expected to occur by 2011. After all such development costs have been recovered, CNPC will earn 51% of the net revenue and Pan-China and Richfirst will earn 49% of the net revenue (divided as to 60% to Pan-China and as to 40% to Richfirst) from oil production at the Kongnan Block.

Over the 30-year life of the Petroleum Contract, the total budgeted capital expenditure is US$176,000,000 (about HK$1,372,800,000). Of this, US$110,000,000 (about HK$858,000,000) of the total budgeted expenditure is expected to be funded by long-term third party debt financing which will be non-recourse to the Group. Pursuant to a working mandate executed on 20 July 2004 by Richfirst and Pan-China, an international bank has been mandated to arrange a loan facility of up to US$110,000,000 to part fund such expenditure. The balance of US$66,000,000 (about HK$514,800,000) is expected to be funded from revenue generated from the sale of petroleum produced from the Kongnan Block.

COMPANY TO REIMBURSE CITIC GROUP UNDER CITIC GROUP GUARANTEE

The obligations of Richfirst in respect of its proportionate share of the Contractor's contribution for amounts due under the annual work programs and budgets agreed between the Contractor and CNPC under the Petroleum Contract are guaranteed by CITIC Group. Pursuant to the terms of the Agreement, the Company and CITIC Group will use their reasonable endeavours to procure, as from completion of the Acquisition, the release of CITIC Group from its guarantee (the "**CITIC Group Guarantee**") to CNPC in respect of the obligations of Richfirst in substitution for a guarantee by the Company on the same terms as the CITIC Group Guarantee. If CITIC Group cannot be released from the CITIC Group Guarantee at completion of the Acquisition, then as from completion of the Acquisition and until such time as CITIC Group is released from the CITIC Group Guarantee (the "**Relevant Period**"), and whilst Richfirst remains a subsidiary of the Company, the Company has agreed to reimburse CITIC Group in respect of any amount of Richfirst's proportionate share of the Contractor's contribution due under the annual work programs and budgets paid by CITIC Group to CNPC under the CITIC Group Guarantee during the Relevant Period.

The reimbursement of any amount to CITIC Group by the Company would constitute a connected transaction of the Company. As a contractual obligation under the Agreement, Independent Shareholders will also approve the reimbursement of any amount to CITIC Group by the Company when approving the Acquisition.

OPTION TO CONVERT THE PARTICIPATING INTEREST INTO SUNWING SHARES OR IVANHOE SHARES

Under the terms of the Farmout Agreement, Richfirst has an option to convert the Participating Interest into either Sunwing Shares or Ivanhoe Shares.

Subject to all applicable stock exchange approvals, Richfirst may elect:

(A) if Sunwing effects an initial public offering, at any time prior to the first anniversary of the completion of such initial public offering, to convert the Participating Interest into Sunwing Shares. The number of Sunwing Shares that may be issued to Richfirst will be determined by dividing the amount of the consideration paid by Richfirst in respect of the Participating Interest (that is, US$20,000,000) less any net cash flow received by Richfirst in respect of the Participating Interest prior to conversion (the "**Conversion Amount**") by a price per Sunwing Share (the "**Sunwing Conversion Price**") which shall be determined as follows:

(1) if Richfirst elects to convert at least 10 days prior to the completion of the initial public offering of Sunwing, the Sunwing Conversion Price will be a price equal to the issue price of the Sunwing Shares in the initial public offering less 10%; or

(2) if Richfirst elects to convert after the completion of the initial public offering of Sunwing and within 1 year prior to the first anniversary of the completion of the initial public offering of Sunwing, the Sunwing Conversion Price will be a price equal to the volume weighted average trading price of the Sunwing Shares on the principal stock exchange on which such shares are traded for the 30 trading days immediately preceding the election by Richfirst to convert the Participating Interest into Sunwing Shares less a discount of 8%; or

(B) to convert the Participating Interest into Ivanhoe Shares at any time during the period of 18 months following the completion of the acquisition of the Participating Interest by Richfirst. The number of Ivanhoe Shares that may be issued to Richfirst will be determined by dividing the Conversion Amount by a price per Ivanhoe Share equal to the volume weighted average trading price of the Ivanhoe Shares on the Toronto Stock Exchange for the 30 trading days preceding the election of Richfirst to convert the Participating Interest into Ivanhoe Shares less a discount of 8%.

If Richfirst elects to convert the Participating Interest into either Sunwing Shares or Ivanhoe Shares, the Participating Interest will be automatically re-assigned to Pan-China.

INFORMATION ON PAN-CHINA, SUNWING AND IVANHOE

Pan-China is a wholly-owned subsidiary of Sunwing, which in turn is a wholly-owned subsidiary of Ivanhoe.

Ivanhoe is quoted and listed on Nasdaq and the Toronto Stock Exchange respectively. It is an international energy company engaged in the exploration for and production of oil and gas, enhanced oil recovery and natural gas projects and the application of heavy-to-light oil upgrading and gas-to-liquid technologies.

Each of Pan-China, Sunwing and Ivanhoe and its subsidiaries is independent of the Directors, chief executive and substantial shareholders of the Company and its subsidiaries and is not a connected person of the Company.

INFORMATION ON CNPC

CNPC is a PRC state-owned enterprise and is not a connected person of the Company. It is an integrated energy company with operations covering a broad spectrum of upstream and downstream activities, field operations and technical services and equipment manufacturing and supply. CNPC serves as the PRC's largest producer and supplier of crude oil and natural gas and is also a major producer and supplier of refined oil products and petrochemicals.

FINANCIAL EFFECTS OF THE ACQUISITION

Earnings

For the year ended 31 December 2003, the audited net loss attributable to the Group was HK$52,005,000 and the loss per Share was HK$0.0158.

The only asset of Richfirst is the Participating Interest, representing 40% of the Contractor's rights and obligations in the 30-year Petroleum Contract which is a development and production sharing contract relating to the Kongnan Block. The Kongnan Block contains an estimated 52 million barrels of gross proven and probable reserves. Pilot testing has been completed and development work is now under way. According to the overall development plan of the Kongnan Block, commercial production at the Kongnan Block is expected to commence in 2006. The primary source of return to Richfirst is from the sales of oil production at prices based on that of the main world oil market for similar quality crude oil. The major expenditure of Richfirst will be operating and development costs and production-related taxes.

As the annual production budget of the Kongnan Block is subject to the approval of the joint management committee and CNPC and other variables, no forecast earnings/loss figures of Richfirst are included in this circular.

Upon completion of the Acquisition, the Group shall, on a consolidated basis, be entitled to account for 100% of the net earnings/loss of Richfirst. According to the prevailing accounting policy of the Group, the positive goodwill arising from the Acquisition has no immediate effect on the profit and loss account of the Group but would be recognised as an expense on a systematic basis over the remaining useful life of identifiable acquired depreciable/amortisable assets (not more than 20 years). The amount of goodwill will be determined upon completion of the Acquisition, subject to a further review of the fair value of the underlying assets of Richfirst. The adjusted unaudited combined net tangible assets of the Enlarged Group will be adjusted by the change in fair value of the underlying assets of Richfirst.

As set out in section 2 of Appendix IV to this circular, the unaudited pro forma combined net profit of the Enlarged Group upon completion of the Acquisition would be HK$75,633,000.

Net Asset Value

The audited consolidated net assets of the Group (not including the CRA Group) as at 31 December 2003 were HK$1,170,490,000. Taking into account the net proceeds of HK$380,200,000 from the placing in February 2004 (the "**Placing**") as disclosed in the announcement by the Company dated 2 February 2004, the net tangible assets of the Group (not including the CRA Group) as at 31 March 2004 were HK$1,550,690,000, equivalent to HK$0.435 per Share on the basis of 3,566,470,588 Shares in issue as at 31 March 2004.

As set out in section 4 of Appendix IV to this circular, upon completion of the Acquisition, the unaudited pro forma consolidated net tangible assets of the Enlarged Group would be HK$1,885,951,000, equivalent to HK$0.437 per Share on the basis of 4,316,884,381 Shares in issue, being 3,566,470,588 Shares in issue as at 31 March 2004 and 750,413,793 Shares issued by the Company for the acquisition of the entire issued share capital of CRA and CPS. These represent an increase of 21.6% and 0.5% of the net tangible assets and net asset value per Share respectively.

PROSPECTS OF THE ENLARGED GROUP

The Directors' strategy is to position the Enlarged Group as an integrated provider of key commodities and strategic natural resources to the PRC, starting with base metals and crude oil. The objective is to establish a unified business platform ranging form production to delivery of the commodities and resources of which the PRC is a net importer - from upstream operations to mid-stream processing and to distribution of the final products.

The acquisition of the CRA and CPS has provided the Enlarged Group with an exposure to established and profitable operations in the commodities and energy industries in Australia. The Acquisition will enable the Enlarged Group to participate in the development and production of oil and thus broaden its business scope in line with the Company's business strategy.

The Group is financially sound and, together with the support of its major shareholders, well positioned to implement and support this strategy.

In the coming two years, the Acquisition is not expected to contribute significantly to net cash flows of the Enlarged Group because the proceeds from the sale of oil produced at the Kongnan Block will be applied to fund the costs of development and production of the Kongnan Block. If the overall development plan for the development of oil in the Kongnan is successfully implemented, it is expected that production of oil at the Kongnan Block will improve. In such circumstances, the Acquisition should have a significant positive effect on the net cash flows of the Enlarged Group.

REASONS FOR THE ACQUISITION

The Company has been implementing a diversification of its business interests into other categories of natural resources to reduce its reliance on the manufacture and sale of plywood and to reposition the Group as an integrated provider of key commodities and strategic natural resources to the PRC market.

In March 2004, the Company completed the acquisition of CRA and CPS thereby gaining interests in, amongst others, the aluminium and coal industries and related commodities trading.

The Acquisition, if completed, will be another step in the diversification and expansion of the Company's business interests and a key development in the Company's business strategy. The Acquisition will benefit the Company as it will allow the Company to participate in the production of petroleum at the Kongnan Block and provide the Company with an exposure to the production and sale of oil, another important natural resource for the PRC market.

The Directors believe that the Acquisition is in the interests of the Company and the Shareholders as a whole and that the terms are fair and reasonable.

VERY SUBSTANTIAL ACQUISITION

For the purpose of classifying the category of notifiable transaction into which the Acquisition falls, the Acquisition is required to be aggregated with the Company's recent acquisition of CRA and CPS which was completed within the period of 12 months preceding the date of the Agreement. Details of the recent acquisition of CRA and CPS were announced by the Company in its announcement dated 30 January 2004. As a consequence, the Acquisition will be treated as a very substantial acquisition for the Company pursuant to Rule 14.06(5) of the Listing Rules.

CONNECTED TRANSACTION

CITIC Group is a connected person of the Company as it is the parent of and, therefore, an associate of Keentech and CA. Keentech is a controlling shareholder of the Company and CA is a substantial shareholder of the Company. Accordingly, the Acquisition will constitute a connected transaction for the Company pursuant to the Listing Rules.

CITIC Group, through Keentech, acquired an indirect controlling interest of 41.26% of the issued share capital of the Company on 25 June 2002 and, through CA, increased its indirect controlling interest to 60.47% of the issued share capital of the Company following completion of the acquisition of CRA and CPS.

INDEPENDENT SHAREHOLDERS' APPROVAL

As the Acquisition will be treated as a very substantial acquisition and connected transaction for the Company, completion of the Acquisition will be subject to the approval of the Independent Shareholders at the Special General Meeting. Keentech, CA and their respective associates will abstain from voting on the resolution approving the Acquisition.

SPECIAL GENERAL MEETING

A notice convening the Special General Meeting at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the Acquisition and all matters relating thereto is set out on pages 130 and 131 of this circular.

The voting in respect of the approval of the resolution will be conducted by way of a poll.

A form of proxy for use at the Special General Meeting is enclosed with this circular. Whether or not you intend to attend the Special General Meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Special General Meeting (or any adjourned meeting thereof) should you wish to do so.

An announcement will be made by the Company following the conclusion of the Special General Meeting to inform you of the results of the Special General Meeting.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Fan Ren Da, Anthony and Mr. Tsang Link Carl, Brian, neither of whom are interested or involved in the Acquisition, has been appointed to give advice to the Independent Shareholders in respect of the Acquisition. Your attention is drawn to the advice from the Independent Board Committee set out in its letter dated 11 August 2004 on page 15 of this circular.

INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition. Your attention is drawn to the letter set out on pages 16 to 31 of this circular from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders.

RECOMMENDATIONS

The Directors are of the opinion that the terms of the Acquisition are fair and reasonable and that the resolution to be proposed at the Special General Meeting as described in this circular is in the interests of the Company and of the Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolution set out in the notice of the Special General Meeting contained in this circular.

ADDITIONAL INFORMATION

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

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

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

11 August 2004

To the Independent Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF RICHFIRST HOLDINGS LIMITED
AND
SHAREHOLDER'S LOAN

As the Independent Board Committee, we have been appointed to advise you as to whether, in our opinion, the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. We refer to the circular to the Shareholders dated 11 August 2004 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Somerley Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition.

Having considered the terms and conditions of the Acquisition and the opinion and advice of Somerley Limited in relation thereto as set out on pages 16 to 31 of the Circular, we are of the opinion that the terms of the Acquisition are fair and reasonable so far as the Independent Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the ordinary resolution to be proposed at the Special General Meeting to approve the Acquisition.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Fan Ren Da, Anthony **Tsang Link Carl, Brian**
Independent non-executive Directors

The following is the text of a letter of advice from Somerley Limited to the Independent Board Committee and the Independent Shareholders prepared for the purpose of inclusion in this circular:

SOMERLEY LIMITED
Suite 2201, 22nd Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

11 August 2004

CITIC Resources Holdings Limited
Room 2602, 26th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF
THE ENTIRE ISSUED SHARE CAPITAL OF RICHFIRST HOLDINGS LIMITED
AND
SHAREHOLDER'S LOAN

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to the proposed acquisition by Starbest from CITIC Group of the entire issued share capital of Richfirst and the benefit of a shareholder's loan advanced by CITIC Group to Richfirst at a cash consideration of US$21.2 million (about HK$165.4 million). Details of the Acquisition are contained in the circular to the Shareholders dated 11 August 2004 (the "**Circular**") of which this letter forms part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as defined in the Circular.

Although the consideration is not very material for the Company, the Acquisition is required to be aggregated with the Company's recent acquisition of CRA and CPS from CITIC Group completed in March 2004 for the purpose of classifying the category of notifiable transaction into which the Acquisition falls. When aggregated, the Acquisition constitutes a very substantial acquisition for the Company under the Listing Rules. CITIC Group, through Keentech and CA, holds an indirect interest of about 60.47% in the issued share capital of the Company and is its ultimate controlling shareholder. The Acquisition therefore also constitutes a connected transaction for the Company and requires the approval of the Independent

Shareholders. The Independent Board Committee, comprising the independent non-executive Directors, namely Mr. Fan Ren Da, Anthony and Mr. Tsang Link Carl, Brian, has been constituted to make a recommendation to the Independent Shareholders as regards the Acquisition. We have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our advice, we have relied on information and facts supplied, and the opinions expressed, by the Directors, which we have assumed to be true, accurate and complete in all material respects. This information includes copies of the Farmout Agreement, the Petroleum Contract and details of the reserves and the likely production schedule of the Kongnan Block. We have sought and received confirmation from the Directors that, so far as they are aware, no material facts have been omitted from the information supplied and opinions expressed by them. We consider that the information which we have received is sufficient for us to reach our advice as set out in this letter and to justify our reliance on such information and we have no reason to doubt the truth and accuracy of the information provided to us or that any material facts have been omitted or withheld. We have, however, not conducted any independent investigation into the business and affairs of the Group, Richfirst or Pan-China. We have assumed that all representations contained or referred to in the Circular and made by the Directors were true in all material respects at the date of the Circular and will continue to be so up to the date of the Special General Meeting.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice with regard to the Acquisition, we have taken into account the following principal factors and reasons:

1. Reasons for the Acquisition

The principal business of the Group until recently has been the manufacture and sale of plywood. As discussed in the 2003 annual report of the Company, the Directors consider that this narrow business scope has been unable to create value for the Shareholders. The operating environment in the plywood and timber products industry continued to be difficult in 2003 and the outbreak of SARS during the year further eroded confidence. The Group suffered a net loss of approximately HK$52.0 million for 2003, which was about 3.4 times the net loss of approximately HK$15.2 million for 2002. The gross loss margin deteriorated from 18.9% for 2002 to 66.7% for 2003.

With the poor performance of the timber business, the Directors concluded that it would be beneficial to the Group to diversify its business and reduce its reliance on the manufacture and sale of plywood. The Group's strategy is to position itself as an integrated provider of key commodities and strategic natural resources to the PRC market, starting with base metals and crude oil. The Group has taken its first step by acquiring interests in aluminium smelting and coal production in March 2004.

The Acquisition provides the Group with an opportunity to participate in crude oil production in the PRC. With the PRC's rapid pace of industrialisation and urbanisation and improved standard of living, the demand for oil has been escalating. The PRC is now the second largest oil consumer after the United States. We consider that the Acquisition provides the Group with an opportunity to broaden its business scope into the increasingly important natural resources and energy sectors in the PRC.

2. Relevant contractual matters

(i) The Agreement

Pursuant to the Agreement, Starbest has conditionally agreed to acquire the Sale Shares and the benefit of the Shareholder's Loan on the basis of cost to CITIC Group. The only asset of Richfirst is the Participating Interest acquired pursuant to the Farmout Agreement. Detailed terms of the Agreement are set out under the section headed "Principal terms of the Agreement" below.

(ii) The Farmout Agreement

(a) Assignment of Participating Interest

The Farmout Agreement was entered into on 18 January 2004 between (i) Richfirst; (ii) Pan-China, a wholly-owned subsidiary of Sunwing; (iii) Sunwing, a wholly-owned subsidiary of Ivanhoe; and (iv) Ivanhoe, a gas and oil exploitation, development and investment company listed on the NASDAQ SmallCap Market in the United States and the Toronto Stock Exchange, Canada. Pan-China is the contractor and operator under the Petroleum Contract signed with CNPC in 1997 (see below) governing petroleum development and production at the Kongnan Block. Pursuant to the Farmout Agreement, Pan-China agreed to assign 40% of its rights and obligations under the Petroleum Contract, being the Participating Interest, to Richfirst at a consideration of US$20 million, which sum would be used exclusively by Pan-China for development costs under the development program of the Kongnan Block. Completion of the Farmout Agreement is one of the conditions to the completion of the Acquisition. As stated in the letter from the Board in the Circular, the Company has been advised by CITIC Group that Richfirst and Pan-China have completed the Farmout Agreement and the Company is in the process of verifying whether the aforesaid condition has been satisfied.

(b) Conversion Rights

Pursuant to the Farmout Agreement, Richfirst has an option to convert ("**Conversion Right**"), subject to all applicable stock exchange approvals, the Participating Interest into either Sunwing Shares or Ivanhoe Shares. At any time during the period of 18 months following completion of Richfirst's acquisition of the Participating Interest, Richfirst may elect to convert the Participating Interest into Ivanhoe Shares. Ivanhoe holds a relatively widespread portfolio of oil projects, as well as the PRC interests through Sunwing. The number of Ivanhoe Shares that may be issued to Richfirst will be determined by dividing the Conversion Amount (i.e. US$20 million less any net cash flow received by Richfirst in respect of the Participating Interest prior to conversion) by a price per Ivanhoe Share equal to the volume weighted average trading price of Ivanhoe Shares on the Toronto Stock Exchange for the 30 trading days preceding Richfirst's election of conversion, less a discount of 8%.

Richfirst may also elect if Sunwing effects an initial public offering ("**IPO**"), at any time prior to the first anniversary of the completion of such IPO, to convert the Participating Interest into Sunwing Shares. The conversion would result in the Company holding an interest in a company specialising in PRC oil projects. The number of Sunwing Shares that may be issued to Richfirst will be determined by dividing the Conversion Amount by the Sunwing Conversion Price which shall be determined as follows :

(1) if Richfirst elects to convert at least 10 days prior to the completion of Sunwing's IPO, the Sunwing Conversion Price will be equal to the IPO price per Sunwing Share less a discount of 10%; or

(2) if Richfirst elects to convert at any time prior to the first anniversary of the completion of Sunwing's IPO, the Sunwing Conversion Price will be equal to the volume weighted average trading price of the Sunwing Shares on the principal stock exchange on which such shares are traded for the 30 trading days immediately preceding Richfirst's election of conversion, less a discount of 8%.

If Richfirst elects to convert the Participating Interest into either Sunwing Shares or Ivanhoe Shares, the Participating Interest will be automatically re-assigned to Pan-China. The Conversion Right provides Richfirst the option, but not an obligation, to divest and exit from the Participating Interest. The Ivanhoe Shares are traded on the NASDAQ SmallCap Market and the Toronto Stock Exchange. The listing status of the Ivanhoe Shares and the Sunwing Shares (if an IPO is effected) would provide liquidity for Richfirst's interest in Ivanhoe or Sunwing should it opt to exercise the Conversion Right. Details of the Ivanhoe Group are set out under the section headed "Information on the Ivanhoe Group".

(c) Management of the Kongnan Block

Richfirst and Pan-China also entered into a joint operating agreement on the same date as that of the Farmout Agreement, the purpose of which is to govern their on-going joint participation in the Kongnan Block. Pan-China and Richfirst have agreed that Pan-China will act as the operator throughout the term of the joint operating agreement. Pursuant to the Petroleum Contract, a joint management committee of six persons is formed to oversee the operation of the Kongnan Block, with three representatives from CNPC and three representatives from the Contractor. Of the three representatives from the Contractor, one will be selected by Richfirst and the other two will be selected by Pan-China. Pan-China and Richfirst, together as the Contractor, are responsible for the costs relating to the development of the Kongnan Block. Pan-China and Richfirst will earn 82% of the net revenue (divided as to 60% to Pan-China and as to 40% to Richfirst) from oil production at the Kongnan Block until the development costs relating to the development of the Kongnan Block have been recovered, which is expected to occur by 2011. After the payback period, Pan-China and Richfirst will earn 49% of the net revenue (divided as to 60% to Pan-China and as to 40% to Richfirst) from oil production at the Kongnan Block. CNPC is entitled to receive the remainder of the net revenue throughout the contractual period under the terms of the Petroleum Contract.

(iii) The Petroleum Contract

The Petroleum Contract was entered into between CNPC and Pan-China on 8 September 1997 for petroleum development and production in the Kongnan Block. It was agreed that Pan-China, being the Contractor, shall apply appropriate technology and assign competent experts to perform pilot testing, development and production operations in the Kongnan Block. CNPC shall be responsible for business matters in respect of the exploitation of the petroleum resources in cooperation with Pan-China.

Pursuant to the Petroleum Contract, Pan-China will operate the project and fund 100% of the development costs to earn 82% of the net revenue until payback and 49% thereafter, while CNPC will be entitled to 18% of the net revenue during the payback period and 51% thereafter. The pilot test costs and development costs incurred by the Contractor and all relevant costs spent by CNPC for exploration and proving the potential commerciality of the petroleum shall be recovered in kind out of the crude oil produced from the Kongnan Block. CNPC and the Contractor shall have the rights and obligations to lift and take, and separately dispose of their respective full share of all crude oil produced. The Contractor shall have the right to export from the PRC all crude oil which it obtains. The price of the crude oil shall be determined with reference to the prevailing price in arm's length transactions of similar quality crude oil on the main world oil markets and adjustments shall be made in accordance with determinants such as the quality of the crude oil, terms of delivery, transportation and terms of payment.

The Agreement, the Farmout Agreement and the Petroleum Contract were reached after arm's length negotiation and represented the commercial decisions of the relevant contractual parties.

3. Principal terms of the Agreement

(i) Consideration

Pursuant to the Agreement, Starbest has conditionally agreed to acquire the Sale Shares and the benefit of the Shareholder's Loan from the CITIC Group at a cash consideration of US$21.2 million (about HK$165.4 million), payable in cash at completion of the Agreement. The Group will finance the consideration from its internal resources.

The aggregate purchase price for the Sale Shares and the Shareholder's Loan has been determined on an arm's length basis between Starbest and CITIC Group taking into consideration the investment costs incurred by CITIC Group of about US$1.2 million and the face value of the Shareholder's Loan of US$20.0 million, the proceeds of which were used by Richfirst for the purchase of the Participating Interest from Pan-China and ultimately utilised by Pan-China for the development of the Kongnan Block.

(ii) Asset purchased

The only asset of Richfirst is the Participating Interest which it has acquired from Pan-China at US$20.0 million (about HK$156.0 million) pursuant to the Farmout Agreement. The Participating Interest comprises of and represents 40% of the Contractor's rights and obligations under the 30-year Petroleum Contract on the development and production of petroleum in the Kongnan Block. The remaining 60% of the Contractor's rights and obligations under the Petroleum Contract is retained by Pan-China. Such arrangement has been approved by the Ministry of Commerce of the PRC.

(iii) CITIC Group Guarantee

CITIC Group has provided a guarantee to CNPC on the due performance by Richfirst of its obligations in respect of its proportionate share of the Contractor's contribution for amounts due under the annual work programs and budgets agreed between the Contractor and CNPC under the Petroleum Contract. Pursuant to the Agreement, the Company and CITIC Group will use their reasonable endeavours to procure, as from completion of the Agreement, the release of the CITIC Group Guarantee. However, as from completion of the Agreement and until such time as CITIC Group is released from the CITIC Group Guarantee, and whilst Richfirst remains a subsidiary of the Company, the Company has to reimburse CITIC Group for any amount paid by CITIC Group under the CITIC Group Guarantee. As the Company will become the new sole shareholder of Richfirst upon completion of the Agreement, we consider that it is fair and reasonable for the Company to replace CITIC Group by giving the parent guarantee to CNPC in respect of Richfirst's obligations and to reimburse CITIC Group under the CITIC Group Guarantee as an interim arrangement until the CITIC Group Guarantee is released. Independent Shareholders are also asked to approve the reimbursement to the CITIC Group of any amount paid by it under the CITIC Group Guarantee when approving the Acquisition.

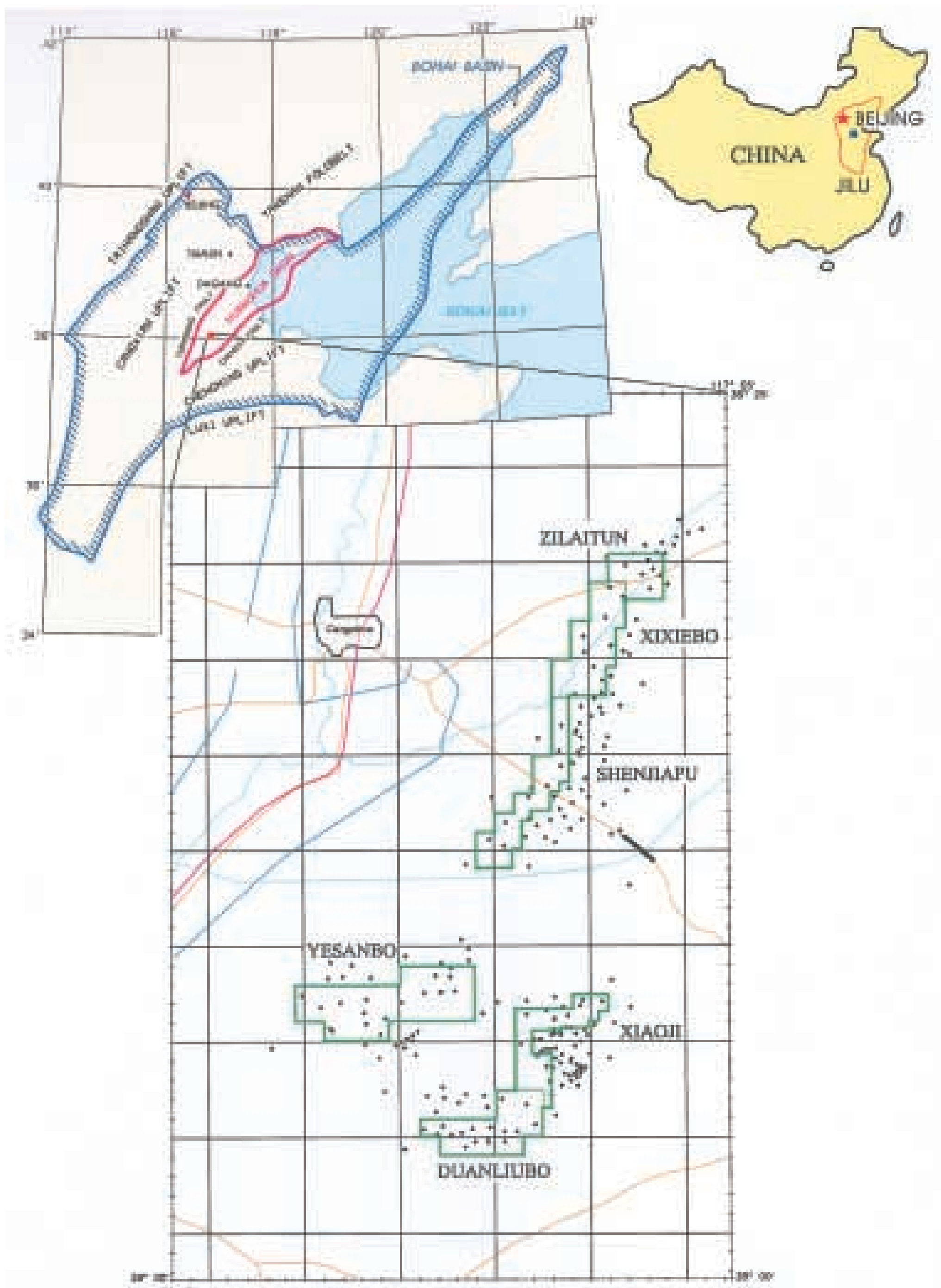
4. Information on the Kongnan Block and its prospects

(i) Location and characteristics of the Kongnan Block

The Kongnan Block covers an area of 22,400 gross acres within the Dagang Oilfield, PRC and is located in the southern part of the Huanghua Basin, about 100 kilometres south of the city of Tianjin. The Huanghua Basin is a Cenozoic age rifted and faulted depression within a Paleozoic zone of the Bohai Basin. 82 exploration wells had been drilled by the previous operator of the Kongnan Block before Pan-China took over. Pan-China has drilled seven wells to-date, of which six are producing wells and the remaining one is still under production testing. The reserves identified are associated with deep reservoirs of various depth prognosis, which makes the related wells relatively expensive to drill. The oil is relatively light (about 30-35 degrees API), which is a desirable quality, but has a high paraffin content that requires careful handling throughout the production process. The oil contains relatively little gas resulting in reservoirs which do not produce an economic flow of oil under primary production. Pressure maintenance by water injection is required to develop the reservoirs and this increases production costs.

The total project area consists of 90.5 square kilometers, containing six blocks, split into two distinct groups: blocks Zilantun, Xixiebo and Shenjiapu in the northern area, and blocks Yesanbo, Xiaoji and Duanliubo in the southern area.

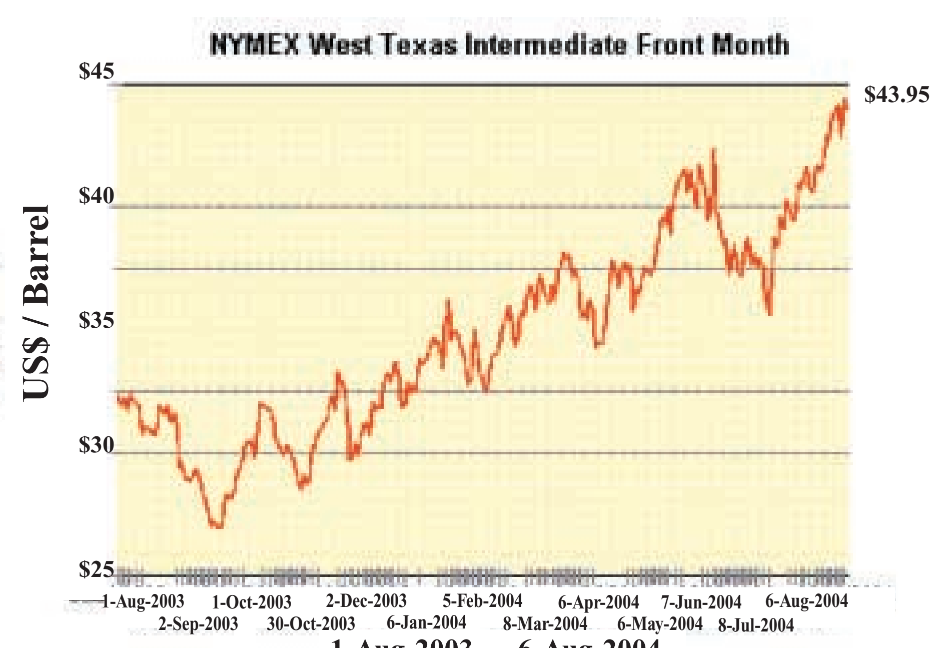
The map below shows the location of the Bohai Basin, the Huanghua Basin and the Kongnan Block. The blocks within the Kongnan field are also shown. The black dots represent the 82 exploration wells which have already been drilled. Pan-China intends to rework 28 of these wells.



(ii) Development of Kongnan Block

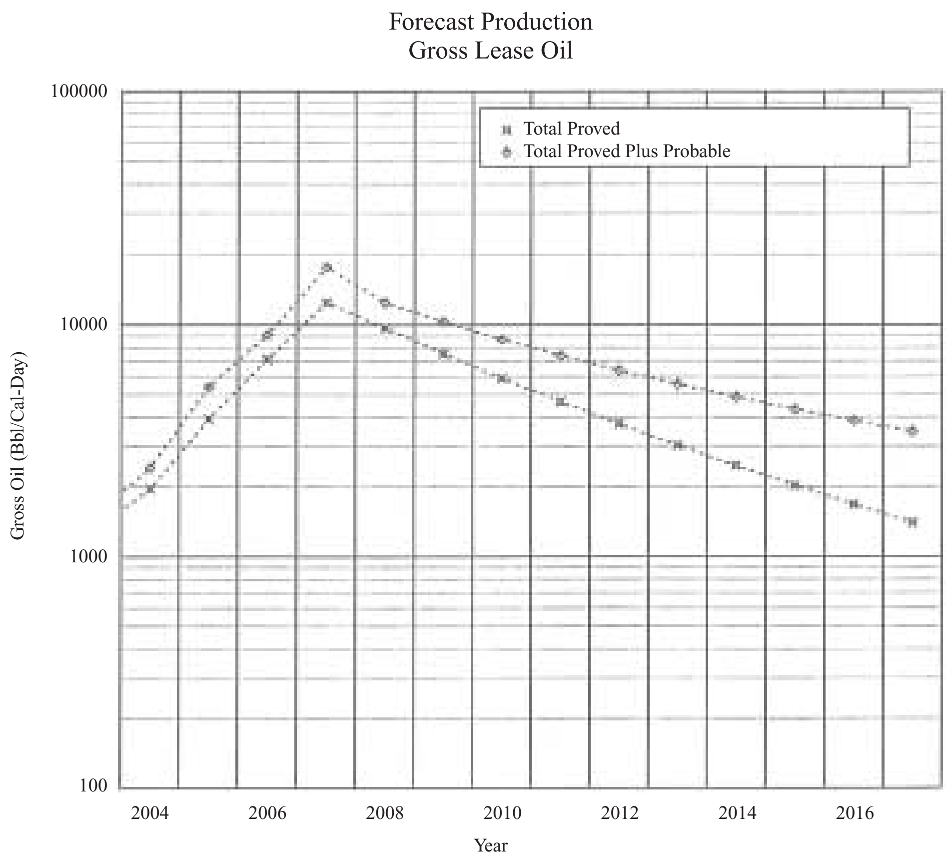
The Kongnan Block is intended to be developed on a block by block basis, using water injection as dictated by reservoir geometry, with the average distance between producer and injector wells about 400 metres. It is being developed under the Petroleum Contract, which has a term of 30 years and covers three phases including (i) pilot testing; (ii) development; and (iii) commercial production. Pilot testing has been completed and development work is now under way. Commercial production will be for a term of 20 years from the date of commencement of commercial production. According to the overall development plan of the Kongnan Block ("**ODP**"), commercial production at the Kongnan Block is expected to commence in 2006. If so, the Petroleum Contract will run to 2025, after which time the entire interest in the Kongnan Block will revert to CNPC.

Pan-China has conducted extensive pilot testing on the Kongnan Block at a cost of about US$31.3 million (about HK$244.1 million). The ODP has been approved by CNPC and commenced in April 2003. Total costs of about US$16.8 million (about HK$131.0 million) were incurred during the development phase up to the end of June 2004. The ODP involves the drilling of up to 115 new oil wells, re-completion of 28 existing wells and upgrading and installation of new surface and transmission facilities. In January 2004, Pan-China drilled and completed the first development oil well, namely the Nan 105 Well, at the Kongnan Block. The initial test of the Nan 105 Well produced 330 barrels of 35 degree API oil per day, with no water. We are advised by Pan-China, the operator of the Kongnan Block, that ten producing wells at the Kongnan Block in June 2004 produced about 25,000 barrels of oil in total. Such production rate was about five weeks behind the schedule under the ODP. The delay was caused by the heavy rainfall this summer, which hampered the drill and well service rig moving operations. The oil produced thus far has been sold to associates of CNPC at prices set with reference to the then prevailing world market prices. The selling price over the last three years has averaged about US$2 per barrel less than the price for West Texas Intermediate ("**WTI**") oil. WTI prices for the past year are set out in the chart below:



(iii) Oil reserves of Kongnan Block

The Kongnan Block contains an estimated 52 million barrels of gross proven plus probable reserves. Once fully developed, gross production volumes are expected to reach a peak of 14,000 barrels per day in 2007 and thereafter to decline as illustrated by the graph below:



(iv) Projected cash flows

We have been provided with certain projected cash flows from the operations of the Kongnan Block, i.e. gross revenue from oil sales less operating costs and production-related taxes. These projections assumed, inter alia, that crude oil prices would average US$26 per barrel, approximately the market price at the time these projections were done. Pan-China, the operator of the Kongnan Block, estimates that at peak production, gross cash flows from the Kongnan Block have the potential to reach US$40-60 million per year if the ODP is completed successfully. On such basis, the Company's investment would have a significant positive net cash flow. Such projections have not been reviewed by the Company's auditors and are subject to variations and uncertainties. We have therefore not placed great weight on the cash flow projections in our analysis of the transaction.

5. Capital expenditure and financing plans

The total budgeted capital expenditure for the Petroleum Contract is US$176.0 million (about HK$$1,372.8 million). This figure is a budget only and not a contractual obligation and is subject to adjustment in light of the actual experience as wells are drilled. Pan-China and Richfirst have the responsibility for funding the development of the Kongnan Block in the proportion 60:40. However, based on present plans, US$110.0 million (about HK$858.0 million) of the total budgeted expenditure is intended to be funded by a long-term third party loan which will be non-recourse to the Group. We understand from the Directors that an international bank as lead arranger has been mandated to arrange a loan facility of up to US$110 million to fund the development of the Kongnan Block. The balance of US$66.0 million (about HK$514.8 million) is intended to be financed from revenue generated from the sale of petroleum produced from the Kongnan Block. According to the audited consolidated balance sheet of the Group as at 31 December 2003, the Group had a net cash balance of about HK$1.1 billion. We are advised by the Directors that there has not been any material adverse change in the net cash position of the Group since 31 December 2003. On this basis, we consider that the Group would have sufficient cash resources and should not have any funding problem in case the loan facility cannot be concluded in 2004.

If the development costs cannot be fully financed in this way, Pan-China and Richfirst will be called on to contribute funds. Pursuant to the joint operating agreement between Pan-China and Richfirst, any party that fails to pay its participating interest share of the Contractor's expenses when due shall be in default and will be charged default interest calculated using LIBOR plus 5% from the due date until the default amount is paid in full. The non-defaulting party shall then be called upon to pay the amount in default within 10 business days after notification and shall be entitled to recover the amount of the principal and interest payable by the defaulting party. For a period of 30 days after the failure by the defaulting party to remedy its default by the 30th day following the notice of default, the non-defaulting party shall have the option to give notice to the defaulting party requiring it to transfer its interest to the non-defaulting party. The defaulting party shall, without delay following any request from the non-defaulting party, do any and all acts required to render such transfer legally valid, including, without limitation, obtaining the approvals from CNPC and all relevant PRC authorities.

If a party defaults after the date of commencement of commercial production and has not remedied the default by the 30th day of such default, then during the continuance of such default, the defaulting party shall not be entitled to its share of petroleum allocated from the production operation at the Kongnan Block which shall vest in the non-defaulting party.

6. Information on the Ivanhoe Group

The information set out below on the Ivanhoe group is derived from its published accounts, news releases, its website and Bloomberg.

(i) Business of Ivanhoe

Ivanhoe is an international energy company engaged in the exploration for and production of oil and gas, enhanced oil recovery and natural gas projects, and the application of heavy-to-light oil upgrading and gas-to-liquids technologies. Ivanhoe was incorporated in Canada in 1995 and is currently listed on the Nasdaq SmallCap Market and the Toronto Stock Exchange. In December 2003, Ivanhoe was added to the Standard & Poor's Toronto Stock Exchange Composite Index. The primary oil and gas properties of Ivanhoe are located in the San Joaquin Valley area of California, the Midland and East Texas Basins in Texas, United States, and the Hebei and Sichuan Provinces in the PRC.

Ivanhoe's oil interests in the PRC are held through its wholly-owned subsidiary, Sunwing, acquired in 1999. As a result of its merger with Sunwing, Ivanhoe acquired two production-sharing contracts with CNPC to develop and operate the Kongnan Block in Dagang (and the Zhaozhou oilfield in Daqing in Heilongjiang Province subsequently disposed of by Ivanhoe). In 2002, through Sunwing, Ivanhoe was awarded a production sharing contract by CNPC for an exploration and production block in the Sichuan Basin, a major oil and gas-producing region of the PRC.

(ii) Shareholders of Ivanhoe

The single largest shareholder of Ivanhoe is Mr. Robert M. Friedland, the deputy chairman of Ivanhoe, who owns 28.85% of its common stock. Mr. Friedland together with other directors and executive officers of the Ivanhoe group hold a total of 32.54% of the common stock of Ivanhoe. Mr. Friedland is one of the founders of Sunwing. He is also the founder and chairman of Ivanhoe Mines Ltd., the Vancouver-based company that owns the Turquoise Hill deposit in Mongolia, the PRC.

(iii) Financial overview of Ivanhoe

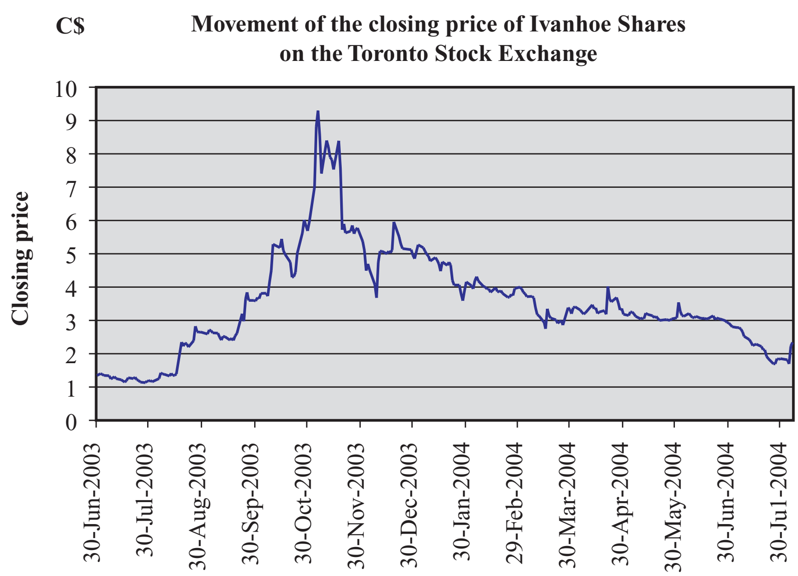
	Year ended 31 December		
	2003	**2002**	**2001**
	(US$'000)	*(US$'000)*	*(US$'000)*
	(audited)	(audited)	(audited)
Financial position			
Cash and cash equivalents	14,491	3,980	9,697
Total assets	106,574	107,088	104,003
Long-term debt	833	Nil	Nil
Shareholders' equity	100,537	100,548	96,897
No. of shares in issue	161,359,000	144,466,000	139,267,000
NAV per share (US$)	0.623	0.696	0.696
Market capitalisation (US$ million)	602.0	80.0	387.8
Results of operations			
Revenues	9,659	8,437	9,722
Net loss	(29,703)	(6,819)	(21,122)
Net loss per share (US$)	(0.20)	(0.05)	(0.16)
Cash flow			
Cash provided/(used) by operating activities	(2,059)	(2,758)	2,433
Capital expenditures	(15,391)	(18,828)	(40,504)
Cash provided/(used) by all other investing activities, net	(537)	5,286	(155)
Cash provided by financing activities, net	28,498	10,583	18,229

As disclosed in the annual report of Ivanhoe for the fiscal year ended 31 December 2003, Ivanhoe will need to make substantial capital expenditure to develop its projects on hand, exploit its existing reserves and to discover new oil and gas reserves. Ivanhoe has, in the past, relied upon equity capital as its principal source of funding and raised net proceeds of US$24.1 million through four private placements and US$1.0 million through a bank loan during 2003.

Ivanhoe commenced operations in 1997 and, like many start-up companies, it has incurred losses during its initial years. Ivanhoe has not paid any dividends to its shareholders since incorporation and it does not anticipate doing so in the foreseeable future.

(iv) *Share price performance and trading volume of Ivanhoe Shares*

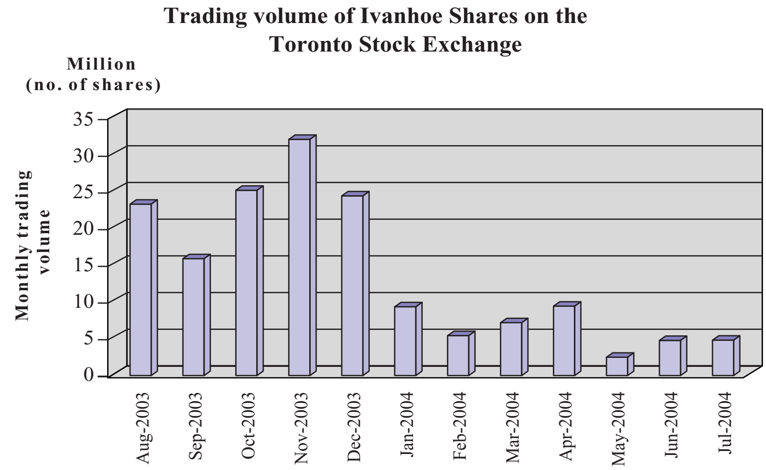
The graph below illustrates the daily closing price per Ivanhoe Share on the Toronto Stock Exchange for the twelve month period preceding the date of the Agreement and up to the Latest Practicable Date (both dates inclusive):

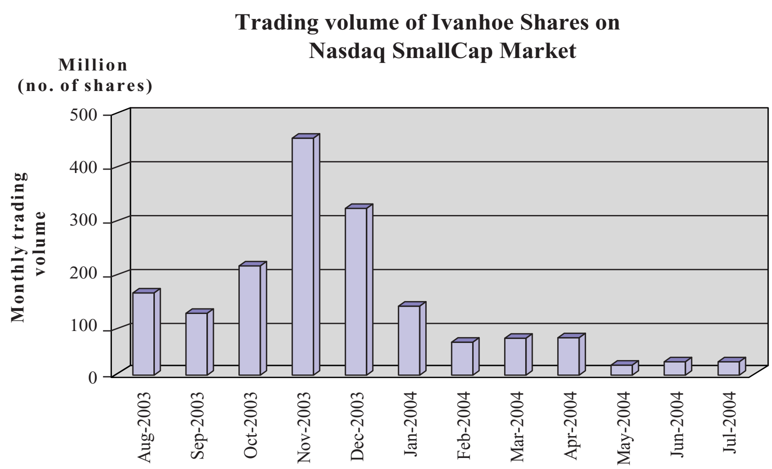


Source: Bloomberg

The highest and lowest closing price per Ivanhoe Share during the twelve months prior to the date of the Agreement were C$9.30 on 5 November 2003 and C$1.13 on 28 July 2003 respectively with an average closing price of C$3.671. The average trading price of Ivanhoe Shares on the Toronto Stock Exchange for the 30-day period preceding the date of the Agreement was C$3.096, representing a premium of about 282.2% over the audited net book value per Ivanhoe Share of C$0.81 as at 31 December 2003. Assuming Richfirst exercises the Conversion Right before receiving any net cash inflow from Kongnan Block and based on the 30-day average trading price of C$3.096 (about US$2.3815), 9,128,335 Ivanhoe Shares would be issued to Richfirst, representing about 5.7% of the existing issued share capital of Ivanhoe and about 5.4% of the then issued share capital of Ivanhoe as enlarged by the conversion shares.

The graphs below show the monthly trading volume of Ivanhoe Shares on the Toronto Stock Exchange and NASDAQ SmallCap Market for the twelve month period from August 2003 to July 2004 respectively:





Source: Bloomberg

The percentage of the monthly trading volume of Ivanhoe Shares to the number of total issued shares of Ivanhoe of 161,359,000 as at 31 December 2003 during the twelve month period from August 2003 to July 2004 on the Toronto Stock Exchange ranges from 1.8% to 20.4%, with an average of 8.7%. The liquidity of the Ivanhoe Shares on Nasdaq is higher, with monthly trading volume ranging from 10.2% to 284.8%, with an average of 87.0% calculated on the same basis in the aforesaid period.

The Conversion Right is on normal commercial terms and is arrived at after arm's length negotiation between the parties. We consider that the Conversion Right provides Richfirst with a potential means of realising its investment in the Kongnan Block and is in the interests of the Company and the Shareholders as a whole.

7. Risk factors

The Acquisition will extend the business risk profile of the Group. Independent Shareholders may wish to bear the following risk factors in mind when considering the Acquisition:

(i) Highly capital intensive business nature

Oil exploration and production are capital intensive activities. The total budgeted capital expenditure for the Petroleum Contract is about US$176.0 million (about HK$1,372.8 million). This figure is not a contractual commitment and is subject to adjustment as development proceeds. The actual capital expenditures for the Kongnan Block, including the costs of drilling, completing and operating oil-wells, are uncertain and subject to factors beyond the Contractor's control, such as the depth to which wells need to be drilled and secondary recovery measures needed for wells to produce economically. It is currently intended that out of the budgeted capital expenditure of US$176.0 million, a significant amount of US$110.0 million would be funded by long-term third party loans and the balance of US$66.0 million would be financed from revenue generated from the sale of petroleum produced from the Kongnan Block. It is uncertain whether binding bank or other loans facilities can be obtained on those terms. In that case, the Group may have to use more of its own resources to develop the Kongnan Block than it currently anticipates.

(ii) Uncertainty about estimated oil reserves and production

The oil reserves data and production levels of Kongnan Block reviewed by us represent estimates only. Actual production, revenues and expenditure may differ materially from these estimates. Many of the factors, assumptions and variables involved in estimating reserves and production level are beyond the Contractor's control and may prove to be incorrect over time.

(iii) Regulatory considerations

The PRC government exercises stringent control over the PRC petroleum industry, including with respect to exploration and production licensing; pricing mechanism; import and export quotas and procedures; and environmental and safety standards. The oil project at the Kongnan Block may be adversely affected by future changes in certain policies of the PRC government in respect of the oil industry.

(iv) Volatility of oil prices

Oil prices may fluctuate in response to changes in many factors, such as global and regional supply and demand for oil and refinery products; price and availability of other energy sources; global political and economic conditions; and the ability of the Organisation of Petroleum Exporting Countries and other petroleum producing nations to set and maintain production level and prices.

Oil prices have recently been at high levels of about US$43 per barrel. This price may fall back to lower levels. Indeed, the studies we have looked at in relation to the Kongnan Block assumed long-term prices of around US$26 per barrel. Therefore, the viability of this investment for the Company will not be substantially affected in case the present high level of oil prices does not continue.

DISCUSSION AND CONCLUSION

The Group took its first step in diversifying its business and reducing its reliance on the manufacture and sale of plywood by acquiring interests in aluminium smelting and coal production in March 2004. We consider that it is in line with its announced policy for the Group to continue diversifying its business and broadening its activities and that the petroleum industry in the PRC represents an appropriate area as the natural resources and energy sectors in the PRC have become increasingly important.

The only asset of Richfirst is the Participating Interest, representing 40% of the Contractor's rights and obligations under the Petroleum Contract, governing the development and exploitation of an area within the proven Bohai Basin oil producing region in the PRC. The consideration for the Acquisition reflects, on a dollar-for-dollar basis, the actual investment cost paid by CITIC Group and the face value of the Shareholder's Loan being assigned to the Group under the Agreement.

The proven and probable reserves of the Kongnan Block, which is part of the Bohai field, are estimated to amount to about 52 million barrels. Pilot testing has been completed and development work is now under way. Production is expected to build to a peak of 14,000 barrels per day (about 5 million barrels per year) by 2007 but is expected to tail off thereafter. The primary source of return to Richfirst is likely to be from sales of oil production to CNPC at prices based on world market prices for comparable crude oil.

Richfirst and Pan-China (in the proportion 40:60) have an 82% interest in the net revenue until payback and a 49% interest thereafter with CNPC receiving the remainder, being a normal commercial arrangement in the oil industry. A total of US$176 million (about HK$1,372.8 million) is budgeted to be required for full development of the Kongnan Block. The Contractor plans to fund the development expenditure within the means of Kongnan project itself. Arrangements have been initiated to fund about 60% of the development expenditure in the form of a project loan of US$110 million (about HK$858 million) on a non-recourse basis. The balance of the budgeted development expenditure of US$66.0 million (about HK$514.8 million) is intended to be financed from revenue generated from the sale of petroleum by the Contractor. If the Group is, in the worst scenario, required to fund directly its 40% share of the budgeted development expenditure, the Group would have sufficient internal resources to do so based on its audited net cash position as at 31 December 2003.

The project carries risks, particularly as to the amount of the estimated oil reserves, production and development costs and oil prices, on which the production schedule chiefly depends. However, we consider that these are normal commercial risks for this type of transaction and that the Kongnan project has already reached a relatively advanced stage, with the pilot programme completed. Based on estimated projected cash flows provided to us, the Group's investment in the project is expected to generate positive cash flows, but we have not placed great weight on these projections owing to their uncertainty.

In the Kongnan project, Richfirst is a minority partner to Pan-China which has a controlling 60% of the Contractor's rights and obligations under the Petroleum Contract and acts as the operator. Pan-China's parent, Ivanhoe, is a listed company in Canada and the United States. Financial and other information on Ivanhoe is set out above. The Company has the option to convert its investment into Ivanhoe Shares (and Sunwing Shares in the event of Sunwing's IPO) which provides a further source of potential liquidity for the investment.

RECOMMENDATION

Based on the above reasons and factors considered by us, we are of the view that the Agreement is on normal commercial terms and is fair and reasonable. We consider that the Agreement is in the interests of the Company and the Shareholders as a whole and recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the resolution to be proposed at the Special General Meeting to approve the Agreement .

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
Mei H. Leung
Managing Director

(A) SUMMARY OF AUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2003

The following was extracted from the published consolidated financial results and of the assets and liabilities of the Group prepared for the three years ended 31 December 2003.

Results
(Expressed in HK$'000)

	Year ended 31 December		
	2003	**2002**	**2001**
Turnover	24,535	24,003	52,753
Loss before tax	(52,005)	(15,217)	(10,244)
Tax	–	–	–
Net loss attributable to shareholders	(52,005)	(15,217)	(10,244)
Loss per share – basic	HK(1.58 cents)	HK(0.56 cent)	HK(0.50 cent)

Assets and Liabilities
(Expressed in HK$'000)

	31 December		
	2003	**2002**	**2001**
Fixed assets	91,532	107,959	114,703
Prepayments	3,238	12,582	–
Current assets	1,135,268	1,131,845	1,166,501
Total assets	1,230,038	1,252,386	1,281,204
Current liabilities	47,686	18,029	1,029,894
Long term bank and other loans	11,862	11,862	11,699
Total liabilities	59,548	29,891	1,041,593
	1,170,490	1,222,495	239,611

Note: There has been no change in accounting policies for each of the above years.

(B) SUMMARY OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31 DECEMBER 2003

The following was extracted from the Company's 2002 and 2003 annual reports. (References to page numbers in the extract reproduced below are to pages contained in the Company's annual report for the year ended 31 December 2003.)

Report of the auditors

ERNST & YOUNG
安 永 會 計 師 事 務 所

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

We have audited the financial statements on pages 22 to 52 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong, 15 April 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT
Year ended 31 December 2003
(Expressed in HK$'000)

	Notes	**2003**	**2002**
TURNOVER	5	24,535	24,003
Cost of sales		(40,911)	(28,535)
Gross loss		(16,376)	(4,532)
Other revenue and gains	5	14,080	20,613
Selling and distribution costs		(462)	(989)
Administrative expenses		(18,199)	(20,209)
Other operating expenses		(30,877)	(10,100)
LOSS FROM OPERATING ACTIVITIES	6	(51,834)	(15,217)
Finance costs	9	(171)	–
LOSS BEFORE TAX		(52,005)	(15,217)
Tax	10	–	–
NET LOSS ATTRIBUTABLE TO SHAREHOLDERS	11, 23	(52,005)	(15,217)
LOSS PER SHARE	12		
Basic		HK(1.58 cents)	HK(0.56 cent)
Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET

31 December 2003
(Expressed in HK$'000)

	Notes	2003	2002
NON-CURRENT ASSETS			
Fixed assets	13	91,532	107,959
Prepayments	15	3,238	12,582
		94,770	120,541
CURRENT ASSETS			
Inventories	16	8,898	3,065
Prepayments, deposits and other receivables		1,972	3,939
Accounts receivable	17	3,846	1,343
Pledged bank deposits	18, 21	20,399	–
Cash and bank balances	18	1,100,153	1,123,498
		1,135,268	1,131,845
CURRENT LIABILITIES			
Accounts payable	19	3,407	1,067
Accrued liabilities and other payables	20	23,544	16,962
Bank loans	21	20,735	–
		47,686	18,029
NET CURRENT ASSETS		1,087,582	1,113,816
TOTAL ASSETS LESS CURRENT LIABILITIES		1,182,352	1,234,357
NON-CURRENT LIABILITIES			
Other loans	21	11,862	11,862
		1,170,490	1,222,495
CAPITAL AND RESERVES			
Issued capital	22	164,824	164,824
Reserves	23	1,005,666	1,057,671
		1,170,490	1,222,495

Peter Kwok Viem	**Ma Ting Hung**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003
(Expressed in HK$'000)

		Reserves (note 23)						
	Issued capital (note 22)	Share premium account	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Sub-total	Total
At 1 January 2002	106,000	262,462	65,527	–	4,104	(198,482)	133,611	239,611
New issue of shares	58,824	941,176	–	–	–	–	941,176	1,000,000
Share issuance expenses	–	(2,759)	–	–	–	–	(2,759)	(2,759)
Net loss for the year	–	–	–	–	–	(15,217)	(15,217)	(15,217)
Translation differences arising on consolidation	–	–	–	860	–	–	860	860
Net gains and losses not recognised in the profit and loss account	–	–	–	860	–	–	860	860
At 31 December 2002 and 1 January 2003	164,824	1,200,879	65,527	860	4,104	(213,699)	1,057,671	1,222,495
Net loss for the year	–	–	–	–	–	(52,005)	(52,005)	(52,005)
At 31 December 2003	**164,824**	**1,200,879**	**65,527**	**860**	**4,104**	**(265,704)**	**1,005,666**	**1,170,490**

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2003
(Expressed in HK$'000)

	Notes	**2003**	**2002**
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(52,005)	(15,217)
Adjustments for:			
Interest expense	9	171	–
Interest income	5	(13,273)	(12,409)
Exchange gains arising from bank deposits denominated in New Zealand dollars, net	5	–	(6,945)
Waiver of an amount due to a former director of the Company	5	–	(1,135)
Depreciation	6	12,971	3,575
Loss on disposal/write-off of fixed assets	6	713	6,722
Professional fees incurred in relation to aborted investment projects	6	25,662	–
Provision for impairment of fixed assets	6, 13	4,502	–
Operating loss before working capital changes		(21,259)	(25,409)
Decrease/(increase) in inventories		(5,833)	5,093
Decrease/(increase) in prepayments, deposits and other receivables		(3,707)	6,058
Decrease/(increase) in accounts receivable		(2,503)	1,013
Increase/(decrease) in accounts payable		2,340	(5,720)
Increase/(decrease) in accrued liabilities and other payables		6,582	(5,105)
Cash used in operations		(24,380)	(24,070)
Taxes paid		–	–
Net cash outflow from operating activities		(24,380)	(24,070)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		12,220	12,998
Exchange gains arising from bank deposits denominated in New Zealand dollars, net		–	6,945
Proceeds from disposal of a long term investment		2,500	3,500
Purchases of fixed assets	13	2,114	(3,931)
Proceeds from disposal of fixed assets		355	1,438
Decrease/(increase) in pledged bank deposits		(20,399)	1,000,000
Payments of legal and professional fee incurred in relation to potential investment projects		(16,318)	(12,582)
Net cash inflow/(outflow) from investing activities		(19,528)	1,008,368

CONSOLIDATED CASH FLOW STATEMENT (Cont'd)
Year ended 31 December 2003
(Expressed in HK$'000)

	Notes	**2003**	**2002**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	22, 23	–	–*
Proceeds from issue of convertible loan notes		–	1,000,000*
Shares issuance expenses	23	–	(2,759)
Repayment of current other loans		–	(1,000,000)*
New current bank loans		20,735	–
Drawdown of non-current other loans		–	53
Interest paid		(171)	–
Net cash inflow/(outflow) from financing activities		20,564	(2,706)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(23,344)	981,592
Cash and cash equivalents at beginning of year		1,123,498	141,905
Effect of foreign exchange rate changes, net		(1)	1
CASH AND CASH EQUIVALENTS AT END OF YEAR		1,100,153	1,123,498
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	18	1,647	709
Non-pledged time deposits with original maturity of less than three months when acquired	18	1,098,506	1,122,789
		1,100,153	1,123,498

* On 25 January 2002, the Company issued redeemable floating rate convertible loan notes (the "Notes") of HK$1,000 million to Keentech Group Limited ("Keentech"), an indirect wholly-owned subsidiary of CITIC Group. The proceeds from the issue of the Notes were applied to settle a loan of a principal amount of HK$1,000 million granted by Keentech to Maxpower Resources Limited, an indirect wholly-owned subsidiary of the Company.

The Notes were fully converted into 1,176,470,588 ordinary shares of the Company in June 2002. Further details of the Notes are set out in note 22 to the financial statements.

BALANCE SHEET
31 December 2003
(Expressed in HK$'000)

	Notes	**2003**	**2002**
NON-CURRENT ASSETS			
Interests in subsidiaries	14	71,892	99,625
Prepayments	15	3,238	–
		75,130	99,625
CURRENT ASSETS			
Prepayments, deposits and other receivables		1,060	2
Bank balances	18	1,098,529	1,123,031
		1,099,589	1,123,033
CURRENT LIABILITIES			
Accrued liabilities and other payables		3,065	163
Bank loans	21	7,000	–
		10,065	163
NET CURRENT ASSETS		1,089,524	1,122,870
		1,164,654	1,222,495
CAPITAL AND RESERVES			
Issued capital	22	164,824	164,824
Reserves	23	999,830	1,057,671
		1,164,654	1,222,495

Peter Kwok Viem	**Ma Ting Hung**
Director	*Director*

NOTES TO FINANCIAL STATEMENTS

31 December 2003

1. CORPORATE INFORMATION

The head office and principal place of business of the Company is located at Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are the manufacture and sale of plywood. There were no changes in the nature of the Group's principal activities during the year.

2. IMPACT OF A REVISED HONG KONG STATEMENT OF STANDARD ACCOUNTING PRACTICE

The revised Hong Kong Statement of Standard Accounting Practice ("SSAP") 12 "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The adoption of this revised SSAP has had no significant impact for these financial statements on the amounts recorded for income taxes. However, the related note disclosures of deferred tax assets and liabilities are now more extensive than previously required. These disclosures are presented in note 10 to the financial statements and include a reconciliation between the accounting loss and the tax income for the year.

Further details of these changes are included in the accounting policy for deferred tax in notes 3 and 10 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of the subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company 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 profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over the following estimated useful lives:

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable or amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

Prior to the adoption of SSAP 30 "Business Combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group adopted the transitional provision of SSAP 30 that permitted negative goodwill on acquisitions which occurred prior to 1 January 2001 to remain credited to the capital reserve. Negative goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

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 the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Provisions

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

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

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

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

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

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative 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 deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Employee benefits

Retirement benefits scheme

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

The employees of the Group's subsidiary which operates in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The Group is required to contribute a certain percentage of their respective payroll costs to the central pension scheme. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Share option scheme

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. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge for their cost is recorded in the profit and loss account or balance sheet. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date or which lapse are deleted from the register of outstanding options and have no impact on the profit and loss account or balance sheet.

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 in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

Paid leave carried forward

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

Revenue recognition

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

(a) in respect of 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; and

(b) in respect of interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates 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.

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.

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

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 of different risks and returns. Summary details of the business segments are as follows:

(a) the manufacture and sale of plywood segment comprises the supply of plywood mainly for use in the manufacture of furniture and fixtures and for refurbishment; and

(b) the trading of timber products segment comprises the sale of veneers.

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.

No analyses for business and geographical segments for the year ended 31 December 2003 are presented as over 90% of the Group's revenue, assets and liabilities were derived from the manufacture and sale of plywood conducted in or located in the PRC during the year.

(Expressed in HK$'000)

(a) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2002.

	Manufacture and sale of plywood	Trading of timber products	Consolidated
Segment revenue:			
Sales to external customers	22,281	1,722	24,003
Other revenue	49	–	49
	22,330	1,722	24,052
Segment results	(22,533)	160	(22,373)
Interest income and unallocated gains			20,564
Unallocated expenses			(13,408)
Loss from operating activities			(15,217)
Finance costs			–
Loss before tax			(15,217)
Tax			–
Net loss attributable to shareholders			(15,217)
Segment assets	111,175	–	111,175
Unallocated assets			1,141,211
Total assets			1,252,386
Segment liabilities	24,821	–	24,821
Unallocated liabilities			5,070
Total liabilities			29,891
Other segment information:			
Depreciation	3,245	–	3,245
Unallocated amounts			330
			3,575
Other non-cash expenses	6,682	–	6,682
Unallocated amounts			40
			6,722
Capital expenditure	2,778	–	2,778
Unallocated amounts			1,153
			3,931

(Expressed in HK$'000)

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2002.

	PRC	Thailand	Other Asian countries	Consolidated
Segment revenue:				
Sales to external customers	19,689	340	3,974	24,003
Other segment information:				
Segment assets	111,175	–	–	111,175
Unallocated amounts				1,141,211
				1,252,386
Capital expenditure	2,778	–	–	2,778
Unallocated amounts				1,153
				3,931

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold during the year, after allowances for returns and trade discounts, and excludes intra-group transactions.

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

	2003	2002
Turnover		
Sale of goods	24,535	24,003
Other revenue and gains		
Sale of scraps	249	49
Interest income	13,273	12,409
Exchange gains arising from bank deposits denominated in New Zealand dollars, net	–	6,945
Waiver of an amount due to a former director (note 20)	–	1,135
Others	558	75
	14,080	20,613
Total revenue and gains	38,615	44,616

(Expressed in HK$'000)

6. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging/(crediting):

	2003	2002
Cost of inventories sold *	40,911	28,535
Depreciation	12,971	3,575
Minimum lease payments under operating leases on land and buildings	3,010	2,982
Auditors' remuneration	430	430
Staff costs (including directors' remuneration – note 7):		
Wages and salaries	9,198	10,336
Pension scheme contributions	106	93
	9,304	10,429
Loss on disposal/write-off of fixed assets **	713	6,722
Provision for impairment of fixed assets **	4,502	–
Exchange gains arising from principal activities, net	(93)	(8)
Professional fees incurred in relation to aborted investment projects (note) **	25,662	–

* The cost of inventories sold for the year ended 31 December 2003 includes HK$12,225,000 (2002: HK$3,423,000), relating to direct staff costs, operating lease rentals and depreciation. These are also included in the respective total amounts disclosed separately above for each of these types of expenses for the year.

** These amounts are included in "Other operating expenses" in the consolidated profit and loss account.

Note: The amount included professional fees incurred for financial and legal advice in connection with the Group's proposed acquisition of certain assets in New Zealand which was subsequently aborted.

(Expressed in HK$'000)

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	2003	2002
Fees:		
Executive directors	–	–
Independent non-executive directors	240	240
	240	240
Other emoluments of executive directors:		
Salaries, housing allowances, other allowances and benefits in kind	3,960	4,934
Pension scheme contributions	36	38
	3,996	4,972
	4,236	5,212

The number of directors whose remuneration fell within the following bands is as set out below:

	Number of directors 2003	2002
Nil – HK$1,000,000	6	7
HK$1,000,001 – HK$1,500,000	2	2
HK$1,500,001 – HK$2,000,000	1	1
	9	10

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office. None of the directors waived or agreed to waive any remuneration during the year.

(Expressed in HK$'000)

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included four (2002: four) directors, details of whose remuneration are set out in note 7 above. The remaining individual (2002: one) is not a director, whose remuneration is analysed as follows:

	2003	**2002**
Salaries, housing allowance, other allowances and benefits in kind	538	538
Pension scheme contributions	6	7
	544	545

As at 31 December 2003, the Group had no significant provision for long service payments to its employees pursuant to the requirements of the Hong Kong Employment Ordinance (2002: Nil).

9. FINANCE COSTS

	2003	**2002**
Interest expense on bank loans	171	–
Interest income over the Group's deposit of HK$1,000 million pledged against the Notes *	–	(6,078)
Interest expense on the Notes *	–	6,078
	171	–

* In the prior year, interest income earned from the Group's deposits of HK$1,000 million was directly paid to Keentech by the bank for the settlement of accrued interest on the Notes, further details of which are also set out in note 22 to the financial statements. The Notes were fully converted into shares during 2002.

10. TAX

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2002: Nil). The statutory tax rate of Hong Kong profits tax is 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

For the year ended 31 December 2003, the tax rate applicable to a subsidiary established and operating in the PRC is 33%, however no provision for tax has been made for the year as this subsidiary did not generate any assessable profits arising in the PRC during the year.

(Expressed in HK$'000)

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

	Group	
	2003	**2002**
Loss before tax	(52,005)	(15,217)
Tax credit at the applicable rates to losses in the countries concerned	(13,268)	(6,290)
Income not subject to tax	(2,736)	(3,907)
Expenses not deductible for tax	8,178	856
Adjustment to opening unutilised tax losses resulting from increase in tax rate	(450)	–
Increase in unutilised tax losses carryforward	8,276	9,341
Tax credit at the Group's effective rate	–	–

The Group has tax losses arising in Hong Kong and PRC of HK$37,797,000 (2002: HK$29,971,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in companies that have been loss-making for some time.

SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. There were no material effects on the Group's deferred tax assets or liabilities as at 31 December 2002. Accordingly, no prior year adjustment is included in the financial statements.

11. NET LOSS ATTRIBUTABLE TO SHAREHOLDERS

The net loss attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company was HK$57,841,000 (2002: HK$14,357,000) (note 23(b)).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the consolidated net loss attributable to shareholders of the Company for the year of HK$52,005,000 (2002: HK$15,217,000) and the weighted average of 3,296,470,588 (2002: 2,738,162,772) ordinary shares in issue during the year.

A diluted loss per share amount for the year ended 31 December 2003 has not been presented because no dilutive events existed during the year.

A diluted loss per share amount for the year ended 31 December 2002 has not been presented as the effect of the potential ordinary shares arising from the conversion of the Notes would have been anti-dilutive.

(Expressed in HK$'000)

13. FIXED ASSETS

Group

	Leasehold improvements	Machinery, tools and equipment	Furniture and fixtures	Motor vehicles	Total
Cost:					
At beginning of year	3,111	115,217	891	1,321	120,540
Additions	256	618	10	1,230	2,114
Disposals/write-off	–	(2,652)	(1)	(52)	(2,705)
At 31 December 2003	3,367	113,183	900	2,499	119,949
Accumulated depreciation and impairment:					
At beginning of year	306	11,603	375	297	12,581
Provided during the year	480	11,633	377	481	12,971
Provision for impairment	–	4,502	–	–	4,502
Disposals/write-off	–	(1,584)	(1)	(52)	(1,637)
At 31 December 2003	786	26,154	751	726	28,417
Net book value:					
At 31 December 2003	2,581	87,029	149	1,773	91,532
At 31 December 2002	2,805	103,614	516	1,024	107,959

During the year, the directors considered that certain machinery, tools and equipment were impaired in view of the Group's historical operating results. Based on a valuation report issued by an independent firm of professionally qualified valuers using a fair market value basis, an impairment provision of HK$4,502,000 (2002: Nil) was made during the year.

14. INTERESTS IN SUBSIDIARIES

	Company 2003	2002
Unlisted shares, at cost	173,133	173,133
Due from subsidiaries	357,567	326,239
Due to subsidiaries	(4,308)	(15,205)
Provision for impairment	(454,500)	(384,542)
	71,892	99,625

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

Particulars of the subsidiaries are as follows:

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

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

There were no changes in the Company's shareholdings in its subsidiaries during the year.

(Expressed in HK$'000)

15. PREPAYMENTS

The prepayments represented professional fees incurred for financial and legal advice in connection with the Group's potential investment projects. These amounts were intended to be capitalised in the cost of the potential investments. During the year, the Group terminated one of the potential investment projects and accordingly, the related professional fees incurred were charged to the consolidated profit and loss account (2002: Nil). The remaining amount of HK$3,238,000 relates to the potential investment projects in CRA and CPS (as defined in note 26(a) to the financial statements), further details of which are set out in note 26(a) to the financial statements.

16. INVENTORIES

	Group	
	2003	**2002**
Raw materials	3,288	702
Work in progress	3,451	944
Finished goods	2,159	1,419
	8,898	3,065

The inventories carried at net realisable value included in the above balance amounted to HK$2,159,000 (2002: HK$1,419,000) as at the balance sheet date.

17. ACCOUNTS RECEIVABLE

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

	Group	
	2003	**2002**
Within one month	2,600	1,077
One to two months	556	3
Two to three months	384	–
Over three months	306	263
	3,846	1,343

The normal credit terms granted to debtors range from 30 to 60 days.

(Expressed in HK$'000)

18. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group		Company	
	2003	**2002**	**2003**	**2002**
Cash and bank balances	1,647	709	23	242
Time deposits *	1,118,905	1,122,789	1,098,506	1,122,789
	1,120,552	1,123,498	1,098,529	1,123,031
Less: Pledged for bank loans **	20,399	–	–	–
	1,100,153	1,123,498	1,098,529	1,123,031

* Approximately HK$529,664,000 (2002: HK$1,000,000,000) of the time deposits of the Company and the Group has been placed in CITIC Ka Wah Bank Limited. An amount of HK$1,000,000,000 (2002: HK$1,000,000,000) was designated for funding the Group's potential investment projects.

** The Group pledged its bank deposits of HK$20,399,000 (2002: Nil) to secure the bank loans granted to the Group (note 21).

19. ACCOUNTS PAYABLE

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

	Group	
	2003	**2002**
Within one month	2,436	731
One to two months	808	310
Two to three months	163	14
Over three months	–	12
	3,407	1,067

20. ACCRUED LIABILITIES AND OTHER PAYABLES

During the year ended 31 December 2002, the Group entered into a deed of waiver with a former director of the Company (the "Ex-director"), pursuant to which the Ex-director agreed to waive all his rights to seek repayment of a portion of the debts amounting to HK$1,135,000 in aggregate from the Group. The deed of waiver was completed on 23 December 2002. The remaining amounts due of HK$1,009,000 were settled during that year.

(Expressed in HK$'000)

21. BANK AND OTHER LOANS

		Group		Company	
	Notes	2003	2002	2003	2002
Secured bank loans repayable within one year	(a)	13,735	–	–	–
Unsecured bank loans repayable within one year	(b)	7,000	–	7,000	–
Total current bank loans		20,735	–	7,000	–
Non-current other loans, unsecured	(c)	11,862	11,862	–	–

(a) The secured bank loans are repayable on or before 24 February 2004 and bear interest at the Hong Kong Interbank Offered Rate ("HIBOR") plus 0.5% per annum. The bank loans are secured by the Group's pledged bank deposits of HK$20,399,000 and corporate guarantees of Wing Lam, an indirect wholly-owned subsidiary of the Company.

(b) The unsecured bank loans are repayable within six months from the drawdown date (which fall due in January and February 2004) and bear interest at the HIBOR plus 1.5% per annum.

(c) The loans from the former shareholders (the "Ex-shareholders") of Wing Lam are unsecured, interest-free and have no fixed terms of repayment.

On 12 April 1999, the Ex-shareholders confirmed that they would indemnify the Group against all monetary losses arising from the litigation (the "Litigation"), which is further detailed in note 24 to the financial statements, and further agreed that the loans due from the Group to them could be used to offset such indemnity.

According to a letter dated 11 February 2004 issued by the Group's legal advisers in connection with the Litigation, there were a number of conflicts and discrepancies in the New Judgment (as described in note 24 to the financial statements). The legal advisers strongly believe that the New Judgment is not supported by evidence and is in breach of legal proceedings and that the New Judgment should be withdrawn. Taking into account the above considerations, the directors of the Company believe that the litigation will have no impact on the financial results of the Group and accordingly, no provision is considered necessary.

The legal advisers further advised that the appeal judgment is not expected to be concluded in the next 12 months from 17 January 2004 and accordingly, the Claim (as described in note 24 to the financial statements) is not expected to be settled within one year from the balance sheet date. Accordingly, the loans amounting to a total of HK$11,862,000 (2002: HK$11,862,000) are classified as non-current liabilities at the balance sheet date.

(Expressed in HK$'000)

22. SHARE CAPITAL

Shares

	Notes	Number of ordinary shares	
Authorised:			
Ordinary shares of HK$0.05 each as at 1 January 2002		4,000,000,000	200,000
Increase in share capital	(a)	2,000,000,000	100,000
Ordinary shares of HK$0.05 each as at 31 December 2002 and 2003		6,000,000,000	300,000
Issued and fully paid:			
Ordinary shares of HK$0.05 each as at 1 January 2002		2,120,000,000	106,000
Issue of shares	(b)	1,176,470,588	58,824
Ordinary shares of HK$0.05 each as at 31 December 2002 and 2003		3,296,470,588	164,824

Notes:

(a) Pursuant to an ordinary resolution passed on 22 January 2002, the authorised share capital of the Company was increased to HK$300 million divided into 6,000 million shares of HK$0.05 each by the creation of 2,000 million additional shares of HK$0.05 each.

(b) On 27 November 2001, pursuant to a conditional subscription agreement (the "Subscription Agreement") entered into between the Company and Keentech, Keentech agreed to subscribe for, and the Company agreed to issue, redeemable floating rate convertible loan notes (the "Notes") of HK$1,000 million. The Notes, which were repayable within one year from the date of issue, were secured by a charge over the Group's deposit of HK$1,000 million and the accrued interest thereon (the "Charge") and bore interest calculated at the then prevailing rate for one-month fixed Hong Kong dollar time deposits quoted by a bank in Hong Kong. The Notes also carried the right to convert into ordinary shares of HK$0.05 each of the Company at a conversion price of HK$0.85 per share. Pursuant to the deed of charge dated 25 January 2002 entered into between the Company and Keentech, Keentech was entitled to order the bank to pay directly to Keentech the interest income generated from the Group's deposit of HK$1,000 million for the settlement of the accrued interest on the Notes.

The Notes were fully converted into 1,176,470,588 shares of the Company in June 2002 and the Charge was discharged thereafter. The shares issued during that year rank pari passu in all respects with shares in issue at that time.

Share options

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group.

No share options are permitted to be granted to an eligible participant which, if exercised in full, would result in such eligible participant becoming entitled to subscribe for such number of shares of the Company as, when aggregated with the total number of shares of the Company already issued and remaining issuable to him or her under the Scheme, would exceed 25% of the aggregate number of the shares of the Company being issued and issuable under the Scheme.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 10% of the issued share capital of the Company from time to time, excluding any shares issued pursuant to the Scheme.

An option may be exercised in accordance with the terms of the Scheme at any time during a period to be notified by the board of directors to each grantee, provided that such period of time should not exceed a period of three years commencing on the expiry of six months after the date when the option is accepted and expiring on the last day of such three-year period or 20 August 2007, whichever is the earlier.

The subscription price for the shares under the Scheme will be a price determined by the board of directors and notified to each grantee and will be the higher of: (i) a price being not less than 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited for the five trading days immediately preceding the date of offer of the option granted to a grantee; and (ii) the nominal value of the shares of the Company.

The Scheme became effective on 21 August 1997 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. The offer of a grant of share options may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The Stock Exchange of Hong Kong Limited amended the requirements for share option schemes under the Listing Rules. These requirements have come into effect from 1 September 2001. The Company is required to comply with such new requirements in granting new share options under the Scheme from the said date. During the year ended 31 December 2003 and up to the date of this report, no share options were granted, exercised, lapsed, cancelled or outstanding under the Scheme.

(Expressed in HK$'000)

23. RESERVES

(a) Group

The movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on page 24 of the financial statements.

The contributed surplus of the Group represents the difference between the nominal value of the share capital of the holding company of the Group acquired by the Company pursuant to the Group reorganisation prior to the listing of the Company's shares in 1997 over the nominal value of the share capital of the Company issued in exchange therefor.

(b) Company

	Share premium account	Contributed surplus	Accumulated losses	Total
At 1 January 2002	262,462	172,934	(301,785)	133,611
New issue of shares	941,176	–	–	941,176
Share issuance expenses	(2,759)	–	–	(2,759)
Net loss for the year	–	–	(14,357)	(14,357)
At 31 December 2002 and 1 January 2003	1,200,879	172,934	(316,142)	1,057,671
Net loss for the year	–	–	(57,841)	(57,841)
At 31 December 2003	1,200,879	172,934	(373,983)	999,830

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

24. LITIGATION

On 14 January 1999, China Foreign Trade Development Company, the plaintiff of the Litigation (the "Plaintiff") issued a writ of summons against Dongguan Xinlian, an indirect wholly-owned subsidiary of the Company held through Wing Lam (another indirect wholly-owned subsidiary of the Company), in respect of a claim (the "Claim") for HK$49,624,000 together with interest thereon, being the alleged amount due to the Plaintiff under various re-export contracts. A judgment (the "Judgment") was issued in respect of the Claim and, pursuant thereto, Dongguan Xinlian was liable to pay an aggregate sum of approximately HK$26,894,000. Subsequently, Dongguan Xinlian filed an appeal against the Judgment.

(Expressed in HK$'000)

On 23 April 1998, the Ex-shareholders of Wing Lam gave an undertaking in relation to the Group's acquisition of a 51% equity interest in Wing Lam to indemnify the Group from all losses, liabilities and claims incurred or suffered in connection with the Claim and other prescribed matters arising on or before the completion of this acquisition. The Claim is in respect of contracts entered into by Dongguan Xinlian prior to the Group's acquisition of its initial 51% equity interest in Wing Lam. Due to the Judgment, on 12 April 1999, the Ex-shareholders of Wing Lam confirmed that they would indemnify all monetary losses arising from the Claim and agreed that the loans due from Dongguan Xinlian to them of HK$11,862,000, could be used to offset any such indemnity.

On 12 August 2003, certain members of the management of the Plaintiff were sentenced to imprisonment under a criminal charge in respect of creating forged documents, including those documents created by them relating to the Claim. However, on 19 December 2003, the People's High Court of Guangdong Province issued a decision that Dongguan Xinlian is liable to pay US$4,800,000 (approximately HK$37,440,000) together with interest thereon (the "New Judgment"). On 17 January 2004, Dongguan Xinlian filed its appeal to the State Supreme Court against the New Judgment, requesting for the withdrawal of the New Judgment and also a decision that Dongguan Xinlian is not liable to the Plaintiff in any aspect.

According to a letter dated 11 February 2004 issued by the Group's legal advisers in connection with the Litigation, there were a number of conflicts and discrepancies in the New Judgment. The legal advisers believe that the New Judgment is not supported by evidence and is in breach of legal proceedings and that the New Judgment should be withdrawn. Taking into account the above considerations, the directors believe that the Litigation will have no impact on the financial results of the Group and accordingly, no provision is considered necessary.

25. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and manufacturing premises in the PRC under operating lease arrangements. Leases for the properties are negotiated for terms ranging from 3 to 10 years.

At 31 December 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	**2002**
Within one year	2,950	2,774
In the second to fifth years, inclusive	9,081	8,495
After five years	7,964	10,088
	19,995	21,357

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2002: Nil).

26. POST BALANCE SHEET EVENTS

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

(a) On 19 January 2004, the Group entered into conditional sale and purchase agreements (as amended by a supplemental agreement dated 30 January 2004) with CITIC Australia Pty Limited ("CA"), CITIC Group and CITIC Portland Holdings Pty Limited whereby the Group agreed to purchase the entire equity interests in CITIC Resources Australia Pty Limited ("CRA") and CITIC Portland Surety Pty Limited ("CPS") from CA for a total consideration of US$139.5 million (equivalent approximately HK$1,088.1 million). The total consideration has been satisfied by the allotment and issue to CA of an aggregate of 750,413,793 new ordinary shares of HK$0.05 each in the Company's share capital. CA is an Australian company wholly-owned by CITIC Group, and in turn is an associate of Keentech, a substantial shareholder of the Company. The major assets of CRA and CPS are as follows:

- a 22.5% equity interest in Portland Joint Venture, which is an unincorporated co-operative joint venture that owns and operates the Portland Aluminium Smelter in the State of Victoria, Australia;
- an 81% equity interest in CITIC Australia Trading Limited ("CATL"), a company incorporated in the State of Victoria, Australia and listed on the Australian Stock Exchange ("ASX"), which is engaged in commodities trading;
- a 7% equity interest in the Coppabella and Moorvale Joint Venture, which is an unified unincorporated co-operative joint venture that owns and operates the Coppabella and Moorvale coal mines in Bowen Basin in the State of Queensland, Australia;
- a 13.95% equity interest in Macarthur Coal Limited, a company listed on the ASX and which is engaged in coal mining business; and
- a 5.01% equity interest in Aztec Resources Limited, a company listed on the ASX and which is engaged in minerals exploration.

The transactions constituted major and connected transactions under the Listing Rules and were approved by independent shareholders of the Company on 22 March 2004. The transactions were completed on 31 March 2004. Further details of the transactions are set out in the circular of the Company dated 6 March 2004.

(b) On 2 February 2004, the Company entered into a placing agreement with United Star International Inc. ("USI"), a substantial shareholder of the Company, and a placing agent, under which a placement of 270,000,000 of the Company's then existing ordinary shares of HK$0.05 each held by USI was made to not less than six independent investors at a price of HK$1.45 per share procured by the placing agent. In return, a subscription of 270,000,000 new ordinary shares of HK$0.05 each in the Company was made by USI at the same price for a total cash consideration, before expenses, of approximately HK$391.5 million.

The Company intends to apply such net proceeds to finance future investments and asset acquisitions with a particular focus on businesses involving natural resources. Details of the placing are set out in the announcement of the Company dated 2 February 2004.

27. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 April 2004.

The following was extracted from Appendix I to the Company's circular dated 6 March 2004 in respect of a major and connected transaction – proposed acquisitions of the entire equity interests in CRA and CPS:

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

6 March 2004

The Directors
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding CITIC Resources Australia Pty Limited ("**CRA**") and its subsidiaries and companies that are or will become subsidiaries of CRA upon completion of the Acquisition as defined in this circular (hereinafter collectively referred to as the "**CRA Group**") to be acquired by CITIC Resources Holdings Limited (the "**Company**") pursuant to conditional sale and purchase agreements (the "**Sale and Purchase Agreements**") dated 19 January 2004 (as amended by a supplemental agreement dated 30 January 2004) made between the Company, CITIC Australia Pty Limited ("**CA**"), CITIC Group and CITIC Portland Holdings Pty Limited, prepared on the basis as set out in section 1 below, for inclusion in the circular issued by the Company dated 6 March 2004 (the "**Circular**").

CRA was incorporated in the State of Victoria, Australia with limited liability on 16 January 2004 under the Corporations Act 2001 (Cth) of Australia with an authorised and issued share capital of A$1 divided into one share of A$1.00 each, of which one share was issued at par for cash for the purpose of acting as a holding company of the subsidiaries set out in section 1 below. CRA did not carry out any business from the date of its incorporation, save for, subject to the approval of shareholders of the Company, the acquisition of the entire equity interests in CITIC Portland Holdings Pty Limited and CITIC Australia Coal Pty Limited, a 81% equity interest in CITIC Australia Trading Limited and a 5.01% equity interest in Aztec Resources Limited, which are or will be the intermediate holding companies of the other subsidiaries set out in section 1 below.

The CRA Group has adopted 31 December as its financial year end date for statutory reporting purposes. As at the date of this report, no audited financial statements have been prepared for CRA, CITIC Portland Holdings Pty Limited and CITIC Portland Surety Pty Limited since their respective dates of incorporation as these companies were either newly incorporated or not subject to statutory audit requirements in their respective jurisdictions of incorporation. We have, however, performed our independent review of all relevant transactions of these companies since their respective dates of incorporation.

The audited financial statements of companies comprising the CRA Group for the years ended 31 December 2000, 2001 and 2002 and the nine months ended 30 September 2003 (the "**Relevant Periods**") were prepared in accordance with the accounting principles generally accepted in Australia and were audited by PricewaterhouseCoopers, Chartered Accountants, Australia. The independent audited financial statements of the CRA Group for the Relevant Periods were modified by their respective directors or management in conformity with the accounting principles generally accepted in Hong Kong (the "**Modification**").

For the purpose of this report, we have examined the audited financial statements of the companies comprising the CRA Group for the Relevant Periods, in accordance with the Statements of Auditing Standard and Auditing Guideline "Prospectuses and the reporting accountant" issued by the Hong Kong Society of Accountants. Besides, we have satisfied ourselves by carrying out such additional procedures as we considered appropriate, that no material adjustment regarding the Modification is required to be incorporated into the results of the CRA Group for the Relevant Periods and their respective balance sheets as at 31 December 2000, 2001 and 2002 and 30 September 2003.

The summaries of the pro forma combined results of the CRA Group for the Relevant Periods and of the pro forma combined balance sheets of the CRA Group as at 31 December 2000, 2001 and 2002 and 30 September 2003 (the "**Summaries**") as set out in this report have been prepared from the audited financial statements of the CRA Group, as adjusted to be in accordance with the basis of preparation as set out in section 2 below, after making such adjustments as we considered appropriate, and are presented on the basis as set out in section 1 below.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the pro forma combined results and cash flows of the CRA Group for the Relevant Periods and of the pro forma combined balance sheets of the CRA Group as at 31 December 2000, 2001 and 2002 and 30 September 2003.

1. BASIS OF PRESENTATION

The Summaries have been prepared from the amounts included in the audited financial statements of the companies comprising the CRA Group as if the CRA Group structure had been in existence throughout the Relevant Periods or from their respective dates of incorporation or acquisition by the CRA Group where this is a shorter period, after making such adjustments as we considered appropriate, including those in relation to the accounting principles generally accepted in Hong Kong ("**HKGAAP**") as further explained in section 2 below. All material transactions and balances among the companies comprising the CRA Group have been eliminated on combination. The definitions used in the Circular apply to this report unless otherwise stated.

At the date of this report, CRA had direct or indirect interests in the following subsidiaries, all of which are private companies (or if incorporated outside Hong Kong, have substantially similar characteristics to a private company incorporated in Hong Kong), the particulars of which are set out below:

Company	Place and date of incorporation	Issued share/ registered capital	Percentage of equity attributable to CRA Direct	Indirect	Principal activities
CITIC Portland Holdings Pty Limited	Australia State of Victoria 16 January 2004	A$1 ordinary	100	–	Investment holding
CITIC Australia Coal Pty Limited	Australia State of Victoria 12 October 1990	A$6,589,637 ordinary	100	–	Investment holding
CITIC Australia Trading Limited (formerly Clunes Gold Mines Limited) (note 2)	Australia, State of Victoria 17 May 2000	A$6,863,442 ordinary	81	–	Investment holding
CITIC Australia (Portland) Pty Limited	Australia State of Victoria 17 October 1985	A$45,675,117 ordinary	–	100	Investment holding
CITIC Portland Surety Pty Limited	Australia State of Victoria 16 January 2004	A$1 ordinary	–	100	Investment holding
CITIC (Portland) Nominees I Pty Limited	Australia State of Victoria 17 March 1986	A$2 ordinary	–	100	Investment holding (note 1)
CITIC (Portland) Nominees II Pty Limited	Australia State of Victoria 7 May 1986	A$2 ordinary	–	100	Investment holding (note 1)
CITIC Portland Finance 1 Pty Limited	Australia State of Victoria 12 August 1998	A$2 ordinary	–	100	Investment holding
CITIC Nominees Pty Limited	Australia State of Victoria 16 June 1986	A$2 ordinary	–	100	Investment holding
CITIC Australia Coppabella Pty Limited	Australia State of Victoria 15 December 1994	A$5,000,002 ordinary	–	100	Investment holding

Company	Place and date of incorporation	Issued share/ registered capital	Percentage of equity attributable to CRA		Principal activities
			Direct	Indirect	
CITIC Australia Coal Exploration Pty Limited (formerly Paper Products Pty Limited)	Australia State of Victoria 11 April 1990	A$2,845,375 ordinary	–	100	Exploration, development and mining of coal
CITIC Australia Moorvale Pty Limited (formerly CITIC Australia Coal 1 Pty Limited)	Australia State of Victoria 15 October 1997	A$2 ordinary	–	100	Investment holding
CATL Sub-Holding Pty Limited	Australia State of Victoria 12 June 2002	A$2 ordinary	–	81	Investment holding
CITIC Australia Commodity Trading Pty Limited	Australia State of Victoria 21 January 1994	A$500,002 ordinary	–	81	Import and export of commodity products and manufactured goods
CITIC Tyres & Wheels Pty Limited (formerly Supergrip Tyres Pty Limited)	Australia Northern Territory 18 July 1996	A$100 ordinary	–	81	Import of tyres and alloy wheels
CITIC Batteries Pty Limited (formerly CR & S Operations Pty Limited)	Australia State of Victoria 15 October 1997	A$2 ordinary	–	81	Dormant
Beijing Yi Xin Mei Cheng Commercial Information Consulting Co. Ltd.	People's Republic of China ("**PRC**") Beijing 28 February 2000	RMB500,000	100	–	Investment holding
Beijing Qian Quan Investment Consultants Limited	PRC Beijing 16 August 2000	US$150,000	80	20	Consultancy service to group companies

Notes:
1. These two companies jointly own CITIC Nominees Pty Limited Partnership, which owns the interests in the Portland Joint Venture.
2. The shares of CITIC Australia Trading Limited ("**CATL**") were listed on Australian Stock Exchange ("**ASX**") on 18 June 2002.

2. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in arriving at the financial information as set out in this report are set out below:

(a) Basis of preparation

The financial information as set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong. The financial information has been prepared under the historical cost convention, except for the periodic remeasurement of certain assets as further explained in the respective accounting policies below.

The audited financial statements of the CRA Group for the Relevant Periods were prepared in accordance with accounting principles other than those generally accepted in Hong Kong. Accordingly, adjustments have been made for the purpose of this report, to restate such audited financial statements to comply with HKGAAP. Therefore, as a consequence thereof, the results and cash flows of the CRA Group for the Relevant Periods and their respective balance sheets as at 31 December 2000, 2001 and 2002 and 30 September 2003 as set out herein comply in all material respects with HKGAAP.

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

(b) Revenue recognition

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

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

(ii) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable;

(iii) management fee income, when the services were rendered; and

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

(c) Lease assets

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the CRA Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(d) Employee benefits

(i) Paid leave carried forward

The CRA Group provides long service leave and holiday pay to its employees under their employment contracts. Such leaves which remain untaken as at the balance sheet date are permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such long service leave and holiday pay earned during the year by the employees and carried forward. A provision is recognised in respect of the probable long service leave and holiday pay payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the CRA Group to the balance sheet date.

(ii) Retirement benefits scheme contribution

The CRA Group operate a defined contribution retirement benefits scheme (the "**RB Scheme**") under the superannuation legislation of the Australian government, for all of their employees in Australia. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account 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 CRA Group in an independently administered fund. The CRA Group' contributions as an employer vest fully with the employees when contributed to the RB Scheme.

(iii) Share option scheme

CATL operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of CATL's operations. The financial impact of share options granted under the share option scheme is not recorded in the balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by CATL as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by CATL in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

(e) Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because CRA's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

(f) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(g) Fixed assets and depreciation

Fixed assets, other than freehold land, investment properties and construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets, other than investment properties, are dealt with as movements in the asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

	Portland Aluminium Smelter	**Others**
Plant and equipment	28 years up to 2016	3-15 years
Structures	28 years up to 2016	15 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents leasehold buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

(h) Exploration and development expenditure

Exploration and development expenditure related to current areas of interest, which includes costs of coal mining tenements, are carried forward to the extent that:

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

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

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

(i) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

(j) Other assets

Other assets represent the CRA Group's interest in the Electricity Supply Agreements ("**ESA**") to the Portland Aluminium Smelter are amortised on a straight line basis over the period to 31 October 2016, being the expiry date of the base power contract of the Portland Aluminium Smelter. The carrying value of the ESA is reviewed annually by the directors and adjusted when it is considered necessary.

(k) Investments in securities

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

The fair values of such listed securities are their quoted market prices at the balance sheet date. When a decline in the fair value of a security below its carrying amount has occurred, unless there is evidence that the decline is temporary, the carrying amount of the security is reduced to its fair value, as estimated by the directors. The amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

The gains or losses arising from changes in the fair value of such securities are credited or charged to the profit and loss account in the period in which they arise.

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

Forward contracts protect the CRA Group from fluctuations in exchange rates, interest rates and aluminium price by establishing the rate at which the corresponding asset or liability will be settled. Any increase or decrease in the amount required to settle the asset or liability is off-set by a corresponding movement in the value of the forward contract. The gains and losses are therefore off-set for financial reporting purposes and are not recognised in the financial statements. The fee incurred in establishing each agreement is amortised over the contract period.

Forward contracts not held for hedging purposes are marked to market at the balance sheet date and any unrealised gains or losses on re-translation are recognised in the profit and loss account.

(l) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(m) Subsidiaries

A subsidiary is a company whose financial and operating policies CRA controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in CRA's profit and loss account to the extent of dividends received and receivable. CRA's interests in subsidiaries are stated at cost less any impairment losses.

(n) Joint venture

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company'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:

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

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

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

(iv) a long term investment, if CRA holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

(o) Jointly controlled assets

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

The CRA Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the balance sheets 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 CRA Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the CRA Group.

(p) Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the first-in, first-out basis and, in the case of finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

(q) Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

(i) 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

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

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised:

(i) except where the deferred tax asset relating to the deductible temporary differences arises from negative 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

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

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

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

(r) Provisions

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

(s) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On combination, the financial statements of overseas subsidiaries are translated into Australian dollars using the net investment method. The profit and loss accounts of overseas subsidiaries are translated into Australian dollars at the weighted average exchange rates for the year, and their balance sheets are translated into Australian dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

(t) Cash and cash equivalents

For the purpose of the pro forma 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 generally have a short maturity of within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the CRA Group's cash management.

For the purpose of the pro forma combined balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. PRO FORMA COMBINED RESULTS

The following is a summary of the pro forma combined results of the CRA Group for the Relevant Periods, which is presented on the basis set out in section 1 above:

	Notes	Year ended 31 December 2000 A$'000	2001 A$'000	2002 A$'000	Nine months ended 30 September 2003 A$'000
TURNOVER	(a)	579,977	552,948	650,740	487,434
Cost of sales		(492,536)	(477,252)	(596,545)	(448,517)
Gross profit		87,441	75,696	54,195	38,917
Other revenue and gains	(a)	9,091	15,486	9,169	5,767
Selling and distribution costs		(1,550)	(1,832)	(1,918)	(2,197)
Administrative expenses		(3,327)	(3,413)	(6,485)	(3,699)
Other operating income/(expenses), net		(74,059)	(12,005)	483	(5,184)
PROFIT FROM OPERATING ACTIVITIES	(b)	17,596	73,932	55,444	33,604
Finance costs	(d)	(20,553)	(20,993)	(15,812)	(8,850)
PROFIT/(LOSS) BEFORE TAX		(2,957)	52,939	39,632	24,754
Tax credit/(charge)	(e)	1,012	(15,548)	(16,868)	12,244
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(1,945)	37,391	22,764	36,998
Minority interests		–	–	(380)	(882)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		(1,945)	37,391	22,384	36,116
DIVIDENDS	(g)	–	–	–	1,607

Notes:

(a) Turnover, other revenue and gains

Turnover represents the net invoiced value of the sale of goods, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on combination.

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

	Year ended 31 December			Nine months ended 30 September
	2000	2001	2002	2003
	A$'000	A$'000	A$'000	A$'000
Turnover – Sale of goods	579,977	552,948	650,740	487,434
Other revenue and gains:				
Interests received and receivable	8,371	6,071	4,536	3,650
Management fee income	225	270	879	484
Gain on disposal of fixed assets, net	–	8,208	–	–
Dividend income	–	–	1,148	574
Others	495	937	2,606	1,059
	9,091	15,486	9,169	5,767
	589,068	568,434	659,909	493,201

(b) Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	Year ended 31 December			Nine months ended 30 September
	2000	2001	2002	2003
	A$'000	A$'000	A$'000	A$'000
Cost of inventories sold *	492,536	477,252	596,545	448,517
Depreciation on fixed assets	14,440	14,427	14,787	11,212
Amortisation of ESA	10,191	10,202	10,223	7,500
Minimum lease payments under operating leases on leasehold land and buildings	193	367	471	453
Staff costs (excluding directors' remuneration – section 3 note (c)):				
Wages and salaries	3,799	3,918	3,537	3,128
Retirement benefits scheme contributions	302	300	368	331
	4,101	4,218	3,905	3,459
Auditors' remuneration:				
Auditing	88	110	188	144
Other services	33	123	58	27
Loss/(gain) on disposal of fixed assets, net	–	(8,208)	3,268	1,068
Loss/(gain) on foreign exchange, net**	35,812	(3,264)	4,166	5,972
Loss/(gain) on trading of forward contracts, net**	24,993	16,108	(8,589)	(3,798)

* The costs of inventories sold for each of the Relevant Periods include the balances of depreciation, which are also disclosed separately above for the Relevant Periods.

** These balances are included in "other operating income/(expenses), net" in the pro forma combined results.

(c) Directors' and senior executives' remuneration

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Fees	–	–	–	–
Basic salaries, housing benefits, other allowances and benefits in kind	1,751	573	985	665
	1,751	573	985	665

The number of directors whose remuneration fell within the following band is as follows:

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	Number of directors	Number of directors	Number of directors	Number of directors
Nil to A$180,000 (or nil to HK$1,000,000)	2	10	6	6
A$180,001 to A$270,000 (or HK$1,000,001 to HK$1,500,000)	–	1	–	–
A$270,001 to A$360,000 (or HK$1,500,001 to HK$2,000,000)	2	–	–	2
A$360,001 to A$450,000 (or HK$2,000,001 to HK$2,500,000)	3	–	–	–
A$540,001 to A$630,000 (or HK$3,000,001 to HK$3,500,000)	–	–	1	–
	7	11	7	8

The five highest paid individuals in the CRA Group during the year ended 31 December 2000 were all directors. The five highest paid individuals in the CRA Group during the years ended 31 December 2001, 2002 and the nine months ended 30 September 2003 included, in each of the years, two directors, and information relating to their emoluments has been disclosed above. The emoluments of the remaining highest paid, non-director individuals during the Relevant Periods are as follows:

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Basic salaries, housing benefits, other allowances and benefits in kind	–	111	249	205

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

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	Number of employees	Number of employees	Number of employees	Number of employees
Nil to A$180,000 (or nil to HK$1,000,000)	–	3	1	1
A$180,001 to A$270,000 (or HK$1,000,001 to HK$1,500,000)	–	–	–	2
A$270,001 to A$360,000 (or HK$1,500,001 to HK$2,000,000)	–	–	2	–
	–	3	3	3

During the Relevant Periods, no remuneration was paid by the CRA Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the CRA Group or as compensation for loss of office. No director of the CRA Group waived any remuneration during the Relevant Periods.

(d) Finance costs

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Interest on bank loans repayable:				
Within one year	3,000	3,720	4,005	1,924
Within second to fifth years, inclusive	17,431	17,140	11,674	1,751
Beyond five years	–	–	–	5,069
	20,431	20,860	15,679	8,744
Other finance charges	122	133	133	106
	20,553	20,993	15,812	8,850

(e) Tax

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Current year/period provision:				
Hong Kong	–	–	–	–
Australia	13,861	11,626	9,770	7,513
	13,861	11,626	9,770	7,513
Deferred tax charge/(credit)	(14,873)	3,922	7,098	(19,757)
Tax charge/(credit) for the year/period	(1,012)	15,548	16,868	(12,244)

No provision for Hong Kong profits tax has been made as the CRA Group did not generate any assessable profits arising in Hong Kong in respect of the Relevant Periods.

Provision for Australian income tax has been made at the rates of 34%, 30%, 30% and 30% for each of the years ended 31 December 2000, 2001 and 2002 and the nine months ended 30 September 2003 on the estimated assessable profits arising in Australia for each of the Relevant Periods.

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

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Profit/(loss) before tax	(2,957)	52,939	39,632	24,754
Tax at the applicable rates to profits/(losses) in the countries concerned	(1,005)	15,882	11,890	7,426
Income not subject to tax	(957)	(4,163)	(129)	(244)
Expenses not deductible for tax	4,299	3,765	3,698	3,017
Tax charge at the CRA Group's effective rate	2,337	15,484	15,459	10,199
Effect of change in tax rate	(3,349)	–	–	–
Adjustments in respect of current tax of previous periods	–	64	1,409	–
Tax benefit arising as a result of implementation of tax consolidation due to fixed assets tax cost base reset	–	–	–	(22,443)
Tax charge/(credit) at the CRA Group's effective rate	(1,012)	15,548	16,868	(12,244)

(f) Related party transactions

The CRA Group had the following transactions with related parties during the Relevant Periods in addition to those disclosed elsewhere in this report.

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
CA:				
Management fee expenses	2,440	2,672	2,548	1,982

The management fee expenses were charged in respect of the provision of office space and equipment, and other overheads.

In addition, certain of the CRA Group's banking facilities were secured by corporate guarantees executed by CA. Subsequent to 30 September 2003, the CRA Group received consent in principle from the banks to the effect that following the completion of the Sale and Purchase Agreements, the corporate guarantees executed by CA will be released and will be replaced by corporate guarantees from CRA and/or other security to be provided by members of the CRA Group.

The directors confirmed that the above related party transactions were carried out in the ordinary course of the business.

(g) Dividends

No dividend has been paid or declared by CRA since the date of its incorporation. The dividends paid or declared by companies in the CRA Group to their then shareholders during each of the Relevant Periods were as follows:

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
CATL	–	–	–	1,607

The dividend rates and the number of shares ranking for dividends are not presented as such information is not meaningful for the purposes of this report.

4. PRO FORMA COMBINED BALANCE SHEETS

The following is a summary of the pro forma combined balance sheets of the CRA Group as at 31 December 2000, 2001 and 2002 and 30 September 2003, which is presented on the basis as set out in section 1 above:

	Notes	31 December 2000 A$'000	31 December 2001 A$'000	31 December 2002 A$'000	30 September 2003 A$'000
NON-CURRENT ASSETS					
Fixed assets	(a)	233,227	216,592	206,712	204,898
Other assets	(b)	151,366	141,164	130,941	123,551
Investments in securities	(d)	–	17,940	17,940	18,290
Deferred tax asset	(m)	1,124	441	715	920
Other receivables		418	227	208	277
		386,135	376,364	356,516	347,936
CURRENT ASSETS					
Inventories	(e)	22,748	26,118	63,522	50,812
Trade receivables	(f)	47,536	55,099	43,475	62,386
Prepayments, deposits and other receivables		7,851	27,965	4,359	5,057
Investments in securities	(d)	394	413	428	440
Due from CA	(g)	119,499	128,718	129,086	129,072
Due from fellow subsidiaries	(g)	543	485	453	234
Other assets	(b)	10,199	10,199	10,199	10,199
Cash and cash equivalents	(h)	51,629	43,675	62,326	52,970
		260,399	292,672	313,848	311,170
CURRENT LIABILITIES					
Trade payables	(i)	44,199	15,172	56,530	30,611
Tax payable		311	2,042	1,158	134
Accrued liabilities and other payables		45,915	39,892	10,880	15,151
Due to CA	(g)	19,175	4,674	11,202	8,862
Provisions	(j)	5,731	6,715	6,410	7,380
Bank and other borrowings	(k), (l)	30,263	68,375	65,422	62,614
		145,594	136,870	151,602	124,752
NET CURRENT ASSETS		114,805	155,802	162,246	186,418
TOTAL ASSETS LESS CURRENT LIABILITIES		500,940	532,166	518,762	534,354

	Notes	2000	31 December 2001	2002	30 September 2003
		A$'000	A$'000	A$'000	A$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		500,940	532,166	518,762	534,354
NON-CURRENT LIABILITIES					
Provisions	(j)	2,313	2,222	2,448	2,060
Bank and other borrowings	(k), (l)	306,346	296,844	249,682	221,856
Deferred tax liabilities	(m)	25,244	29,047	35,808	720
Due to CA	(g)	–	–	–	13,863
Deferred income and other payables		4,783	4,408	9,452	39,082
		338,686	332,521	297,390	277,581
MINORITY INTERESTS		–	–	1,673	2,555
		162,254	199,645	219,699	254,218
CAPITAL AND RESERVES		162,254	199,645	219,699	254,218

Notes:

(a) Fixed assets

	Freehold land A$'000	Investment properties A$'000	Plant and equipment A$'000	Structures A$'000	Construction in progress A$'000	Exploration and development A$'000	Total A$'000
Cost or valuation:							
At 1 January 2000	710	56	189,460	59,121	3,989	7,146	260,482
Additions	–	–	557	138	315	406	1,416
At 31 December 2000 and 1 January 2001	710	56	190,017	59,259	4,304	7,552	261,898
Additions	–	–	3,941	1,806	2,775	173	8,695
Disposals	–	–	(1,856)	(1,242)	(4,659)	(4,001)	(11,758)
At 31 December 2001 and 1 January 2002	710	56	192,102	59,823	2,420	3,724	258,835
Additions	45	–	4,579	975	1,863	720	8,182
Disposals	–	–	(153)	(45)	(3,094)	–	(3,292)
At 31 December 2002 and 1 January 2003	755	56	196,528	60,753	1,189	4,444	263,725
Additions	8	–	2,409	1,242	2,899	3,909	10,467
Disposals	–	–	(105)	–	(551)	(434)	(1,090)
At 30 September 2003	763	56	198,832	61,995	3,537	7,919	273,102
Analysis of cost or valuation:							
At cost	710	56	4,512	2,399	4,304	7,552	19,533
At December 1998 valuation	–	–	185,505	56,860	–	–	242,365
At 31 December 2000	710	56	190,017	59,259	4,304	7,552	261,898
At cost	710	56	6,852	3,044	2,420	3,724	16,806
At 1998 December valuation	–	–	185,250	56,779	–	–	242,029
At 31 December 2001	710	56	192,102	59,823	2,420	3,724	258,835
At cost	755	56	11,388	4,019	1,189	4,444	21,851
At 1998 December valuation	–	–	185,140	56,734	–	–	241,874
At 31 December 2002	755	56	196,528	60,753	1,189	4,444	263,725
At cost	763	56	13,692	5,261	3,537	7,919	31,228
At 1998 December valuation	–	–	185,140	56,734	–	–	241,874
At 30 September 2003	763	56	198,832	61,995	3,537	7,919	273,102

	Freehold land A$'000	Investment properties A$'000	Plant and equipment A$'000	Structures A$'000	Construction in progress A$'000	Exploration and development A$'000	Total A$'000
Accumulated depreciation:							
At 1 January 2000	–	–	10,659	3,375	–	197	14,231
Provided during the year	–	–	10,702	3,361	–	377	14,440
At 31 December 2000 and 1 January 2001	–	–	21,361	6,736	–	574	28,671
Provided during the year	–	–	10,722	3,349	–	356	14,427
Disposals	–	–	(269)	(197)	–	(389)	(855)
At 31 December 2001 and 1 January 2002	–	–	31,814	9,888	–	541	42,243
Provided during the year	–	–	11,062	3,416	–	309	14,787
Disposals	–	–	(17)	–	–	–	(17)
At 31 December 2002 and 1 January 2003	–	–	42,859	13,304	–	850	57,013
Provided during the period	–	–	8,382	2,596	–	234	11,212
Disposals	–	–	(21)	–	–	–	(21)
At 30 September 2003	–	–	51,220	15,900	–	1,084	68,204
Net book value:							
At 31 December 2000	710	56	168,656	52,523	4,304	6,978	233,227
At 31 December 2001	710	56	160,288	49,935	2,420	3,183	216,592
At 31 December 2002	755	56	153,669	47,449	1,189	3,594	206,712
At 30 September 2003	763	56	147,612	46,095	3,537	6,835	204,898

Valuation of fixed assets:

Following the acquisition of the additional 12.5% interest in the Portland Joint Venture in August 1998, the directors reviewed the carrying value of the various classes of assets making up the aggregate 22.5% joint venture interest. The directors revalued joint venture buildings and structures, plant and equipment and ESA at 31 December 1998 on a basis that brought the aggregate carrying value of the CRA Group's 22.5% joint venture interest into line with the acquisition cost of the additional 12.5% interest.

(b) Other assets

	31 December 2000 A$'000	2001 A$'000	2002 A$'000	30 September 2003 A$'000
ESA, at December 1998 valuation:				
Non-current portion	151,366	141,164	130,941	123,551
Current portion	10,199	10,199	10,199	10,199
	161,565	151,363	141,140	133,750

(c) Interests in jointly-controlled assets*

As at each of the balance sheet dates, the CRA Group had a 22.5% participating interest in the Portland Joint Venture, the principal activity of which is aluminium smelting and also had a 16% interest in the spent potlining project joint venture at Portland, the principal activity of which is processing of spent potlining.

The CRA Group's interest in assets employed in these joint ventures is included in the pro forma combined balance sheets under the classification shown below:

	31 December 2000 A$'000	2001 A$'000	2002 A$'000	30 September 2003 A$'000
Non-current assets	400,326	393,006	385,865	379,272
Current assets	21,055	22,405	22,291	22,775
Share of assets employed in joint ventures	421,381	415,411	408,156	402,047

The CRA Group also has a 5% participating interest in the Coppabella joint venture, a 50% interest in Bowen Basin Coal Exploration joint venture and a 50% interest in CB Exploration joint venture, the principal activity of which is the mining and exploration of coal. Effective on 1 July 2003, CITIC Australia Coppabella Pty Limited acquired an additional 2% interest in Coppabella joint venture, and CITIC Australia Moorvale Pty Limited acquired an additional 4.7% of the Moorvale joint venture. The transaction was formally completed on 11 December 2003, which included the unification process, and resulted in CITIC Australia Coppabella Pty Limited ultimately owning 7% in the Coppabella and Moorvale Joint Venture.

As at 30 September 2003, the CRA Group had entered into joint venture operations of which the CRA Group holds a participating interest as follows:

(a) 7% interest in the Coppabella joint venture, the principal activity of which is the mining and sale of coal.

(b) 7% interest in the Moorvale joint venture, the principal activity of which is the mining and sale of coal.

(c) 33.75% interest in the Bowen Basin Coal Exploration joint venture, the principal activity of which is the exploration of coal.

(d) 50% interest in the CB Exploration joint venture, the principal activity of which is the exploration of coal.

These coal joint ventures all have differing reporting dates to the CRA Group, being 30 June compared to 31 December. The financial statements have been adjusted for material transactions between 30 June to the respective balance sheet dates.

The CRA Group's interest in the combined assets employed in the coal joint ventures is included in the pro forma combined balance sheet under the classification shown below:

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Non-current assets	7,665	3,721	5,042	10,648
Current assets	1,663	2,080	2,410	5,077
Share of assets employed in coal joint ventures	9,328	5,801	7,452	15,725

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

(d) Investments in securities

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Non-current listed equity investments, at cost:				
Australia	–	17,940	17,940	18,290
Current, unlisted equity investments, at fair value:				
Australia	394	413	428	440
Market value of listed equity investments stated at cost above	–	21,507	25,091	18,522

(e) Inventories

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Raw materials	14,668	16,262	15,772	13,838
Work in progress	752	915	34,020	13,910
Finished goods	7,328	8,941	13,878	23,208
Provision for inventories	–	–	(148)	(144)
	22,748	26,118	63,522	50,812

None of the inventory included above was stated at net realisable value as at 31 December 2000, 2001 and 2002, and 30 September 2003.

(f) Trade receivables

The CRA Group normally allows credit terms to its established customers for 30 days. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Current – 30 days	43,452	48,658	39,120	57,530
31 – 60 days	3,832	5,298	4,018	2,589
61 – 90 days	252	434	300	189
Over 90 days	–	709	37	2,078
	47,536	55,099	43,475	62,386

(g) Balances with CA and fellow subsidiaries

The balances with CA and fellow subsidiaries are unsecured, interest-free and have no fixed terms of repayment, except for an amount due to CA of A$13,863,000 as at 30 September 2003 which is not repayable within one year.

(h) Cash and cash equivalents

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Cash and bank balances	36,807	43,643	59,574	50,763
Time deposits with original maturity of less than three months when acquired	14,822	32	2,752	2,207
	51,629	43,675	62,326	52,970

(i) Trade payables

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of the goods purchased, is as follows:

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Current – 30 days	43,086	15,061	55,065	27,971
31 – 60 days	420	42	552	552
61 – 90 days	482	48	633	1,809
Over 90 days	211	21	280	279
	44,199	15,172	56,530	30,611

(j) Provisions

The CRA Group provides for the probable long service leave and holiday pay expected to be made to employees under the superannuation legislation of the Australian government, as further explained under the heading "Employee benefits" in section 2(d) to this report. 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 CRA Group to the balance sheet date.

(k) Bank and other borrowings

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Bank loans, secured	265,290	294,532	244,472	213,922
Other loans, unsecured	71,319	70,687	70,632	70,548
	336,609	365,219	315,104	284,470
Bank and other loans repayable:				
Within one year	30,263	68,375	65,422	62,614
In the second year	26,927	28,575	177,417	12,459
In the third to fifth years, inclusive	207,525	197,495	1,451	29,952
Beyond five years	71,894	70,774	70,814	179,445
	336,609	365,219	315,104	284,470
Portion classified as current liabilities	(30,263)	(68,375)	(65,422)	(62,614)
Non-current portion	306,346	296,844	249,682	221,856

(l) Banking facilities

At the balance sheet dates, the CRA Group' banking facilities were secured by the following:

(i) corporate guarantees executed by CA to the extent of A$203,720,000;

(ii) the 22.5% participating interest in the Portland Joint Venture; and

(iii) the 7% participating interest in the Coppabella and Moorvale Joint Venture.

(m) Deferred tax

The principal components of the deferred tax liability/(asset) provided for /(recognised) at the balance sheet dates were as follows:

		31 December		30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Tax losses carried forward	1,124	441	715	920
Accelerated depreciation allowances	25,244	29,047	35,808	720

(n) Distributable reserves

As at 30 September 2003, CRA had not been incorporated and accordingly, there were no reserves available for distribution to the shareholders of CRA.

(o) Contingent liabilities

As at the balance sheet dates, the CRA Group had the following contingent liabilities:

	31 December			30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Guarantee given by bank on behalf of the CRA Group over payment of electricity charges	3,000	3,000	–	–
Guarantee given by bank in relation to mining tenements of service contracts	468	338	1,881	3,280
Other guarantee and contingencies	–	–	–	1,420
Irrevocable letter of credit which have been discounted by the issuing bank with full recourse to CA	2,271	10,460	18,057	18,320
	5,739	13,798	19,938	23,020

Save as aforesaid, at 31 December 2000, 2001 and 2002 and 30 September 2003, the CRA Group did not have any significant contingent liabilities.

(p) Commitments

(i) Operating lease commitments

At 31 December 2000, 2001 and 2002, and 30 September 2003, the CRA Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings falling due as follows:

	31 December			30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Within one year	250	213	461	522
In the second to fifth years, inclusive	91	86	604	300
	341	299	1,065	822

(ii) Capital expenditure commitments

At 31 December 2000, 2001 and 2002, and 30 September 2003, the CRA Group had total capital commitment related to the CRA Group's interest in the property, plant and equipment in the Portland Joint Venture:

		31 December		**30 September**
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Within one year	–	944	2,405	–
In the second to fifth years, inclusive	–	–	10	–
	–	944	2,415	–

At 31 December 2000, 2001 and 2002, and 30 September 2003, the CRA Group had total capital commitment related to the CRA Group's interest in the property, plant and equipment in the coal joint ventures:

		31 December		**30 September**
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Within one year	575	233	1,159	1,759
In the second to fifth years, inclusive	123	5	732	1,010
Beyond the fifth year	–	–	857	1,011
	698	238	2,748	3,780

(iii) Other commitments

At 31 December 2000, 2001 and 2002, and 30 September 2003, the CRA Group had total commitments in respect of forward contracts entered into in the normal course of business in order to hedge exposure to fluctuations of interest rates, foreign exchange rates and commodity prices as follows:

		31 December		**30 September**
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
Interest rates	99,000	120,000	78,000	100,500
Foreign exchange rates	306,117	234,785	117,535	94,347
Commodity prices	587,999	588,754	257,609	115,007

Save for the aforesaid, at 31 December 2000, 2001 and 2002, and 30 September 2003, the CRA Group did not have any significant commitments.

(q) Share option schemes

CATL operates pre-IPO share option schemes for directors and other employees (the "Pre-Scheme"). On 3 April 2002, the Pre-Scheme was approved pursuant to an extraordinary general meeting of shareholders of CATL. The purpose of the Pre-Scheme is to provide an incentive for employees to remain in their employment in the long term. CATL had granted pre-IPO share options to its employees and directors to subscribe for a total of 4,700,000 shares at a subscription price ranging from A$0.20 to A$0.30 per share.

No consideration is payable by participants on the grant of the options.

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

	Number of share options				
Participant	At date of grant up to 1 January 2003	Exercised during the period	At 30 September 2003	Exercise period of share options	Exercise price per share A$
Directors	966,666	–	966,666	19 June 2003 to 18 June 2007	0.20
	966,667	–	966,667	19 June 2004 to 18 June 2007	above 0.20 and subject to approval by CATL's shareholders
	966,667	–	966,667	19 June 2005 to 18 June 2007	above 0.20 and subject to approval by CATL's shareholders
	2,900,000	–	2,900,000		
Other employees	600,000	(50,000)	550,000	19 June 2003 to 18 June 2007	0.20
	600,000	–	600,000	19 June 2004 to 18 June 2007	0.25
	600,000	–	600,000	19 June 2005 to 18 June 2007	0.30
	1,800,000	(50,000)	1,750,000		
	4,700,000	(50,000)	4,650,000		

5. PRO FORMA COMBINED STATEMENTS OF CHANGES IN EQUITY

The pro forma combined statements of changes in equity of the CRA Group for the Relevant Periods, prepared on the basis as set out in section 1 above, are as follows:

	Issued capital	Assets revaluation reserve	Other reserve	Retained profits	Total
	A$'000	A$'000	A$'000	A$'000	A$'000
At 1 January 2000	52,765	96,283	(71,500)	86,651	164,199
Net loss for the year	–	–	–	(1,945)	(1,945)
At 31 December 2000 and 1 January 2001	52,765	96,283	(71,500)	84,706	162,254
Net profit for the year	–	–	–	37,391	37,391
At 31 December 2001 and 1 January 2002	52,765	96,283	(71,500)	122,097	199,645
Issue of share capital of subsidiaries	5,014	–	–	(7,344)	(2,330)
Net profit for the year	–	–	–	22,384	22,384
At 31 December 2002 and 1 January 2003	57,779	96,283	(71,500)	137,137	219,699
Issue of share capital of subsidiaries	10	–	–	–	10
Net profit for the period	–	–	–	36,116	36,116
Dividend paid	–	–	–	(1,607)	(1,607)
At 30 September 2003	57,789	96,283	(71,500)	171,646	254,218

For the purpose of this report, the above issued capital represents the aggregate share capital and share premium account of companies directly held by CA as at the balance sheet dates.

6. PRO FORMA COMBINED CASH FLOW STATEMENTS

The pro forma combined cash flow statements of the CRA Group for the Relevant Periods, prepared on the basis as set out in section 1 above, are as follows:

	Year ended 31 December			Nine months ended 30 September
	2000	**2001**	**2002**	**2003**
	A$'000	A$'000	A$'000	A$'000
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before operating activities	17,596	73,932	55,444	33,604
Adjustments for:				
Interest income	(8,371)	(6,071)	(4,536)	(3,650)
Loss/(gain) on disposal of fixed assets, net	–	(8,208)	3,268	1,068
Depreciation	14,440	14,427	14,787	11,212
Amortisation	10,191	10,202	10,223	7,500
Operating profit before working capital changes	33,856	84,282	79,186	49,734
Decrease/(increase) in inventories	2,274	3,370	(37,404)	12,710
Decrease/(increase) in trade receivables	(32,757)	(7,563)	11,624	(18,911)
Decrease/(increase) in prepayments, deposits and other receivables	105	(20,114)	23,606	(698)
Increase/(decrease) in amounts due from fellow subsidiaries	(354)	58	32	219
Increase/(decrease) in balances with CA	(28,952)	(23,720)	6,160	11,537
Increase/(decrease) in trade payables	29,780	(29,027)	41,358	(25,919)
Increase/(decrease) in accrued liabilities and other payables	24,241	(6,023)	(29,012)	11,981
Increase/(decrease) in provisions	2,983	893	(79)	582
Cash generated from operations	31,176	2,156	95,471	41,235
Interest received	8,371	6,071	4,536	3,650
Interest paid	(20,431)	(20,860)	(15,679)	(8,744)
Dividends paid	–	–	–	(1,607)
Australian income taxes paid	(16,537)	(16,579)	(12,405)	(2,369)
Net cash inflow/(outflow) from operating activities	2,579	(29,212)	71,923	32,165

	Year ended 31 December			Nine months ended 30 September
	2000	2001	2002	2003
	A$'000	A$'000	A$'000	A$'000
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchases of fixed assets	(1,416)	(8,695)	(8,182)	(10,467)
Proceeds from disposal of fixed assets	–	19,111	7	1
Increase in investments in securities	(25)	(17,959)	(15)	(362)
Decrease/(increase) in other receivables	–	191	19	(69)
Net cash outflow from investing activities	(1,441)	(7,352)	(8,171)	(10,897)
CASH FLOWS FROM FINANCING ACTIVITIES				
Issue of share capital of subsidiaries	–	–	5,014	10
Drawdown/(repayment) of bank and other loans	17,748	28,610	(50,115)	(30,634)
Net cash inflow/(outflow) from financing activities	17,748	28,610	(45,101)	(30,624)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	18,886	(7,954)	18,651	(9,356)
Cash and cash equivalents at beginning of year/period	32,743	51,629	43,675	62,326
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	51,629	43,675	62,326	52,970
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS				
Cash and bank balances	36,807	43,643	59,574	50,763
Time deposits with original maturity of less than three months when acquired	14,822	32	2,752	2,207
	51,629	43,675	62,326	52,970

7. SEGMENT INFORMATION

Hong Kong Statement of Standard Accounting Practice 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the CRA Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be primary segment reporting format, with the other as the secondary segment reporting format.

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 CRA 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 CRA Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(i) the aluminium smelter segment comprises the operation of the Portland Aluminium Smelter and sale of finished products;

(ii) the coal exploration segment comprises the operation of coal mining, exploration and sale; and

(iii) the import and export of commodities segment represents import of various commodity products such as fertilizer, iron ore, aluminium ingot and alumina and export 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 determining the CRA Group's geographical segments, revenues and assets are attributed to the segments based on the location of operations. No analysis for geographical segment is presented as all of the CRA Group's revenue, results, assets and liabilities were derived from operations in Australia during the Relevant Periods.

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

Business segment

An analysis of the CRA Group's revenue and profit/(loss) for the Relevant Periods and segment assets and liabilities at 31 December 2000, 2001 and 2002 and 30 September 2003 by principal activities is as follows:

	Aluminium smelter segment A$'000	Coal exploration segment A$'000	Import and export of commodities segment A$'000	Combined A$'000
Year ended 31 December 2000				
Segment revenue:				
Sales to external customers	220,401	22,541	337,035	579,977
Other revenue	6,085	348	2,658	9,091
	226,486	22,889	339,693	589,068
Segment results	11,895	1,610	6,531	20,036
Unallocated expenses				(2,440)
Profit from operating activities				17,596
Finance costs, net	(19,129)	(368)	(1,056)	(20,553)
Loss before tax				(2,957)
Tax				1,012
Net loss attributable to shareholders				(1,945)
31 December 2000				
Segment assets	576,791	16,729	51,875	645,395
Unallocated assets				1,139
Total assets				646,534
Segment liabilities	352,373	11,666	47,602	411,641
Unallocated liabilities				72,639
Total liabilities				484,280
Other segment information:				
Depreciation	13,666	709	65	14,440
Other non-cash expenses	10,191	–	–	10,191
Capital expenditure	410	834	172	1,416

	Aluminium smelter segment A$'000	Coal exploration segment A$'000	Import and export of commodities segment A$'000	Combined A$'000
Year ended 31 December 2001				
Segment revenue:				
Sales to external customers	220,758	14,706	317,484	552,948
Other revenue	5,063	8,208	2,215	15,486
	225,821	22,914	319,699	568,434
Segment results	55,010	16,143	5,451	76,604
Unallocated expenses				(2,672)
Profit from operating activities				73,932
Finance costs, net	(19,209)	(184)	(1,600)	(20,993)
Profit before tax				52,939
Tax				(15,548)
Net profit attributable to shareholders				37,391
31 December 2001				
Segment assets	577,961	28,944	61,048	667,953
Unallocated assets				1,083
Total assets				669,036
Segment liabilities	333,949	8,656	54,203	396,808
Unallocated liabilities				72,583
Total liabilities				469,391
Other segment information:				
Depreciation	13,703	630	94	14,427
Other non-cash expenses	10,202	–	–	10,202
Capital expenditure	7,444	1,070	181	8,695

	Aluminium smelter segment A$'000	Coal exploration segment A$'000	Import and export of commodities segment A$'000	Combined A$'000
Year ended 31 December 2002				
Segment revenue:				
Sales to external customers	194,891	12,790	443,059	650,740
Other revenue	4,691	1,167	3,311	9,169
	199,582	13,957	446,370	659,909
Segment results	46,936	3,698	7,358	57,992
Unallocated expenses				(2,548)
Profit from operating activities				55,444
Finance costs, net	(13,326)	(102)	(2,384)	(15,812)
Profit before tax				39,632
Tax				(16,868)
Profit before minority interests				22,764
Minority interests				(380)
Net profit attributable to shareholders				22,384
31 December 2002				
Segment assets	540,921	29,640	98,548	669,109
Unallocated assets				1,255
Total assets				670,364
Segment liabilities	278,690	7,939	89,608	376,237
Unallocated liabilities				72,755
Total liabilities				448,992
Other segment information:				
Depreciation	14,124	539	124	14,787
Other non-cash expenses	10,223	–	–	10,223
Capital expenditure	5,748	2,145	289	8,182

	Aluminium smelter segment A$'000	Coal exploration segment A$'000	Import and export of commodities segment A$'000	Combined A$'000
Nine months ended 30 September 2003				
Segment revenue:				
Sales to external customers	144,160	12,246	331,028	487,434
Other revenue	1,853	595	3,319	5,767
	146,013	12,841	334,347	493,201
Segment results	24,342	2,451	8,793	35,586
Unallocated expenses				(1,982)
Profit from operating activities				33,604
Finance costs, net	(7,011)	(155)	(1,684)	(8,850)
Profit before tax				24,754
Tax				12,244
Profit before minority interests				36,998
Minority interests				(882)
Net profit attributable to shareholders				36,116
30 September 2003				
Segment assets	520,163	42,903	95,132	658,198
Unallocated assets				908
Total assets				659,106
Segment liabilities	227,357	19,421	83,147	329,925
Unallocated liabilities				72,408
Total liabilities				402,333
Other segment information:				
Depreciation	10,591	494	127	11,212
Other non-cash expenses	7,500	–	–	7,500
Capital expenditure	1,564	8,660	243	10,467

8. SUBSEQUENT EVENTS

In addition to the matters set out in other sections, the following events took place subsequent to 30 September 2003:

(a) In November 2003, the CRA Group purchased additional 6,630,000 shares in Aztec of A$0.01 each at a price of A$0.07 each. Aztec is a company listed on the ASX and is principally engaged in minerals exploration. Following the completion of the above acquisition, the CRA Group holds a 5.01% equity interest in Aztec.

(b) On 18 January 2004, CITIC Australia (Portland) Pty Limited declared a dividend of A$120 million out of its retained profits to its then shareholder.

Save as aforesaid, no other significant events took place subsequent to 30 September 2003.

9. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the CRA Group or any of the companies comprising the CRA Group in respect of any period subsequent to 30 September 2003.

Yours faithfully,
ERNST & YOUNG
Certified Public Accountants
Hong Kong

The following is the text of an accountants' report, prepared for the purpose of incorporation in this circular, received from the reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永 會 計 師 事 務 所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

11 August 2004

The Directors
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Richfirst Holdings Limited ("**Richfirst**") to be acquired by CITIC Resources Holdings Limited (the "**Company**") pursuant to a conditional sale and purchase agreement (the "**Agreement**") dated 29 June 2004 made between Starbest Venture Limited, a wholly-owned subsidiary of the Company, the Company and CITIC Group for inclusion in the circular issued by the Company dated 11 August 2004 (the "**Circular**"). The definitions used in the Circular apply to this report unless otherwise stated.

Richfirst was incorporated in the British Virgin Islands with limited liability under the International Business Companies Act on 3 December 2003 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each, of which 100 shares were issued at par on 29 December 2003. On 18 January 2004, Richfirst entered into an agreement (the "**Farmout Agreement**") with Pan-China Resources Limited ("**Pan-China**"), Sunwing Energy Limited ("**Sunwing**"), and Ivanhoe Energy Inc. ("**Ivanhoe**") to acquire a 40% participating interest in the Petroleum Contract (the "**Participating Interest**") from Pan-China. The Petroleum Contract is a 30-year petroleum development and production sharing contract entered into between Pan-China and China National Petroleum Corporation ("**CNPC**") on 8 September 1997 (as amended) for the development and production of petroleum in the Kongnan Block within the Dagang Oilfield, the People's Republic of China (the "**PRC**"). Under the terms of the Farmout Agreement, Richfirst has an option to convert the Participating Interest into either Sunwing Shares (at any time prior to the first anniversary of completion of the initial public offering of Sunwing) or Ivanhoe Shares (at any time within 18 months following completion of Richfirst's acquisition of the Participating Interest). If Richfirst elects to convert the Participating Interest into either Sunwing Shares or Ivanhoe Shares, the Participating Interest will be automatically re-assigned to Pan-China.

Further details of the Petroleum Contract and the Farmout Agreement are set out in the "Letter from the Board" in the Circular.

Upon completion of the Agreement, Richfirst will become an indirect wholly-owned subsidiary of the Company. The obligations of Richfirst in respect of the Participating Interest for amounts due under the annual work programs and budgets agreed between the Contractor and CNPC under the Petroleum Contract are guaranteed by CITIC Group (the "**CITIC Group Guarantee**"). It is expected that the CITIC Group Guarantee will be released and substituted by a guarantee executed by the Company on the same terms as the CITIC Group Guarantee.

Apart from the aforesaid, Richfirst did not carry out any other transactions during the period from 3 December 2003 (date of incorporation of Richfirst) to 31 December 2003 and the three months ended 31 March 2004 (the "**Relevant Periods**"). Accordingly, no profit and loss account or cash flow statements have been presented for Richfirst for the Relevant Periods.

Richfirst has adopted 31 December as its financial year end date for statutory reporting purposes. Chan and Chan, Certified Public Accountants in Hong Kong, acted as the auditor of Richfirst for the Relevant Periods.

The summaries of the statements of changes in equity of Richfirst for the Relevant Periods and of the balance sheets of Richfirst as at 31 December 2003 and 31 March 2004 (the "**Summaries**") as set out in this report have been prepared from the audited financial statements of Richfirst. No adjustments were considered necessary. We have, however, performed procedures in accordance with the Statements of Auditing Standards and Auditing Guideline 3.340 "**Prospectuses and the reporting accountant**" issued by the Hong Kong Society of Accountants for inclusion of the financial information relating to Richfirst in this report.

The Summaries are the responsibility of the directors of Richfirst who approve their issuance. It is our responsibility to compile the Summaries together with the notes thereto, to form an independent opinion on such information and to report our opinion to you.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the balance sheets of Richfirst as at 31 December 2003 and 31 March 2004.

1. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted by Richfirst in arriving at the financial information as set out in this report are set out below:

(a) Basis of preparation

The financial information as set out in this report has been prepared in accordance with accounting principles generally accepted in Hong Kong under the historical cost convention.

(b) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior periods may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(c) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(d) Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets 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 assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from negative 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.

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

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

(e) Provisions

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

(f) Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

2. BALANCE SHEETS

The following is a summary of the balance sheets of Richfirst as at 31 December 2003 and 31 March 2004.

	Notes	31 December 2003 HK$	31 March 2004 HK$
NON-CURRENT ASSETS			
Loan to Pan-China	(a)	–	78,000,000
CURRENT ASSETS			
Due from CITIC Group	(b)	780	780
NET CURRENT ASSETS		780	780
TOTAL ASSETS LESS CURRENT LIABILITIES		780	78,000,780
NON-CURRENT LIABILITIES			
Loan from CITIC Group	(c)	–	(78,000,000)
		780	780
CAPITAL AND RESERVES			
Issued capital		780	780
Reserves	(e)	–	–
		780	780

Note:

(a) Loan to Pan-China

The loan lent to Pan-China, which was paid by CITIC Group on Richfirst's behalf (note (c) below), is unsecured, bears interest at 5% per annum and has no fixed terms of repayment as provided in the loan agreement dated 1 March 2004 and made between Pan-China and Richfirst (the "**Loan Agreement**").

Pan-China is designated as the contractor of the Kongnan Block within the Dagang Oilfield, the PRC under the Petroleum Contract. Pan-China, as contractor, is entitled to a share of 82% of the surplus generated from the oilfield operation after repayment of certain operating and development costs as stipulated in the Petroleum Contract (the "**Contractor's Rights**") until cost recovery, at which its shared entitlement reverts to 49% pursuant to the Petroleum Contract.

On 18 January 2004, Richfirst entered into the Farmout Agreement with Pan-China, Sunwing and Ivanhoe to acquire the Participating Interest from Pan-China for a consideration of US$20,000,000 (equivalent approximately HK$156,000,000), subject to the approval of the PRC Government.

Subsequent to the balance sheet date, on 13 May 2004, the PRC Government approved Richfirst becoming a party to the Petroleum Contract. On 18 June 2004, pursuant to the Loan Agreement, Richfirst elected to apply the whole amount of the loan as partial payment of the consideration under the Farmout Agreement (section 7(a)) and agreed to waive all the interest receivable from Pan-China in respect of the loan in accordance with the terms of the loan agreement.

(b) Due from CITIC Group

The amount due from CITIC Group is unsecured, interest-free and has no fixed terms of repayment.

(c) Loan from CITIC Group

The loan borrowed from CITIC Group is unsecured, interest-free and is not repayable within one year. It is repayable 18 months from its drawdown date of 3 March 2004.

(d) Deferred tax

Richfirst had no material deferred tax assets or liabilities as at 31 December 2003 and 31 March 2004, respectively.

(e) Reserves

As at 31 December 2003 and 31 March 2004, respectively, Richfirst had no reserves available for distribution to its shareholders.

(f) Commitments

As at 31 March 2004, Richfirst had a total capital commitment for an aggregate consideration of US$20,000,000 (equivalent approximately HK$156,000,000) pursuant to the Farmout Agreement. Subsequent to the balance sheet date, on 18 June 2004, Richfirst satisfied the payment of the consideration (section 7 (a)).

Save for the aforesaid, Richfirst did not have any significant commitments as at 31 December 2003 and 31 March 2004, respectively.

(g) Contingent liabilities

Richfirst did not have any significant contingent liabilities as at 31 December 2003 and 31 March 2004, respectively.

3. STATEMENT OF CHANGES IN EQUITY

The movements in the shareholders' equity of Richfirst for the Relevant Periods are as follows:

	Issued capital HK$	**Retained profits** HK$	**Total** HK$
On 29 December 2003	780	–	780
Results for the period	–	–	–
At 31 December 2003 and 1 January 2004	780	–	780
Results for the period	–	–	–
At 31 March 2004	780	–	780

4. SEGMENT INFORMATION

All the assets and liabilities of Richfirst are located in the PRC and its operations are considered by its directors as one business segment of the Participating Interest under the Petroleum Contract and the Farmout Agreement.

5. RELATED PARTY TRANSACTIONS

During the Relevant Periods, all pre-operating expenses of Richfirst were borne by CITIC Group.

Save for the aforesaid and disclosed elsewhere in this report, Richfirst did not have any significant related party transactions during the Relevant Periods.

6. ULTIMATE HOLDING COMPANY

The directors of Richfirst consider CITIC Group, a state-owned enterprise in the PRC, to be the ultimate holding company of Richfirst.

7. SUBSEQUENT EVENTS

In addition to the matters set out in other sections, the following events took place subsequent to 31 March 2004:

(a) On 18 June 2004, for the purpose of completing the Farmout Agreement, Richfirst settled the aggregate consideration of US$20,000,000 (equivalent approximately HK$156,000,000) to Pan-China by (i) electing to apply the whole amount of the loan of US$10,000,000 which was lent to Pan-China (section 2 (note(a)) in part payment of the consideration due under the Farmout Agreement; and (ii) effecting a drawdown of a further loan of US$10,000,000 from CITIC Group (which was again paid by CITIC Group on Richfirst's behalf to Pan-China) to pay the balance of the consideration due under the Farmout Agreement.

(b) Pursuant to a working mandate executed on 20 July 2004, Richfirst and Pan-China have mandated an international bank to arrange a loan facility of up to US$110,000,000 (about HK$858,000,000) to part fund the budgeted expenditure required under the Petroleum Contract.

Save as aforesaid, no other significant events took place subsequent to 31 March 2004.

8. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by Richfirst in respect of any period subsequent to 31 March 2004.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(A) UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP

1. UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE ENLARGED GROUP UPON COMPLETION OF THE ACQUISITION

The unaudited pro forma consolidated balance sheet of the Enlarged Group has been prepared based on:

(1) the audited consolidated balance sheet of the Group (not including the CRA Group) as at 31 December 2003, as set out in Appendix I to this circular;

(2) the audited consolidated statement of financial position of the CRA Group as at 31 March 2004, as audited by PricewaterhouseCoopers, Chartered Accountants, Australia; and

(3) the audited balance sheet of Richfirst as at 31 March 2004, as set out in Appendix III to this circular.

As it is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which it is made up to or at any future date.

(Expressed in HK$'000) * not including the CRA Group	Group*: audited as at 31 December 2003	CRA Group: audited as at 31 March 2004	Richfirst: audited as at 31 March 2004	Group*: pro forma adjustments (Note 1)	Richfirst: pro forma adjustments (Note 2)	Consolidated pro forma adjustments (Note 3)	Enlarged Group: unaudited pro forma
NON-CURRENT ASSETS							
Fixed assets	91,532	1,223,592	–		165,360		1,480,484
Investment in subsidiaries	–	–	–	1,043,075		(1,043,075)	–
Prepayments	3,238	72	–				3,310
Goodwill (Note 4)	–	33,329	–				33,329
Investment in securities	–	178,326	–				178,326
Deferred tax assets	–	10,062	–				10,062
Other assets	–	708,972	–				708,972
Others receivables	–	11,466	78,000		(78,000)		11,466
	94,770	2,165,819	78,000				2,425,949

(Expressed in HK$'000) * not including the CRA Group	Group*: audited as at 31 December 2003	CRA Group: audited as at 31 March 2004	Richfirst: audited as at 31 March 2004	Group*: pro forma adjustments (Note 1)	Richfirst: pro forma adjustments (Note 2)	Consolidated pro forma adjustments (Note 3)	Enlarged Group: unaudited pro forma
CURRENT ASSETS							
Inventories	8,898	239,886	–				248,784
Accounts receivables, net	3,846	479,712	–				483,558
Prepayments, deposits and other receivables	1,972	26,640	–				28,612
Investment in securities	–	2,694	–				2,694
Due from CITIC Group	–	–	1		(1)		–
Other assets	–	61,194	–				61,194
Pledged bank deposits	20,399	–	–				20,399
Cash and cash equivalents	1,100,153	253,950	–	380,200	(165,360)		1,568,943
	1,135,268	1,064,076	1				2,414,184
CURRENT LIABILITIES							
Accounts and bills payable	(3,407)	(5,032)	–				(8,439)
Tax payable	–	(13,308)	–				(13,308)
Accrued liabilities and other payables	(23,544)	(203,408)	–				(226,952)
Bank and other borrowings	(20,735)	(472,182)	–				(492,917)
Provisions	–	(34,338)	–				(34,338)
Deferred income	–	(2,844)	–				(2,844)
	(47,686)	(731,112)	–				(778,798)
NET CURRENT ASSETS	1,087,582	332,964	1				1,635,386
TOTAL ASSETS LESS CURRENT LIABILITIES	1,182,352	2,498,783	78,001				4,061,335
NON-CURRENT LIABILITIES							
Bank and other borrowings	(11,862)	(1,249,884)	–				(1,261,746)
Loan from CITIC Group	–	–	(78,000)		78,000		–
Provisions	–	(16,290)	–				(16,290)
Deferred tax liabilities	–	(101,064)	–				(101,064)
Deferred income and other payables	–	(34,152)	–				(34,152)
	(11,862)	(1,401,390)	(78,000)				(1,413,252)
MINORITY INTERESTS	–	(19,831)	–				(19,831)
	1,170,490	1,077,562	1				2,628,252
SHAREHOLDERS' EQUITY	1,170,490	1,077,562	1	1,423,275	(1)	(1,043,075)	2,628,252

Note:

1. The adjustments represent:

   (1) the net proceeds of HK$380,200,000 from the placing in February 2004 as disclosed in the announcement by the Company dated 2 February 2004 (the "**Placing**"); and

   (2) the issue of 750,413,793 new Shares, based on the closing price of HK$1.39 per Share quoted on the Stock Exchange on 31 March 2004 (the date of the completion of the acquisition of CRA and CPS), for the acquisition of the entire issued share capital of CRA and CPS, further details of which are set out in the circular dated 6 March 2004 issued by the Company.

2. The adjustments represent the payment of a cash consideration of US$21,200,000 (about HK$165,360,000) by the Group for the Acquisition.

3. The adjustment represents the elimination of the Company's acquisition cost of the CRA Group of HK$1,043,075,000 on consolidation.

4. Under the accounting principles generally accepted in Hong Kong, the Group applied the purchase method to account for the acquisition of the entire issued share capital of CRA and CPS.

   In applying the purchase method, the identifiable assets and liabilities of Richfirst will be recorded on the unaudited pro forma consolidated balance sheet of the Enlarged Group as at 31 March 2004 at their fair values at the date of completion of the Acquisition, and all the capital and reserves of Richfirst upon completion will be eliminated as the pre-acquisition reserves of the Enlarged Group. Any goodwill or negative goodwill arising on the Acquisition will be determined as the excess or deficit of the purchase consideration deemed to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets and liabilities of Richfirst at the date of completion.

2. UNAUDITED PRO FORMA COMBINED PROFIT AND LOSS ACCOUNT OF THE ENLARGED GROUP UPON COMPLETION OF THE ACQUISITION

The following unaudited pro forma combined profit and loss account has been prepared in accordance with, and to comply with, the requirements of Rule 4.29 of the Listing Rules. It is an unaudited pro forma combined profit and loss account of the Enlarged Group based on:

(1) the audited consolidated profit and loss account of the Group (not including the CRA Group) for the year ended 31 December 2003, as set out in Appendix I to this circular; and

(2) the audited combined profit and loss account of the CRA Group for the year ended 31 December 2002, as set out in section 3 of Appendix I to the circular dated 6 March 2004 issued by the Company (and reproduced in Appendix II to this circular).

As it is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial results of the Enlarged Group for the financial period in respect of which it is prepared or for any future financial period.

(Expressed in HK$'000) * not including the CRA Group	Group*: audited for the year ended 31 December 2003	CRA Group: audited for the year ended 31 December 2002 (Note 1)	Richfirst: audited from date of incorporation to 31 December 2003	Group: pro forma adjustments (Note 2)	Consolidated: pro forma adjustments	Enlarged Group: unaudited pro forma
TURNOVER	24,535	3,904,440	–			3,928,975
Cost of sales	(40,911)	(3,579,270)	–			(3,620,181)
Gross profit/(loss)	(16,376)	325,170	–			308,794
Other revenue and gains	14,080	55,014	–			69,094
Selling and distribution costs	(462)	(11,508)	–			(11,970)
Administrative expenses	(18,199)	(38,910)	–			(57,109)
Other operating incomes/ (expenses), net	(30,877)	2,898	–			(27,979)
Amortisation of goodwill	–	–	–	(6,666)		(6,666)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	(51,834)	332,664	–			274,164
Finance costs	(171)	(94,872)	–			(95,043)
PROFIT/(LOSS) BEFORE TAX	(52,005)	237,792	–			179,121
Tax charge	–	(101,208)	–			(101,208)
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(52,005)	136,584	–			77,913
Minority interests	–	(2,280)	–			(2,280)
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	(52,005)	134,304	–			75,633

Note:

1. In compliance with the Listing Rules, the figures for the year ended 31 December 2002 were used in the preparation of this audited pro forma combined profit and loss account.

2. The adjustment represents the amortisation of estimated goodwill arising from the acquisition of the entire issued share capital of CRA and CPS. For illustrative purposes only, the estimated goodwill is about HK$33,329,000 which is based on a 5-year amortisation period and on a straight-line method.

3. UNAUDITED PRO FORMA COMBINED CASH FLOW STATEMENT OF THE ENLARGED GROUP UPON COMPLETION OF THE ACQUISITION

The following unaudited pro forma combined cash flow statement has been prepared in accordance with, and to comply with, the requirements of Rule 4.29 of the Listing Rules. It is an unaudited pro forma combined cash flow statement of the Enlarged Group based on:

(1) the audited consolidated cash flow statement of the Group (not including the CRA Group) for the year ended 31 December 2003, as set out in Appendix I to this circular; and

(2) the audited combined cash flow statements of the CRA Group for the year ended 31 December 2002, as set out in section 6 of Appendix I to the circular dated 6 March 2004 issued by the Company (and reproduced in Appendix II to this circular).

As it is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group for the financial period in respect of which it is prepared or for any future period.

(Expressed in HK$'000) * not including the CRA Group	Group*: audited for the year ended 31 December 2003	CRA Group: audited for the year ended 31 December 2002 (Note 1)	Richfirst: audited from date of incorporation to 31 December 2003	Group: pro forma adjustments (Note 2)	Richfirst: pro forma adjustments (Note 3)	Enlarged Group: unaudited pro forma
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit/(loss) before tax	(52,005)	332,664	–			280,659
Adjustments for:						
Interest expense	171	–	–			171
Interest income	(13,273)	(27,216)	–			(40,489)
Depreciation	12,971	88,722	–			101,693
Loss on disposal/write-off of fixed assets	713	19,608	–			20,321
Amortisation	–	61,338	–			61,338
Professional fees incurred in relation to aborted investment projects	25,662	–	–			25,662
Provision for impairment of fixed assets	4,502	–	–			4,502
Operating profit/(loss) before working capital changes	(21,259)	475,116	–			453,857

(Expressed in HK$'000) * not including the CRA Group	Group*: audited for the year ended 31 December 2003	CRA Group: audited for the year ended 31 December 2002 (Note 1)	Richfirst: audited from date of incorporation to 31 December 2003	Group: pro forma adjustments (Note 2)	Richfirst: pro forma adjustments (Note 3)	Enlarged Group: unaudited pro forma
Increase in inventories	(5,833)	(224,424)	–			(230,257)
Decrease/(increase) in prepayments, deposits and other receivables	(3,707)	141,636	–			137,929
Increase in amounts due from fellow subsidiaries	–	192	–			192
Decrease/(increase) in accounts receivable	(2,503)	69,744	–			67,241
Increase in balances with CA	–	36,960	–			36,960
Increase/(decrease) in accounts payable	2,340	248,148	–			250,488
Increase/(decrease) in accrued liabilities and other payables	6,582	(174,072)	–			(167,490)
Decrease in provisions	–	(474)	–			(474)
Cash used in operations	(24,380)	572,826	–			548,446
Interest received	–	27,216	–			27,216
Interest paid	–	(94,074)	–			(94,074)
Australian income taxes paid	–	(74,430)	–			(74,430)
Net cash inflow/(outflow) from operating activities	(24,380)	431,538	–			407,158
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	12,220	–	–			12,220
Proceeds from disposal of a long term investment	2,500	–	–			2,500
Purchases of fixed assets	2,114	(49,092)	–			(46,978)
Proceeds from disposal of fixed assets	355	42	–			397
Increase in investment in securities	–	(90)	–			(90)
Decrease in other receivables	–	114	–			114
Increase in pledged bank deposits	(20,399)	–	–			(20,399)
Payments of the consideration of the Acquisition	–	–	–		(165,360)	(165,360)
Payments of legal and professional fee incurred in relation to potential investment projects	(16,318)	–	–			(16,318)
Net cash outflow from investing activities	(19,528)	(49,026)	–			(233,914)

(Expressed in HK$'000) * not including the CRA Group	Group*: audited for the year ended 31 December 2003	CRA Group: audited for the year ended 31 December 2002 (Note 1)	Richfirst: audited from date of incorporation to 31 December 2003	Group: pro forma adjustments (Note 2)	Richfirst: pro forma adjustments (Note 3)	Enlarged Group: unaudited pro forma
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from issue of share capital	–	–	–	391,500		391,500
Shares issuance expenses	–	–	–	(11,300)		(11,300)
Cash distribution by the CRA Group	–	–	–	(120,000)		(120,000)
Issue of share capital of subsidiaries	–	30,084	–			30,084
Drawdown/(repayment) of bank and other loans	20,735	(300,690)	–			(279,955)
Interest paid	(171)	–	–			(171)
Net cash inflow from financing activities	20,564	(270,606)	–			10,158
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(23,344)	111,906	–			183,402
Cash and cash equivalents at beginning of year	1,123,498	262,050	–			1,385,548
Effect of foreign exchange rate changes, net	(1)	–	–			(1)
CASH AND CASH EQUIVALENTS AT END OF YEAR	1,100,153	373,956	–			1,568,949
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and bank balances	1,647	357,444	–	(120,000)		239,091
Non-pledged time deposits with original maturity of less than three months when acquired	1,098,506	16,512	–	380,200	(165,360)	1,329,858
	1,100,153	373,956	–			1,568,949

Note:

1. In compliance with the Listing Rules, the figures for the year ended 31 December 2002 were used in the preparation of this audited pro forma combined cash flow statement.

2. The adjustments represent:

   (1) the net proceeds of HK$380,200,000 from the Placing; and
   (2) the increased cash distribution of A$20,000,000 (about HK$120,000,000) made by the CRA Group in March 2004.

3. The adjustment represents the payment of a cash consideration of US$21,200,000 (about HK$165,360,000) by the Group for the Acquisition.

4. UNAUDITED PRO FORMA CONSOLIDATED NET TANGIBLE ASSETS OF THE ENLARGED GROUP BEFORE AND UPON COMPLETION OF THE ACQUISITION

The financial information set out in part (a) below is based on the audited consolidated balance sheet of the Group (not including the CRA Group) as at 31 December 2003, as set out in Appendix I to this circular.

The financial information set out in part (b) below is based on:

(1) the audited consolidated statement of financial position of the CRA Group as at 31 March 2004, as audited by PricewaterhouseCoopers, Chartered Accountants, Australia and

(2) the audited balance sheet of Richfirst as at 31 March 2004, as set out in Appendix III to this circular.

As the unaudited pro forma consolidated net tangible assets of the Enlarged Group is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group as at the date to which they are prepared or at any future date.

(Expressed in HK$'000)

(a) before the completion of the Acquisition (not including the CRA Group):

Audited consolidated net assets of the Group as at 31 December 2003 (Note 1)	Add: Net proceeds from the Placing	Unaudited pro forma consolidated net tangible assets of the Group as at 31 March 2004	Per Share (Note 2)
1,170,490	380,200	1,550,690	HK$0.435

(b) upon completion of the Acquisition (including the CRA Group):

Unaudited pro forma consolidated net assets of the Enlarged Group as at 31 March 2004 (Note 1)	Less: intangible assets of the CRA Group as at 31 March 2004 (Note 3)	Less: unamortised goodwill as at 31 March 2004 (Note 4)	Unaudited pro forma consolidated net tangible assets of the Enlarged Group as at 31 March 2004	Per Share (Note 5)
2,628,252	(708,972)	(33,329)	1,885,951	HK$0.437

Note:

1. The breakdown of and the adjustments to these figures are shown in the unaudited pro forma consolidated balance sheet of the Enlarged Group upon completion of the Acquisition as set out in section (A) 1 of Appendix IV to this circular.

2. It is calculated based on 3,566,470,588 Shares in issue as at 31 March 2004.

3. This includes other assets relating to the electricity supply agreement (which was signed in 1986 with the State of Electricity Commission of Victoria for a term of 30 years and at fixed tariff) of A$118,162,000 (about HK$708,972,000) as at 31 March 2004.

4. The unamortized goodwill arises from the acquisition of the entire issued share capital of CRA and CPS. It is based on a 5-year amortisation period and on a straight-line method.

5. It is calculated based on 4,316,884,381 Shares, being 3,566,470,588 Shares in issue as at 31 March 2004 and 750,413,793 Shares issued by the Company for the acquisition of the entire issued share capital of CRA and CPS.

5. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong.

ERNST & YOUNG
安 永 會 計 師 事 務 所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

11 August 2004

The Board of Directors
CITIC Resources Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information of the Enlarged Group (being the Group (as defined herein) together with Richfirst Holdings Limited ("**Richfirst**")) set out on pages 108 to 115 in Appendix IV to the circular dated 11 August 2004, which has been prepared by CITIC Resources Holdings Limited (the "**Company**", and together with its subsidiaries are referred to as the "**Group**"), solely for illustrative purposes, to provide information about how the proposed acquisition of the entire equity interest in Richfirst by the Company and the transactions as described in the accompanying introduction to the unaudited pro forma financial information of the Enlarged Group might have affected the historical financial information in respect of the Group.

The historical financial information is derived from the audited historical financial information of the Group and Richfirst appearing elsewhere herein. The basis of preparation of the pro forma financial information is set out in the accompanying introduction and notes to the unaudited pro forma financial information of the Enlarged Group.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the pro forma financial information in accordance with Paragraph 13 of Appendix 1B and Paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

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

Basis of opinion

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

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

The pro forma financial information is for illustrative purposes only, based on the judgments and assumptions of the directors of the Company, and because of its nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position or results of:

– the Enlarged Group had the transaction actually occurred as at the dates indicated therein; or

– the Enlarged Group at any future date or for any future periods.

Opinion

In our opinion:

(a) the accompanying unaudited pro forma financial information has been properly compiled on the basis stated;

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

(c) the adjustments are appropriate for the purpose of the pro forma financial information as disclosed pursuant to Paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

(B) INDEBTEDNESS

Borrowings

As at 31 May 2004, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of about HK$1,682,856,000. The borrowings comprised unsecured bank loans of about HK$254,916,000, unsecured long term loans of about HK$11,862,000 and secured bank loans of HK$909,078,000.

As at 31 May 2004, the Enlarged Group had two existing loans totalling US$55,000,000 (about HK$429,000,000) due from the CRA Group to CITIC Group. Details of the loans:

Loan amount:	US$46,000,000 (about HK$358,800,000)
Maturity:	September 2007
Interest rate:	LIBOR + 1.5% p.a.
Loan amount:	US$9,000,000 (about HK$70,200,000)
Maturity:	August 2004
Interest rate:	LIBOR + 1.5% p.a.

As at 31 May 2004, the Enlarged Group had a loan due from Richfirst to CITIC Group of US$10,000,000 (about HK$78,000,000).

On 18 June 2004, for the purpose of completing the Farmout Agreement, Richfirst settled the aggregate consideration of US$20,000,000 (equivalent about HK$156,000,000) to Pan-China by (i) electing to apply the whole amount of the loan of US$10,000,000 which was lent to Pan-China in partial payment of the consideration due under the Farmout Agreement; and (ii) effecting a drawdown of a further loan of US$10,000,000 from CITIC Group (which was again paid by CITIC Group on Richfirst's behalf to Pan-China) to pay the balance of the consideration due under the Farmout Agreement.

Security

As at 31 May 2004, the banking facilities of the Enlarged Group were supported by the following:

(i) legal charges over the Enlarged Group's time deposits amounting to about HK$37,440,000;

(ii) a corporate guarantee executed by Wing Lam (International) Timber Limited, an indirect wholly-owned subsidiary of the Company;

(iii) a pledge of the 22.5% participating interest in the Portland Joint Venture; and

(iv) a pledge of the 7% participating interest in the Coppabella and Moorvale Joint Venture.

Contingent liabilities

As at 31 May 2004, the Enlarged Group had guarantees given by a bank in relation to mining tenements of service contracts of about HK$18,985,000 and a letter of credit discounted with full recourse of about HK$28,472,000.

Disclaimer

Save as aforesaid or as otherwise mentioned herein and the litigation as detailed in the section headed "Litigation" in Appendix V to this circular, and apart from intra-group liabilities, none of the companies in the Enlarged Group had, at the close of business on 31 May 2004, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other contingent liabilities.

Save as aforesaid, the Directors have confirmed that there have been no other material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 May 2004.

Foreign currency transactions

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 May 2004.

(C) WORKING CAPITAL

A long term loan facility of US$110,000,000 (about HK$858,000,000) is expected to be arranged to part fund the budgeted expenditure required under the Petroleum Contract. Pursuant to a working mandate executed on 20 July 2004, Richfirst and Pan-China have mandated an international bank to arrange a loan facility of up to US$110,000,000 to part fund such expenditure.

The Directors are of the opinion that after taking into account the aforesaid syndicated loan to be arranged and the existing financing available to the Enlarged Group, the working capital requirements and the expected cash flows of the Enlarged Group, the Enlarged Group will, following the completion of the Acquisition, have sufficient working capital for its present requirements for the period from 1 June 2004 to 31 July 2005 in the absence of unforeseen material circumstances.

(D) MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE ENLARGED GROUP

1. Business review

(for the year ended 31 December 2001)

During the year, the Group was mainly involved in the manufacture and sale of plywood. Considerable effort was spent in repositioning the business with a view to strengthening the core business of the Group and to reinforce its brand name against a backdrop of an arduous economic environment and difficult operating conditions. The Directors adopted a number of measures to sustain the performance of the Group, including refocusing the business strategy and product portfolio. Notwithstanding this, the Group experienced an unexpected slowdown. The measures, however, did appear to have a positive effect in the second half of the year but the business did not rebound as quickly as the management expected.

Overall, there was a decrease in total turnover caused by aggressive market competition in plywood products coupled with a continuous decline in demand from 2000. Whilst looking forward to benefiting from the opening up of untapped markets arising from the accession of the PRC into the World Trade Organisation, the management continued its efforts to improve productivity, to reduce operating costs and to enhance the quality of products.

Despite the difficulties that the Group faced, the Group continued to pursue active developments in its core business, including developing environmentally friendly glue for use in the manufacture of plywood products. Efforts were also be made to diversify the products and expand the customer base to secure more market share and to satisfy the customers' demand and requirements. The management also explored manufacturing and trading opportunities of timber products in the hope of commanding a higher profit margin.

In 2001, the CRA Group recorded a turnover of A$552.9 million (about HK$3,317.4 million), a slight decrease from A$580.0 million (about HK$3,480.0 million) in 2000. The operating profits however improved significantly to A$73.9 million (about HK$443.4 million) compared to A$17.6 million (about HK$105.6 million) in 2000. In addition to the adoption of a hedging policy, the increase was also attributable to a gain on the sale of property, plant and equipment in a coal operation of A$13.3 million (about HK$79.8 million). The weakening of the Australian dollar in 2001 also contributed to the increase in the operating profits given that the sales of the CRA Group were substantially denominated in United States dollars.

Richfirst was only incorporated in December 2003 and therefore had no attributable business in 2001.

(for the year ended 31 December 2002)

During the year, the principal activities of the Group continued to be the manufacture and sale of plywood and continued to be affected by an arduous economic environment and difficult operating conditions within the timber industry. Further slowdown in business was experienced by the Group notwithstanding that considerable effort had again been expended in strengthening the plywood business and a number of measures had been imposed to sustain performance. Performance of the timber industry was in line with the Directors' expectation during the year.

In the latter half of the year, to further diversify the products and expand the customer base, the Group suspended production for several months to reconstruct its production lines and establish a new production line of veneer. Although the temporary suspension of production greatly affected performance, the new production line was expected to help broaden the scope of operations and enhance efficiency and future productivity. It also represented an evolution towards a greater level of customization and product differentiation. 2002 saw a substantial decrease in turnover caused by aggressive market competition in plywood products and a continuing decline in demand within the timber industry, the beginnings of which could be traced back to 2000.

The Group took the opportunity to spruce up its strengths and competitive edge by revisiting and refocusing its business strategy and product portfolio. This re-organization evolution was critical in fully equipping the Group to maximize its potential and optimize its business performance. At the same time, the Directors continued their efforts to reduce operating costs and to improve the quality of the Group's products.

The increase in the turnover of the CRA Group from A$552.9 million (about HK$3,317.4 million) in 2001 to A$650.7 million (about HK$3,904.2 million) in 2002 was chiefly driven by the strong performance of CITIC Australia Commodity Trading Proprietary Limited ("**CACT**"). The strong performance of CACT was principally attributable to an increase in the market price of alumina and the introduction of new product lines (such as steel) by CACT in 2002. The increase in turnover however did not lead to a proportionate increase in the operating profits as the trading business carried out by CACT traditionally yields a lower operating profit margin than the CRA Group's aluminum and coal operation.

Richfirst was only incorporated in December 2003 and therefore had no attributable business in 2002.

(for the year ended 31 December 2003)

The principal activities of the Group remained the manufacture and sale of plywood.

During the year, the operating environment continued to be difficult as the plywood and timber products industry slowed down and pricing competition intensified. The outbreak of the viral infection SARS in the second quarter of the year added to difficulties as it hindered traveling and the routine functioning of business.

Attempts to overcome the difficult environment – including the full completion of a new veneer production line intended to enhance efficiency and to broaden the scope and the quality of products – failed to lift performance. The overall performance in 2003 was disappointing.

A review of the Group's business strategy by the Directors, which began in 2002, was completed. Under the review, the Directors concluded that the interests of the Group would be best served by diversifying its business and reducing its reliance on the manufacture and sale of plywood as its principal activities.

The PRC's economic growth has increased significantly the domestic demand for virtually all raw materials creating significant opportunities in the broader commodities and energy sector. This growing demand from the PRC is reflected in the recent increases in world prices for a wide range of commodities.

The CRA Group reported a turnover and net operating profit of A$487.4 million (about HK$2,924.4 million) and A$33.6 million (about HK$201.6 million) respectively for the nine months ended 30 September 2003 which, on an annualised basis, are comparable to those of 2002. The improvement in net profit attributable to shareholders was principally due to the recognition of a tax credit of A$22.4 million (about HK$134.4 million) arising from the implementation of new tax legislation.

Richfirst was incorporated on 3 December 2003 but did not carry out any transactions during the period from 3 to 31 December 2003.

2. Prospects

The Directors' strategy is to position the Enlarged Group as an integrated provider of key commodities and strategic natural resources to the PRC, starting with base metals and crude oil. The objective is to establish a unified business platform ranging from production to delivery of the commodities and resources of which the PRC is currently a net importer –from upstream operations to mid-stream processing to retail distribution of the final products.

The acquisition of CRA and CPS has given the Enlarged Group an exposure to well-established and profitable operations in the commodities and energy industries in Australia. The acquisition also provides the Enlarged Group with interests in three listed companies in Australia.

The Group is financially sound – able and well-positioned to implement and support this new strategy. It has a strong cash position and it is able to leverage on the support of its major shareholders. As the business develops, the strategy is to target other markets within Asia and build up the Enlarged Group as a strategic platform for commodities and energy in the region.

1. RESPONSIBILITY

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

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (other than information relating to CITIC Group, Richfirst, Ivanhoe, Sunwing 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 its associated corporations (within the meaning 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:

(i) Directors' interests in Shares

Name of Director	Nature of interest	Number of Shares held	Percentage of total issued Shares
Mr. Kwok Viem, Peter (Note)	Corporate	612,000,000	14.18
Mr. Ma Ting Hung (Note)	Corporate	612,000,000	14.18
Mr. Zhang Jijing	Family	28,000	0.00

Note: The Shares disclosed above are held by USI which is beneficially owned as to 50% by Mr. Kwok Viem, Peter and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in 612,000,000 Shares.

(ii) Directors' interests in share options granted by the Company

No share options or rights to subscribe for Shares have been granted by the Company pursuant to the Share Option Scheme or otherwise.

(iii) Miscellaneous

Save as disclosed herein:

(aa) as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;

(bb) as at the Latest Practicable Date, none of the Directors 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

(cc) since 31 December 2003, the date to which the latest published audited financial statements of the Group were made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member 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	Number of Shares held	Percentage of total issued Shares
CITIC Group	2,610,594,381 (1)	60.47
CITIC Projects Management (HK) Limited	1,860,180,588 (2)	43.09
Keentech	1,860,180,588	43.09
CA	750,413,793	17.38
Mr. Kwok Viem, Peter	612,000,000 (3)	14.18
Mr. Ma Ting Hung	612,000,000 (4)	14.18
USI	612,000,000	14.18

Notes:

(1) This figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited, Keentech and CA.

(2) This figure represents an attributable interest of CITIC Projects Management (HK) Limited through its interest in Keentech.

(3) This figure represents an attributable interest of Mr. Kwok Viem, Peter as the beneficial owner of 50% of USI.

(4) This figure represents an attributable interest of Mr. Ma Ting Hung as the beneficial owner of 50% of USI.

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.

(c) Interests of experts in securities of the Company

As at the Latest Practicable Date, the Independent Financial Adviser and Ernst & Young had no shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(d) Interest of experts in assets of the Company

Save as disclosed in this circular, as at the Latest Practicable Date, none of the Independent Financial Adviser and Ernst & Young was interested, directly or indirectly, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired, disposed of by or leased to the Group since 31 December 2003, the date to which the latest published audited accounts of the Group were made up.

3. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular and are or may be material:

(i) the memorandum of understanding (the "**MoU**") dated 19 January 2004 (as amended by the Supplemental Agreement (as defined below)) and made between the Company, CITIC Group and CA relating to, amongst others, the establishment of CRA and CPS and the acquisition of the entire issued share capital of those companies by the Company;

(ii) the sale and purchase agreement (the "**CRA Agreement**") dated 19 January 2004 (as amended by the Supplemental Agreement (as defined below)) and made between the Company, CA and CITIC Group relating to the sale and purchase of the entire issued share capital of CRA by the Company for an aggregate consideration (when aggregated with the acquisition of CPS) of US$139,500,000 (about HK$1,088,100,000);

(iii) the sale and purchase agreement (the "**CPS Agreement**") dated 19 January 2004 (as amended by the Supplemental Agreement (as defined below)) and made between the Company, CA, CITIC Group and CITIC Portland Holdings Pty Limited relating to the sale and purchase of the entire issued share capital of CPS by the Company for an aggregate consideration (when aggregated with the acquisition of CRA) of US$139,500,000 (about HK$1,088,100,000);

(iv) the supplemental agreement (the "**Supplemental Agreement**") dated 30 January 2004 and made between the Company, CA, CITIC Group and CITIC Portland Holdings Pty Limited which amends the terms of the MoU, the CRA Agreement and the CPS Agreement;

(v) the placing, underwriting and subscription agreement dated 2 February 2004 and made between the Company, USI and Citigroup Global Markets Hong Kong Futures Limited in respect of issue proceeds of about HK$380,200,000; and

(vi) the Agreement.

4. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration 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:

On 14 January 1999, China Foreign Trade Development Company, as plaintiff (the "**Plaintiff**") issued a writ of summons against Dongguan Xinlian Wood Products Company Limited ("**Dongguan Xinlian**"), an indirect wholly-owned subsidiary of the Company held through Wing Lam (International) Timber Limited ("**Wing Lam**") (another indirect wholly-owned subsidiary of the Company), in respect of a claim (the "**Claim**") for HK$49,624,000 together with interest thereon, being the alleged amount due to the Plaintiff. The Claim is in respect of various re-export contracts entered into by Dongguan Xinlian prior to the Group's acquisition of its initial 51% equity interest in Wing Lam. A judgment (the "**Judgment**") was issued in respect of the Claim and, pursuant thereto, Dongguan Xinlian was liable to pay an aggregate sum of about HK$26,894,000. Subsequently, Dongguan Xinlian filed an appeal against the Judgment.

On 23 April 1998, the former shareholders of Wing Lam gave an undertaking in relation to the Group's acquisition of a 51% equity interest in Wing Lam to indemnify the Group from all losses, liabilities and claims incurred or suffered in connection with the Claim and other prescribed matters arising on or before the completion of the acquisition. Due to the Judgment, on 12 April 1999, the former shareholders of Wing Lam confirmed that they would indemnify all monetary losses arising from the Claim and agreed that the loans due from Dongguan Xinlian to them of HK$11,862,000, could be used to set-off against any such indemnity.

On 12 August 2003, certain members of the management of the Plaintiff were sentenced to imprisonment under a criminal charge in respect of creating forged documents, including those documents created by them relating to the Claim. However, on 19 December 2003, the People's High Court of Guangdong Province issued a further judgment holding Dongguan Xinlian liable to pay US$4,800,000 (about HK$37,440,000) together with interest thereon (the "**New Judgment**"). On 17 January 2004, Dongguan Xinlian filed an appeal to the State Supreme Court against the New Judgment, requesting for the withdrawal of the New Judgment and also a decision that Dongguan Xinlian is not liable to the Plaintiff in respect of the New Judgment.

According to a letter dated 11 February 2004 issued by the Group's legal advisers in connection with the Claim, there were a number of conflicts and discrepancies in the New Judgment. The legal advisers believe that the New Judgment is not supported by evidence and is in breach of legal proceedings and that the New Judgment should be withdrawn. Taking into account the above considerations, the Directors believe that the Claim will have no material adverse impact on the financial results of the Group and accordingly, no provision is considered necessary.

5. 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 expire or be determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the Listing Rules or any other applicable laws, rules or regulations or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(i) by the chairman of the meeting; or

(ii) by at least three Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(iii) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or

(iv) by any Shareholder or Shareholders present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy and holding Shares in the Company conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

A demand by a person as proxy for a Shareholder or in the case of a Shareholder being a corporation by its duly authorised representative shall be deemed to be the same as a demand by the Shareholder.

Subject to any special rights or restrictions as to voting attached to any Shares by or in accordance with the bye-laws of the Company, at any general meeting on a show of hands, every Shareholder who is present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy shall (save as provided otherwise in the bye-laws of the Company) have one vote. On a poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative), or by proxy shall have one vote for every fully paid Share of which he is the holder (but so that no amount paid or credited as paid up on a share in advance of calls or instalments shall be treated for the foregoing purposes as paid on the Share). A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

7. QUALIFICATION OF EXPERTS

The following are the qualifications of the experts who have given, or agreed to the inclusion of, their opinion or advice in this circular:

Name	**Qualification**
Independent Financial Adviser	Somerley Limited, a deemed licensed corporation under the SFO permitted to engage in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) of the regulated activities under the SFO
Ernst & Young	Certified Public Accountants

8. CONSENTS

The Independent Financial Adviser and Ernst & Young have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their respective letters and reports and/or reference to their respective names, as the case may be, in the form and context in which they respectively appear.

9. 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 Society of Accountants and the Association of International Accountants. Ms. Li has over 26 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 13 years' experience in the accounting field and previously worked for a number of multinational companies.

(d) All references to times and dates in this circular refer to Hong Kong times and dates.

(e) In the event of any inconsistency, the English language text of this circular and the form of proxy shall prevail over the Chinese language text.

10. MATERIAL CHANGES

Save as disclosed in this circular, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2003, the date to which the last published audited accounts of the Group were made up.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the office of Simmons & Simmons at 35th Floor, Cheung Kong Center, 2 Queen's Road Central, Hong Kong during normal business hours on any weekday (except Saturdays, Sundays and public holidays) from the date of this circular up to and including 26 August 2004:

(a) the memorandum of association and bye-laws of the Company;

(b) the letter from the Independent Financial Adviser set out on pages 16 to 31 of this circular;

(c) the letter from the Independent Board Committee set out on page 15 of this circular;

(d) the accountants' report on Richfirst as set out in Appendix III to this circular;

(e) the report from Ernst & Young on the unaudited pro forma financial information of the Enlarged Group dated 11 August 2004 as set out in Appendix IV to this circular;

(f) the Company's 2002 and 2003 annual reports;

(g) the material contracts referred to in paragraph 3 of this Appendix;

(h) the written consents referred to in paragraph 8 of this Appendix;

(i) the accountants' report on the CRA Group as set out in Appendix II to this circular; and

(j) the Share Option Scheme.

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of CITIC Resources Holdings Limited (the "**Company**") will be held at Pacific Place Conference Centre, Tien Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 26 August 2004 at 3:00 p.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT**:

(i) the acquisition (the "**Acquisition**") of the entire issued share capital of Richfirst Holdings Limited ("**Richfirst**") and the benefit of a shareholder's loan advanced by CITIC Group to Richfirst of US$20,000,000 for an aggregate purchase price of US$21,200,000 and the reimbursement by the Company to CITIC Group of all payments made by CITIC Group to China National Petroleum Corporation ("**CNPC**") pursuant to a guarantee issued by CITIC Group in respect of the obligations of Richfirst in respect of Richfirst's proportionate share of the contractor's contribution for amounts due under annual works programs and budgets under a petroleum contract dated 8 September 1997 and made between Pan-China Resources Limited and CNPC, subject to the terms and conditions of a sale and purchase agreement dated 29 June 2004 (the "**Agreement**") made between CITIC Group, Starbest Venture Limited ("**Starbest**") and the Company, a copy of which has been produced to the Meeting and marked "A" and signed by the Chairman of the Meeting for the purpose of identification, be and is hereby approved and the execution, delivery and performance by Starbest and the Company of the Agreement be and are hereby ratified, confirmed and approved; and

(ii) the directors of the Company (the "**Directors**") be and are hereby authorised to do on behalf of the Company whatever they may consider necessary, desirable or expedient for the purpose of, or in connection with, the performance and implementation and completion of the Agreement and generally to do all acts and deeds and execute or procure the execution of all agreements and documents required or contemplated by the Agreement or otherwise and to make such amendments thereto as the Directors may consider necessary, desirable or expedient".

By Order of the Board
CITIC Resources Holdings Limited
Li So Mui
Company Secretary

Dated 11 August 2004, Hong Kong

Head Office and
Principal Place of Business in Hong Kong:
Room 2602, 26th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

Notes:

(1) Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and vote in his stead in accordance with the bye-laws of the Company. A proxy need not be a member of the Company.

(2) A form of proxy for use at the Meeting is enclosed.

(3) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting (or any adjournment thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the Meeting (or any adjournment thereof) should they so wish. If a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.

(4) If there are joint registered holders of a share in the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the joint holders so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

Form of proxy for use at the Special General Meeting to be held on Thursday, 26 August 2004 at 3:00 p.m.

I/We, (Note 1) ____

of ____

being the registered holder(s) of (Note 2) ____________________ shares of HK$0.05 each in the capital of CITIC RESOURCES HOLDINGS LIMITED (the "**Company**") hereby appoint (Note 3) ____________________

or failing him, ____________________ of ____________________

____

or failing him, the Chairman of the meeting to act as my/our proxy to attend and vote for me/us at the Special General Meeting of the Company to be held at Pacific Place Conference Centre, Tien Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 26 August 2004 at 3:00 p.m. (and at any adjournment thereof) as directed below or, if no such indication is given, as my/our proxy thinks fit.

	FOR (Note 4)	**AGAINST** (Note 4)
To approve the acquisition of the Sale Shares and the Shareholder's Loan and the reimbursement by the Company to CITIC Group of monies paid by CITIC Group under the CITIC Group Guarantee.		

Dated: ____________________ 2004   Shareholder's signature (Note 5) ____________________

Notes:

1. Full name(s) and address(es) to be inserted in **BLOCK CAPITALS**.
2. Please insert the number of shares of HK$0.05 each in the share capital of the Company registered in your name(s); if no number is inserted, this form of proxy will be deemed to relate to all the shares of HK$0.05 each in the share capital of the Company registered in your name(s).
3. Please insert the name and address of the proxy desired. **IF NO NAME IS INSERTED, THE CHAIRMAN OF THE MEETING WILL ACT AS YOUR PROXY.**
4. **IMPORTANT: IF YOU WISH TO VOTE FOR THE RESOLUTION, PLEASE PLACE A "✓" IN THE RELEVANT BOX MARKED "FOR" BESIDE THE RESOLUTION. IF YOU WISH TO VOTE AGAINST THE RESOLUTION, PLEASE PLACE A "✓" IN THE RELEVANT BOX MARKED "AGAINST" BESIDE THE RESOLUTION.** Failure to complete the boxes will entitle your proxy to cast his vote at his discretion. Your proxy will also be entitled to vote at his discretion on any resolution properly put to the meeting other than that referred to in the notice convening the meeting.
5. This form of proxy must be signed by you or your attorney duly authorised in writing or, in the case of a corporation, this form of proxy must be executed under its common seal or under the hand of an officer or attorney duly authorised.
6. If more than one of the joint holders be present at the meeting personally or by proxy, that one of the said persons whose name stands first on the register of members of the Company in respect of the relevant shares of HK$0.05 each in the share capital of the Company will alone be entitled to vote in respect of them.
7. To be valid, this form of proxy together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority must be deposited at the head office and principal place of business of the Company in Hong Kong at Room 2602, 26th Floor, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
8. A proxy need not be a member of the Company, but must attend the meeting in person to represent you.
9. Any alterations made in this form should be initialled by the person who signs it.