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## IMPORTANT

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

**If you have sold or transferred** all your shares in CITIC Resources Holdings Limited, you should at once hand this circular, 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.

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

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### **CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

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

*(Stock Code: 1205)*

### **VERY SUBSTANTIAL ACQUISITION RELATING TO THE SUBSCRIPTION OF SHARES IN CALTEX SOUTH CHINA INVESTMENTS LIMITED**

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A notice convening a special general meeting of CITIC Resources Holdings Limited to be held at Pacific Place Conference Centre, Mont Blanc Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 21 March 2005 at 3:00 p.m. is set out on pages 117 to 119 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.

4 March 2005

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## DEFINITIONS

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

“associate”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day”	a day which is not a Saturday or Sunday or a bank or public holiday in Hong Kong
“CA”	CITIC Australia Pty Limited, a company incorporated in the State of Victoria, Australia and a direct wholly-owned subsidiary of CITIC Group
“Caltex”	Caltex (Asia) Limited, a company incorporated in the State of Delaware, the United States of America and an indirect wholly-owned subsidiary of CTGEI
“CITIC Group”	CITIC Group, a company incorporated in the PRC
“COGH”	CITIC Oil & Gas Holdings Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of the Company
“COHK”	Caltex Oil Hong Kong Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of Caltex
“Company”	CITIC Resources Holdings Limited, a company incorporated in Bermuda, the Shares of which are listed on the Stock Exchange
“Completion”	completion of the Share Subscription Agreement in accordance with the terms thereof
“Conditions Precedent”	the conditions precedent to Completion, details of which are set out in the sub-section headed “Conditions Precedent for Completion” under the section headed “Share Subscription Agreement” in the letter from the Board in this circular
“connected person”	has the meaning ascribed thereto in the Listing Rules
“Consulting Agreement”	a consulting agreement to be entered into between COHK and CSCIL at Completion
“CPS”	CITIC Portland Surety Pty Limited, a company incorporated in the State of Victoria, Australia and an indirect wholly-owned subsidiary of the Company
“CRA”	CITIC Resources Australia Pty Limited, a company incorporated in the State of Victoria, Australia and an indirect wholly-owned subsidiary of the Company

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## DEFINITIONS

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“CRA Group”	CRA and its subsidiaries (including CPS)
“CSCIL”	Caltex South China Investments Limited, a company incorporated in Hong Kong
“CSCIL Group”	CSCIL, its subsidiaries and joint ventures
“CSCIL Shares”	ordinary shares of HK\$1.00 each in the share capital of CSCIL
“CTGEI”	ChevronTexaco Global Energy Inc., a company incorporated in the State of Delaware, the United States of America and an indirect wholly-owned subsidiary of ChevronTexaco Corporation
“Directors”	the directors of the Company, including its independent non-executive directors
“Enlarged Group”	the Group and the CSCIL Group
“Existing Business”	the principal activities of the CSCIL Group described in the section headed “Information on CSCIL” in the letter from the Board in this circular
“Final Subscription Price”	the Subscription Price as adjusted in the manner described in the sub-section headed “Consideration” under the section headed “Share Subscription Agreement” in the letter from the Board in this circular
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong GAAP”	the generally accepted accounting principles applicable in Hong Kong
“Keentech”	Keentech Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CITIC Group
“Latest Practicable Date”	2 March 2005, being the latest practicable date for ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the date falling six (6) months from the date of the Share Subscription Agreement
“Macau”	Macau Special Administrative Region of the PRC

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## DEFINITIONS

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“New Business”	the business of developing and operating new petrol stations and any integrated convenience stores, retailing of petrol, diesel, lubricants and liquefied petroleum gas and, if applicable laws permit, importing and wholesaling of petrol, diesel and fuel oil in Guangdong province of the PRC, to be conducted by CSCIL through a wholly foreign-owned enterprise or a Sino-foreign co-operative joint venture
“New CSCIL Shares”	the 5,050,000 new CSCIL Shares representing 50.5% of the enlarged issued share capital of CSCIL, which shall be issued to the Company or COGH pursuant to the Share Subscription Agreement
“Option”	the option to be granted under the terms of the Shareholders’ Agreement pursuant to which Caltex shall have the right to acquire CSCIL Shares representing 1% of the total issued share capital of CSCIL
“Parties”	the parties to the Share Subscription Agreement, details of which are set out in the sub-section headed “Parties” under the section headed “Share Subscription Agreement” in the letter from the Board in this circular
“Profitlink”	Profitlink Investment (Macau) Limited, a company incorporated in Macau
“PRC”	the People’s Republic of China (which, for purposes of this circular only, shall exclude Hong Kong, Macau and Taiwan)
“Richfirst”	Richfirst Holdings Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of the Company
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Shares”	the shares of par value HK\$0.05 each in the share capital of the Company
“Share Option Scheme”	the share option scheme approved by Shareholders and adopted by the Company on 30 June 2004
“Share Subscription Agreement”	a conditional agreement dated 8 January 2005 made between the Company, Caltex, Star Concept and CSCIL
“Shareholders”	holders of Shares
“Shareholders’ Agreement”	a shareholders’ agreement to be entered into between Caltex, Star Concept, the Company, COGH and CSCIL at Completion

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## DEFINITIONS

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“Special General Meeting”	the special general meeting of the Company to be held on Monday, 21 March 2005 at 3:00 p.m. and convened pursuant to the notice contained in this circular
“Star Concept”	Star Concept Holdings Limited, a company incorporated in the British Virgin Islands and ultimately owned by David Ho and Patrick Ho, directors of CSCIL as at the date of this circular
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription for the New CSCIL Shares by the Company or COGH pursuant to the Share Subscription Agreement
“Subscription Price”	US\$45 million (about HK\$351 million)
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Trademark License Agreement”	a trademark license agreement to be entered into between CTGEI and CSCIL at Completion
“Transaction”	the transactions contemplated under the Transaction Documents
“Transaction Documents”	Share Subscription Agreement, Shareholders’ Agreement, Consulting Agreement and Trademark License Agreement
“Unique Time”	Unique Time Co., Ltd., a company incorporated in Hong Kong
“USI”	United Star International Inc., a company incorporated in the British Virgin Islands
“A\$”	Australian dollars, the lawful currency of Australia
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“MOP”	Patacas, the lawful currency of Macau
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America.

*This circular contains translation between US\$ and HK\$ at US\$1.0=HK\$7.8. The translation shall not be taken as representation that the HK\$ amount could actually be converted into US\$ at that rate or at all.*

*This circular contains translation between A\$ and HK\$ at A\$1.0=HK\$6.0. The translation shall not be taken as representation that the HK\$ amount could actually be converted into A\$ at that rate or at all.*

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## LETTER FROM THE BOARD

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### **CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

*Website: www.citicresources.com*

(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

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Independent Non-executive Directors:*

Mr. CHAN Mo Po, Paul

Mr. FAN Ren Da, Anthony

Mr. TSANG Link Carl, Brian

*Head Office and*

*Principal Place of Business:*

Suites 3001-3004

30/F, One Pacific Place

88 Queensway

Hong Kong

4 March 2005

*To the Shareholders*

Dear Sir or Madam,

### **VERY SUBSTANTIAL ACQUISITION RELATING TO THE SUBSCRIPTION OF SHARES IN CALTEX SOUTH CHINA INVESTMENTS LIMITED**

#### **INTRODUCTION**

On 13 January 2005, the Board announced that the Company, Caltex, Star Concept and CSCIL had entered into the Share Subscription Agreement pursuant to which the Company conditionally agreed that the Company or its wholly-owned subsidiary, COGH, shall subscribe for the New CSCIL Shares representing 50.5% of the enlarged issued share capital of CSCIL. The Company will be required to pay a cash consideration of US\$45 million (about HK\$351 million), subject to certain adjustments (details of which are contained in the sub-section headed "Consideration" under the section headed "Share Subscription Agreement" below).

Upon Completion, Caltex, Star Concept, the Company, COGH and CSCIL will enter into the Shareholders' Agreement which will set forth their mutual agreement regarding the corporate governance of CSCIL.

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## LETTER FROM THE BOARD

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Pursuant to the Share Subscription Agreement, CSCIL will enter into the Consulting Agreement with COHK whereby COHK will provide certain consulting services to CSCIL. In addition, CSCIL will enter into the Trademark License Agreement with CTGEI pursuant to which CTGEI will grant to CSCIL a non-exclusive and non-transferable license to use certain “Caltex” trademarks within the Fujian and Guangdong provinces in the PRC and Macau and to include the word(s) “Caltex” or “加德士” as part of the company name of CSCIL. The Consulting Agreement and the Trademark License Agreement will become effective from Completion.

The Transaction constitutes a very substantial acquisition of the Company under the Listing Rules and requires the approval of the Shareholders at the Special General Meeting.

The main purposes of this circular are:

- (a) to provide you with further information relating to the Transaction and the Transaction Documents; and
- (b) to give you notice of the Special General Meeting at which Shareholders will be asked to consider, and if thought fit, approve, amongst others, the Transaction.

To the best knowledge, information and belief of the Directors, and having made all reasonable enquiries, Caltex, COHK, CTGEI, Star Concept and CSCIL and their ultimate beneficial owners are third parties independent of the Company and any connected persons of the Company.

### SHARE SUBSCRIPTION AGREEMENT

#### Date

8 January 2005

#### Parties

- (1) Company
- (2) Caltex
- (3) Star Concept
- (4) CSCIL

#### Subscription

Pursuant to the Share Subscription Agreement, the Company has conditionally agreed to subscribe for the New CSCIL Shares. The Company intends to elect COGH to subscribe for the New CSCIL Shares. Upon Completion, COGH will be the registered and beneficial owner of 50.5% of the enlarged issued share capital of CSCIL. The New CSCIL Shares shall rank pari passu in all respects with all existing issued CSCIL Shares as from Completion.

Upon Completion, Caltex and Star Concept shall be the registered and beneficial owner of 36.8775% and 12.6225% of the enlarged issued share capital of CSCIL respectively.



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## LETTER FROM THE BOARD

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### Consideration

The Share Subscription Agreement was negotiated and entered into on an arm's length basis and on normal commercial terms. The Final Subscription Price payable by the Company to CSCIL shall be the Subscription Price after adjustments to reflect (a) dividends declared and/or paid by CSCIL during the period from 1 June 2004 to Completion, if any, (b) net earnings of CSCIL during the period from 1 October 2004 to Completion, and (c) any breach of warranty or Completion conditions made by CSCIL, Caltex and Star Concept under the Share Subscription Agreement, if any, which is likely to have a material adverse effect on the value of CSCIL.

The Final Subscription Price will be satisfied at Completion by payment in cash to CSCIL by the Company.

The Subscription Price has been determined based on various factors including the total value of the assets of the CSCIL Group of about HK\$374,723,000 as at 31 December 2003, the growth prospects of the Existing Business, the earnings potential and synergy opportunity with the CSCIL Group through the development of new petrol stations and the expansion of the retail and wholesale business of petrol, diesel, lubricants and liquefied petroleum gas in the Fujian and Guangdong provinces of the PRC.

No deposit is payable by the Company under the Share Subscription Agreement. The Company shall fund the Final Subscription Price from its existing working capital.

### Conditions Precedent for Completion

Completion of the Subscription is conditional upon satisfaction of the following Conditions Precedent:

- (a) the obtaining by the Company of all necessary approvals from the Shareholders, the clearance by the Stock Exchange of this circular and the publication of the same in accordance with the Listing Rules; and
- (b) the obtaining by the Company on behalf of CSCIL of all PRC government and regulatory approvals and licences required for the establishment of a wholly foreign-owned enterprise by CSCIL with a scope of business appropriate for operating the New Business.

If, within three (3) months from the date of the Share Subscription Agreement, the Company issues a written notice to the other Parties informing them that the establishment of the wholly foreign-owned enterprise cannot be satisfied by the Long Stop Date, the Parties may mutually elect to proceed to establish a Sino-foreign co-operative joint venture ("CJV"). The Condition Precedent set out in paragraph (b) above shall then be replaced with the following condition:

"(b) with the assistance of the Company, the obtaining by CSCIL of all PRC government and regulatory approvals and licences required for the establishment of a Sino-foreign co-operative joint venture with a scope of business appropriate for operating the New Business and with a profit sharing ratio of 90% (as to CSCIL acting as the foreign joint venture partner) and 10% (as to an affiliate of the Company acting as the Chinese joint venture partner)."

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## LETTER FROM THE BOARD

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If the Parties fail to reach agreement to proceed with the establishment of the CJV or are unable to do so within one (1) month of the date that a written notice is issued by the Company to the other Parties informing them that the establishment of the wholly foreign-owned enterprise cannot be satisfied by the Long Stop Date, then the Share Subscription Agreement shall, subject to the liability of any Party to the others in respect of any antecedent breaches, be null and void and of no effect.

The PRC has only recently opened its market to allow the retail of petrol by wholly foreign-owned enterprises under certain new measures published in 2004 pursuant to the PRC's accession to the World Trade Organisation. The setting up of a wholly foreign-owned enterprise by CSCIL to conduct the New Business will be governed under a set of new requirements. It is therefore difficult to ascertain how governmental officials will handle the application as there is no precedent nor any detailed official guidelines. Thus, the Parties have agreed to consider an alternative plan involving the use of a CJV as the operating vehicle in the event a wholly foreign-owned enterprise cannot be used to conduct the New Business.

If the Parties proceed to use the CJV structure, an affiliate of COGH may act as the Chinese joint venture partner. As defined under the Share Subscription Agreement, an "affiliate" of COGH will be its subsidiary or a company that directly or indirectly controls, is controlled by or is under common control with COGH. If the Company uses its subsidiary to act as the Chinese joint venture partner, its interest in the New Business conducted by CSCIL will not be affected.

If the Company uses an affiliated entity that is not its subsidiary to act as the Chinese joint venture partner, it is contemplated under the terms of the Transaction that CSCIL, as the foreign partner in the CJV, will hold as much of the registered capital of the CJV as is permitted by the approving authorities and the relevant applicable laws and regulations at the time of approval of the establishment of the CJV. The amount of the consideration payable by the Company under the Transaction should not increase as a result of the use of the CJV structure as all of the capital contribution for the establishment of the CJV (as will be the case in the establishment of the wholly foreign-owned enterprise) is expected to be funded by CSCIL. CSCIL will utilise the proceeds received from the subscription for the New Shares by the Company to fund its capital contribution.

Depending on which affiliate is used, the establishment of the CJV may constitute a connected transaction. In such circumstances, depending on the relative percentage ratios applicable to connected transactions at the time of the establishment of the CJV, the Company will take such further actions as appropriate to comply with the relevant disclosure and/or independent shareholders' approval requirements pursuant to the Listing Rules.

Pursuant to the Share Subscription Agreement, the Parties may at any time by agreement in writing waive, in whole or in part, compliance with the Conditions Precedent or extend the Long Stop Date or such other date agreed by the Parties within which the Conditions Precedent shall be satisfied.

If any of the Conditions Precedent is not fulfilled or waived by the Long Stop Date or such other date agreed by the Parties, the Share Subscription Agreement shall, subject to the liability of any Party to the others in respect of any antecedent breaches, be null and void and of no effect.

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## LETTER FROM THE BOARD

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### **Completion**

Subject to satisfaction or waiver of the Conditions Precedent, Completion shall take place on the date falling five (5) Business Days after the determination of the Final Subscription Price (or such later date as the Parties may agree in writing prior to Completion).

### **SHAREHOLDERS' AGREEMENT**

Caltex, Star Concept, the Company, COGH and CSCIL will enter into a Shareholders' Agreement which will set forth their mutual agreement regarding the corporate governance of CSCIL. The Shareholders' Agreement will take effect at Completion.

Pursuant to the Shareholders' Agreement, COGH will have the right to appoint up to three of the six directors (including the chairman of the board of CSCIL subject to the assumption by Caltex of the right to appoint the chairman of the board of CSCIL as described below in the section headed "Option"). In the case of an equality of votes, the chairman will have a casting vote.

In addition, the Shareholders' Agreement provides that Caltex, Star Concept and COGH (guaranteed by the Company), as shareholders of CSCIL, shall provide financial support to CSCIL through a subscription for new equity or the provision of shareholder loans if and when CSCIL requires additional funding and a resolution of the board of directors of CSCIL is passed requiring shareholders of CSCIL to provide such funding.

### **Unconditional Guarantee**

Pursuant to the Shareholders' Agreement, in consideration of Caltex, Star Concept and CSCIL agreeing to enter into the Shareholders' Agreement with COGH at the request of the Company, the Company will agree to unconditionally and irrevocably guarantee in favour of Caltex, Star Concept and CSCIL the due and punctual performance and observance by COGH of all its obligations and undertakings under the Shareholders' Agreement.

Such guarantee will be a continuing guarantee and will remain in force until the earlier of (a) COGH ceasing to be a subsidiary of the Company, and (b) COGH ceasing to be a shareholder of CSCIL. The Company will remain liable for all antecedent breaches, obligations and liabilities not satisfied by COGH prior to the termination of the guarantee.

The Company is not assuming any additional liabilities under the guarantee. The Company is a party to the Share Subscription Agreement whereby it has assumed all responsibilities and liabilities by agreeing to subscribe for the New CSCIL Shares. Should the Company elect to take up the New CSCIL Shares directly instead of through COGH, its wholly-owned subsidiary, the Company would be equally liable as a shareholder of CSCIL under the Shareholders' Agreement. The guarantee does not therefore expose the Company to other liabilities to which it is not already under.

### **Restrictions on Transfer of CSCIL Shares**

According to the Shareholders' Agreement, none of the Company, Caltex and Star Concept can without the prior written consent of the other:

- (a) pledge, mortgage, charge or otherwise encumber any of its CSCIL Shares or any interest in any of its CSCIL Shares; or

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## LETTER FROM THE BOARD

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- (b) sell, transfer or otherwise dispose of, or grant any option over, any of its CSCIL Shares or any interest in its CSCIL Shares.

Each of them has a right of first refusal to acquire any CSCIL Shares offered to be purchased by a third party subject to the transfer procedures prescribed by the Shareholders' Agreement.

### **Option**

Pursuant to the terms of the Shareholders Agreement, Caltex will have the benefit of an option granted to it by COGH whereby Caltex shall have the right to acquire CSCIL Shares from COGH representing 1% of the total issued share capital of CSCIL. The Option will be exercisable by Caltex at any time after the later of the second anniversary of Completion and the date on which Caltex delivers to COGH a legal opinion issued by a reputable law firm licensed to practice law in the PRC, addressed to, and acceptable to, COGH and Caltex that there is no longer in existence any regulatory restrictions on majority ownership of petrol stations in the PRC by foreign investment entities or foreign investors. The Parties have agreed that there will be no time limit within which Caltex must exercise the Option. The purchase price payable by Caltex will be 1.98% of the Final Subscription Price, adjusted for any change in distributable consolidated profits of the CSCIL Group unappropriated to shareholders of CSCIL as dividends during the period from Completion to the date the Option is exercised.

In the event that Caltex exercises the Option, COGH's interest in CSCIL will fall to 49.5% of the total number of CSCIL Shares in issue (based on the expected number of CSCIL Shares in issue immediately following Completion) and CSCIL would thereby cease to be a subsidiary of the Company. Additionally, in the event of the completion of the Option, Caltex will assume the right to appoint the chairman of the board of directors of CSCIL. Nonetheless, the Company will still be the largest shareholder of CSCIL and will continue to have the right to nominate three of the six directors of CSCIL, while Caltex and Star Concept will continue to be entitled to appoint only two and one director(s) respectively. The ability of the directors of CSCIL that are nominated by the Company to participate in the management of CSCIL and to carry out their respective duties in respect of matters required to be decided by the board of CSCIL will not be affected.

### **CONSULTING AGREEMENT**

At Completion, COHK and CSCIL will enter into the Consulting Agreement whereby COHK will provide to CSCIL consulting services comprising (i) the sharing of the benefits of any global and regional advertising campaign undertaken by COHK, and (ii) advice on CSCIL's development of brand equity and branding strategies. The term of the Consulting Agreement will be eight years commencing on the date of Completion. Accordingly, CSCIL will pay to COHK the following remuneration:

- (a) an annual fee equivalent to US\$100,000 for each of the first three years; and
- (b) an annual fee equivalent to US\$200,000 for each of the remaining five years.

As COHK is an associate of Caltex which is a substantial shareholder of CSCIL, which in turn will become a subsidiary of the Company as a result of the Transaction, the Consulting Agreement will constitute a de minimis continuing connected transaction pursuant to Rule

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## LETTER FROM THE BOARD

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14A.33(3) of the Listing Rules as determined by the applicable percentage ratio as at the date of this circular and will be exempt from the disclosure and independent shareholders' approval requirements under the Listing Rules.

### **TRADEMARK LICENSE AGREEMENT**

At Completion, CTGEI and CSCIL will enter into the Trademark Licence Agreement whereby CTGEI as licensor will grant to CSCIL, in consideration of US\$10, a non-exclusive and non-transferable license to use certain "Caltex" trademarks within the Fujian and Guangdong provinces in the PRC and Macau solely for use in connection with the operation of CSCIL's retail service petrol stations and convenience stores at such petrol stations. The licensed trademarks may be modified, from time to time, by mutual written agreement between the parties.

In addition, CTGEI as licensor will grant to CSCIL a non-exclusive and non-transferable license to include the word(s) "Caltex" or "加德士" as part of the company name of CSCIL.

The Trademark License Agreement will become effective from Completion and will continue to be in force unless terminated in accordance with the provisions thereof.

The form of the Trademark Licence Agreement will be entered into by each other member of the CSCIL Group following Completion and replace existing arrangements concerning the use of the "Caltex" trademarks and the license to include the word(s) "Caltex" or "加德士" as part of the company name of each member of the CSCIL Group.

As CTGEI is an associate of Caltex which is a substantial shareholder of CSCIL, which in turn will become a subsidiary of the Company as a result of the Transaction, the Trademark License Agreement will constitute a de minimis continuing connected transaction which will be exempt from the disclosure and independent shareholders' approval requirements under the Listing Rules.

### **CONTINUING CONNECTED TRANSACTIONS**

CSCIL and its various joint ventures have entered into information technology rental and services agreements with Unique Time whereby Unique Time has agreed to provide maintenance and repair services. Unique Time in addition has agreed to provide management and clerical support services to the CSCIL Group. CSCIL also provides maintenance services to Unique Time. As Unique Time is an associate of a current director of CSCIL who may continue to act as a director of CSCIL upon Completion, these services agreements may constitute continuing connected transactions under the Listing Rules.

Pursuant to the consulting services agreements entered into between Profitlink and a subsidiary of the CSCIL Group, Profitlink has agreed to provide that subsidiary with management, technical and clerical support services. Profitlink has also leased certain premises in Macau to the same subsidiary. Profitlink is an associate of two individuals who are substantial shareholders of a subsidiary of CSCIL, which will become a subsidiary of the Company as a result of the Transaction. The consulting services agreements and the relevant leases will therefore constitute continuing connected transactions under the Listing Rules.

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## LETTER FROM THE BOARD

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Furthermore, certain wholly-owned subsidiaries of Caltex have also entered into agreements with members of the CSCIL Group whereby such members of the CSCIL Group have agreed to share certain administrative, maintenance and consulting charges in relation to the use of accounting and IT systems. CSCIL as the landlord has also leased certain properties located in the Guangdong province to a wholly-owned subsidiary of Caltex. CSCIL also has procurement arrangements pursuant to which a wholly-owned subsidiary of Caltex supplies petroleum products to CSCIL. As Caltex is a substantial shareholder of CSCIL, which will become a subsidiary of the Company as a result of the Transaction, these agreements, the lease and procurement arrangements entered into with wholly-owned subsidiaries of Caltex will also constitute continuing connected transactions under the Listing Rules.

The relevant parties to the above agreements will review and determine before Completion whether the underlying arrangements will continue after Completion. Should any of the above arrangements continue after Completion, depending on the relative percentage ratios applicable to the relevant continuing connected transactions of the Company under the Listing Rules at the time of Completion, the Company will take such further actions as appropriate to comply with the relevant disclosure and/or independent shareholders' approval requirements pursuant to the Listing Rules.

### INFORMATION ON THE COMPANY

The principal activity of the Company is investment holding. As previously disclosed, the Company is implementing a business strategy to position the Group as an integrated provider of key commodities and key natural resources and to establish a unified business platform ranging from production to delivery of commodities and resources of which the PRC is a net importer – from upstream operations to mid-stream processing and to distribution of final products. Currently, the Group has interests in the aluminium, coal and crude oil industries and the manufacture and sale of plywood.

### INFORMATION ON CSCIL

The principal activity of CSCIL is investment holding. The principal activities of the CSCIL Group is the carrying on of the business of operating petrol stations (with integrated convenience stores), retailing of petrol, diesel, lubricants and liquefied petroleum gas, and the sale of fuel oil, diesel and liquefied petroleum gas directly to commercial and industrial customers in Macau and in the Guangdong and Fujian provinces of the PRC.

As of 31 December 2003, the audited net book value of the assets of the CSCIL Group determined under Hong Kong GAAP was about HK\$374,723,000.

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## LETTER FROM THE BOARD

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The results of CSCIL for the two financial years ended 31 December 2003 determined under Hong Kong GAAP, as extracted from the audited consolidated financial statements of CSCIL, were as follows:

	Year ended 31 December	
	2003	2002
	HK\$'000	HK\$'000
Profits before taxation and minority interest	46,182	62,109
Taxation	(8,914)	(11,903)
Minority interests	(5,009)	(7,023)
Net profits	32,259	43,183

There was no extraordinary gain or loss recorded by CSCIL for the two financial years ended 31 December 2003.

### INFORMATION ON CALTEX AND STAR CONCEPT

The principal activity of each of Caltex and Star Concept is investment holding.

### FINANCIAL EFFECTS OF THE TRANSACTION

#### 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 assets of the CSCIL Group comprise of the operating rights in a total of 45 petrol stations (with integrated convenience stores) in Macau and in the Guangdong and Fujian provinces of the PRC and interests in certain land and buildings used in the operation of the petrol stations. The primary source of return to the CSCIL Group is therefore from the retailing of petrol, diesel, lubricants and liquefied petroleum gas, and the sale of fuel oil, diesel and liquefied petroleum gas directly to commercial and industrial customers. The major expenditure of the CSCIL Group is the operating costs and PRC taxes.

Upon Completion, the Group shall, on a consolidated basis, be entitled to account for 50.5% of the net earnings/loss of the CSCIL Group. According to the prevailing accounting policy of the Group, the positive goodwill arising from the Transaction 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/amortizable assets (which will be not more than 20 years). The amount of goodwill will be determined upon Completion, subject to a further review of the fair value of the underlying assets of the CSCIL Group. 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 the CSCIL Group.

As set out in section (A)2 of Appendix III to this circular, the unaudited pro forma combined net profit of the Enlarged Group upon Completion will be HK\$85,396,000.

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## LETTER FROM THE BOARD

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### 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 (A)1 of Appendix III to this circular, the unaudited pro forma consolidated net assets of the Enlarged Group upon Completion will be HK\$2,628,252,000, equivalent to HK\$0.609 per Share on the basis of 4,316,884,381 Shares in issue as at the Latest Practicable Date.

### PROSPECTS OF THE ENLARGED GROUP

The Company’s strategy is to position the Enlarged Group as an integrated provider of key commodities and key natural resources and to establish a unified business platform ranging from production to delivery of 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. Currently, the Group has interests in the aluminium, coal and crude oil industries and the manufacture and sale of plywood.

The Transaction will enable the Enlarged Group to participate in the operation of petrol stations, retailing of petrol, diesel, lubricants and liquefied petroleum gas and thus broaden its business scope in line with the Company’s business strategy.

In the coming two years, the Transaction is not expected to contribute significantly to net cash flows of the Enlarged Group because the Final Subscription Price will be used as working capital for the Existing Business and the New Business. In the long term, the Transaction should have a significant positive effect on the net cash flows of the Enlarged Group.

### REASONS AND BENEFITS OF THE TRANSACTION

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 key 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.

In October 2004, the Company completed the acquisition of Richfirst thereby gaining interests in the development and production of oil in the Kongnan Block within the Dagang Oilfield, PRC.



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## LETTER FROM THE BOARD

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The Transaction, if completed, will be a further step forward in the Company's business strategy. As stated earlier in this letter, it is the Company's overall strategy to be an integrated provider of key commodities and natural resources of which the PRC is a net importer and to establish a unified business platform involved in their production through to their distribution. Participation in the distribution of petrol, diesel, lubricants and liquefied petroleum gas in the PRC is in line with the Company's overall strategy. The Directors believe that in view of the growing economy in the PRC and demand for energy resources and fuel in both the commercial and industrial sectors, it is anticipated that the market for oil and gas will also increase and thus, involvement in the primary and tertiary ends of the industry through its participation in the development and production of oil in the Kongnan Block and distribution of petrol, diesel, lubricants and liquefied petroleum gas through CSCIL will be of benefit to the future development of the Company. The Transaction offers the Company a significant opportunity to become involved in the distribution of petrol, diesel, lubricants and liquefied petroleum gas in the PRC market, which is at a relatively early stage in its development, with Caltex, a wholly-owned subsidiary of ChevronTexaco Corporation which is one of the world's leading oil and petroleum companies.

The distribution of petrol, diesel, lubricants and liquefied petroleum gas is consistent with the Company's overall business strategy and is expected to comprise one of the commodities and natural resources and related businesses in which the Company will be involved as it continues to diversify its portfolio.

In light of the foregoing, the Directors believe that the Transaction is in the interests of the Company and of Shareholders as a whole and that the terms of the Transaction are fair and reasonable.

### SHAREHOLDERS' APPROVAL

The Transaction constitutes a very substantial acquisition of the Company under the Listing Rules which requires the approval of Shareholders at the Special General Meeting. None of the Shareholders or their associates has any interest in the Transaction which is different from the other Shareholders. The Company is not aware of any Shareholder who will need to abstain from voting at the Special General Meeting.

***Shareholders should note that the Transaction, which is subject to the Conditions Precedent, may or may not be completed. Shareholders are reminded to exercise caution when dealing in the securities of the Company.***

### SPECIAL GENERAL MEETING

A notice convening the Special General Meeting at which an ordinary resolution will be proposed to Shareholders to consider and, if thought fit, to approve the Transaction and all matters relating thereto is set out on pages 117 to 119 of this circular.

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

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## LETTER FROM THE BOARD

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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.

### **RECOMMENDATION**

The Directors are of the opinion that the terms of the Transaction 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 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*

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

The following was extracted from the published audited financial statements for the three years ended 31 December 2003.

**Results****(Expressed in HK\$'000)**

	<b>Year ended 31 December</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
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)**

	<b>31 December</b>		
	<b>2003</b>	<b>2002</b>	<b>2001</b>
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**

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
<b>TURNOVER</b>	5	24,535	24,003
Cost of sales		<u>(40,911)</u>	<u>(28,535)</u>
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		<u>(30,877)</u>	<u>(10,100)</u>
<b>LOSS FROM OPERATING ACTIVITIES</b>	6	(51,834)	(15,217)
Finance costs	9	<u>(171)</u>	<u>–</u>
<b>LOSS BEFORE TAX</b>		(52,005)	(15,217)
Tax	10	<u>–</u>	<u>–</u>
<b>NET LOSS ATTRIBUTABLE TO SHAREHOLDERS</b>	11, 23	<u><u>(52,005)</u></u>	<u><u>(15,217)</u></u>
<b>LOSS PER SHARE</b>	12		
Basic		<u>HK(1.58 cents)</u>	<u>HK(0.56 cent)</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**CONSOLIDATED BALANCE SHEET**

31 December 2003

(Expressed in HK\$'000)

	Notes	2003	2002
<b>NON-CURRENT ASSETS</b>			
Fixed assets	13	91,532	107,959
Prepayments	15	3,238	12,582
		<u>94,770</u>	<u>120,541</u>
<b>CURRENT ASSETS</b>			
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
		<u>1,135,268</u>	<u>1,131,845</u>
<b>CURRENT LIABILITIES</b>			
Accounts payable	19	3,407	1,067
Accrued liabilities and other payables	20	23,544	16,962
Bank loans	21	20,735	–
		<u>47,686</u>	<u>18,029</u>
<b>NET CURRENT ASSETS</b>		<u>1,087,582</u>	<u>1,113,816</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		1,182,352	1,234,357
<b>NON-CURRENT LIABILITIES</b>			
Other loans	21	11,862	11,862
		<u>1,170,490</u>	<u>1,222,495</u>
<b>CAPITAL AND RESERVES</b>			
Issued capital	22	164,824	164,824
Reserves	23	1,005,666	1,057,671
		<u>1,170,490</u>	<u>1,222,495</u>

**Peter Kwok Viem**  
Director

**Ma Ting Hung**  
Director

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2003

(Expressed in HK\$'000)

	Issued capital (note 22)	Reserves (note 23)					Sub-total	Total
		Share premium account	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses		
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)
<b>At 31 December 2003</b>	<b>164,824</b>	<b>1,200,879</b>	<b>65,527</b>	<b>860</b>	<b>4,104</b>	<b>(265,704)</b>	<b>1,005,666</b>	<b>1,170,490</b>

**CONSOLIDATED CASH FLOW STATEMENT**

Year ended 31 December 2003

(Expressed in HK\$'000)

	Notes	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
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	–
		<hr/>	<hr/>
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)
		<hr/>	<hr/>
Cash used in operations		(24,380)	(24,070)
Taxes paid		–	–
		<hr/>	<hr/>
Net cash outflow from operating activities		(24,380)	(24,070)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
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)
		<hr/>	<hr/>
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
<b>CASH FLOWS FROM FINANCING</b>			
<b>ACTIVITIES</b>			
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)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		(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
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>1,100,153</u>	<u>1,123,498</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>			
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
		<u>1,100,153</u>	<u>1,123,498</u>

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

**Peter Kwok Viem**  
*Director*

**Ma Ting Hung**  
*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.

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

(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	<u>19,689</u>	<u>340</u>	<u>3,974</u>	<u>24,003</u>
Other segment information:				
Segment assets	111,175	–	–	111,175
Unallocated amounts				<u>1,141,211</u>
				<u>1,252,386</u>
Capital expenditure	2,778	–	–	2,778
Unallocated amounts				<u>1,153</u>
				<u>3,931</u>

**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
<b>Turnover</b>		
Sale of goods	<u>24,535</u>	<u>24,003</u>
<b>Other revenue and gains</b>		
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	<u>558</u>	<u>75</u>
	<u>14,080</u>	<u>20,613</u>
Total revenue and gains	<u>38,615</u>	<u>44,616</u>

(Expressed in HK\$'000)

## 6. LOSS FROM OPERATING ACTIVITIES

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

	<b>2003</b>	<b>2002</b>
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
	<u>9,304</u>	<u>10,429</u>
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) **	<u>25,662</u>	<u>–</u>

\* 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:

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

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

	<b>Number of directors</b>	
	<b>2003</b>	<b>2002</b>
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
	<u>9</u>	<u>10</u>

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
	<u>544</u>	<u>545</u>

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
	<u>171</u>	<u>–</u>

\* 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	<u>(52,005)</u>	<u>(15,217)</u>
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	<u>8,276</u>	<u>9,341</u>
Tax credit at the Group's effective rate	<u>–</u>	<u>–</u>

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**

	<b>Leasehold improvements</b>	<b>Machinery, tools and equipment</b>	<b>Furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
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)
	<u>3,367</u>	<u>113,183</u>	<u>900</u>	<u>2,499</u>	<u>119,949</u>
At 31 December 2003					
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)
	<u>786</u>	<u>26,154</u>	<u>751</u>	<u>726</u>	<u>28,417</u>
At 31 December 2003					
Net book value:					
At 31 December 2003	<u>2,581</u>	<u>87,029</u>	<u>149</u>	<u>1,773</u>	<u>91,532</u>
At 31 December 2002	<u>2,805</u>	<u>103,614</u>	<u>516</u>	<u>1,024</u>	<u>107,959</u>

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**

	<b>Company</b>	
	<b>2003</b>	<b>2002</b>
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)
	<u>71,892</u>	<u>99,625</u>

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
<b>Directly held</b>				
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
<b>Indirectly held</b>				
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

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
Raw materials	3,288	702
Work in progress	3,451	944
Finished goods	2,159	1,419
	<u>8,898</u>	<u>3,065</u>

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:

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

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	–	–	–
	<u>1,100,153</u>	<u>1,123,498</u>	<u>1,098,529</u>	<u>1,123,031</u>

\* 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
	<u>3,407</u>	<u>1,067</u>

**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**

	Notes	Group 2003	2002	Company 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		<u>20,735</u>	<u>–</u>	<u>7,000</u>	<u>–</u>
Non-current other loans, unsecured	(c)	<u>11,862</u>	<u>11,862</u>	<u>–</u>	<u>–</u>

- (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	<b>Number of ordinary shares</b>	
Authorised:			
Ordinary shares of HK\$0.05 each as at 1 January 2002		4,000,000,000	200,000
Increase in share capital	(a)	<u>2,000,000,000</u>	<u>100,000</u>
Ordinary shares of HK\$0.05 each as at 31 December 2002 and 2003		<u><u>6,000,000,000</u></u>	<u><u>300,000</u></u>
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)	<u>1,176,470,588</u>	<u>58,824</u>
Ordinary shares of HK\$0.05 each as at 31 December 2002 and 2003		<u><u>3,296,470,588</u></u>	<u><u>164,824</u></u>

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)
	<hr/>	<hr/>	<hr/>	<hr/>
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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003	<u>1,200,879</u>	<u>172,934</u>	<u>(373,983)</u>	<u>999,830</u>

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:

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
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
	<u>19,995</u>	<u>21,357</u>

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 a 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.

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## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

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*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.*



安永會計師事務所

15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

4 March 2005

The Board of Directors  
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report on the financial information regarding Caltex South China Investments Limited (“**CSCIL**”) and its subsidiaries (hereinafter collectively referred to as the “**CSCIL Group**”) to be acquired as to 50.5% by CITIC Resources Holdings Limited (the “**Company**”) pursuant to a conditional share subscription agreement (the “**Agreement**”) dated 8 January 2005 made between the Company, Caltex (Asia) Limited, Star Concept Holdings Limited and CSCIL, prepared on the basis as set out in section 1 below, for inclusion in the circular issued by the Company dated 4 March 2005 (the “**Circular**”).

CSCIL was incorporated in Hong Kong with limited liability under the Hong Kong Companies Ordinance on 30 March 1982, with an authorised share capital of HK\$500,000 divided into 500,000 ordinary shares of HK\$1 each, of which 500,000 ordinary shares were allotted and issued as fully paid as at 30 September 2004. During the years ended 31 December 2001, 2002 and 2003 and the nine months ended 30 September 2004 (the “**Relevant Periods**”), the CSCIL Group is principally engaged in operating of petroleum stations, retailing of petroleum, diesel, lubricants and liquefied petroleum gas, and the sale of fuel oil, diesel and liquefied petroleum gas directly to commercial and industrial customers in Guangdong and Fujian provinces and in the Macau Special Administrative Region (“**Macau**”) of the People’s Republic of China (the “**PRC**”).

The CSCIL Group has adopted 31 December as its financial year end date for statutory reporting purposes.

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## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

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The audited financial statements of the companies comprising the CSCIL Group for the years ended 31 December 2001, 2002 and 2003 were prepared in accordance with accounting principles generally accepted in Hong Kong and were audited by PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, except for the following companies:

Company	Years ended	Statutory auditors
Caltex Oil (Macau) Limited	31 December 2001, 2002 and 2003	Lowe Bingham & Matthews – PricewaterhouseCoopers Certified Public Accountants, Macau
福建加德士石油產品有限公司 (Fujian Caltex Petroleum Products Company Limited)	31 December 2001, 2002 and 2003	Fujian Shi Shi Fang Zheng Accountants Limited Firm Certified Public Accountants, the PRC

For the purpose of this report, we have examined the audited financial statements and the management accounts of all companies comprising the CSCIL Group for the Relevant Periods, which were prepared in accordance with accounting principles generally accepted in Hong Kong, in accordance with the Statements of Auditing Standard (“SAS”) and Auditing Guidelines issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 “Prospectuses and the reporting accountant” issued by the HKICPA.

For the purpose of this report, we have performed a review of the comparative financial information which includes the consolidated results and the consolidated cash flows of the CSCIL Group for the nine months ended 30 September 2003, together with the notes thereon, (the “**30 September 2003 Financial Information**”) for which the directors of CSCIL are responsible, in accordance with SAS 700 “Engagements to review interim financial reports” issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excluded audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than an audit, and accordingly we do not express an audit opinion on the 30 September 2003 Financial Information.

The summaries of the consolidated profit and loss account, the consolidated statements of changes in equity and the consolidated cash flow statements of the CSCIL Group for the Relevant Periods and of the consolidated balance sheets of the CSCIL Group and the balance sheets of CSCIL as at 31 December 2001, 2002 and 2003 and 30 September 2004 (the “**Summaries**”) as set out in this report have been prepared and are presented on the basis as set out in section 1 below.

The Summaries are the responsibility of the directors of CSCIL 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.

*Fundamental uncertainty relating to going concern basis*

In forming our opinion, we have considered the adequacy of the disclosures made in section 1 to this report concerning the basis of the presentation of the Summaries prepared by the directors of CSCIL. As explained in section 1 to this report, the Company and the existing shareholders of CSCIL have conditionally agreed to provide continuing financial support to the CSCIL Group after the Completion. The Summaries have been prepared on a going concern basis, the validity of which is dependent on whether continuing financial support from the Company and the existing shareholders of CSCIL is forthcoming. The Summaries do not include any adjustments that may be necessary should such financial support not be forthcoming. We consider that appropriate disclosures have been made and our opinion is not qualified in this respect.

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the consolidated results and cash flows of the CSCIL Group for the Relevant Periods, and of the state of affairs of the CSCIL Group and of CSCIL as at 31 December 2001, 2002 and 2003 and 30 September 2004, respectively.

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the 30 September 2003 Financial Information.

**1. BASIS OF PRESENTATION**

The Summaries have been prepared based on the amounts included in the audited financial statements and the management accounts of the companies comprising the CSCIL Group throughout the Relevant Periods. All material transactions and balances amongst the companies comprising the CSCIL Group have been eliminated on consolidation. The definitions used in the Circular apply to this report unless otherwise stated.

The Summaries have been prepared on a going concern basis notwithstanding that the CSCIL Group recorded net current liabilities of HK\$69,308,000 as at 30 September 2004 as the Company and the existing shareholders of CSCIL have conditionally agreed to provide financial support to the CSCIL Group after the Completion. On this basis, the directors of CSCIL consider that the CSCIL Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors of CSCIL are satisfied that it is appropriate to prepare the Summaries on a going concern basis. If the going concern basis is not appropriate, adjustments would have to be made to restate the values of the CSCIL Group's assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify its non-current assets and liabilities as current assets and liabilities, respectively.

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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At the date of this report, CSCIL had direct or indirect interests in the following subsidiaries, all of which are private companies (or if incorporated/established 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/ establishment and operations	Issued share/ paid-up capital	Percentage of equity attributable to CSCIL		Principal activities
			Direct	Indirect	
Skillworld Investments Limited	Hong Kong 17 May 1983	HK\$10,000 ordinary	100	–	Investment holding
Sino Progress Limited	Hong Kong 19 January 1988	HK\$10,000 ordinary	–	100	Property holding and office management
Calmac Holdings Limited	Hong Kong 5 May 1992	HK\$5,000,000 ordinary	60	–	Investment holding
Caltex Oil (Macau) Limited	Macau 6 December 1991	MOP5,000,000	–	60	Marketing of petroleum products
福建加德士石油產品有限公司 (Fujian Caltex Petroleum Products Company Limited)	PRC 10 July 1996 (note)	HK\$9,100,000	100	–	Marketing of petroleum products

Note: 福建加德士石油產品有限公司 is a wholly foreign owned enterprise established by CSCIL with a term of 30 years commencing on the date of its business licence of 10 July 1996.

## **2. PRINCIPAL ACCOUNTING POLICIES**

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

### **Basis of preparation**

The financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong. They have been prepared under the historical cost convention.

### **Basis of consolidation**

The consolidated financial statements include the financial statements of companies comprising the CSCIL Group for the Relevant Periods. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the CSCIL Group are eliminated on consolidation.

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

### **Subsidiaries**

A subsidiary is a company, other than a jointly-controlled entity, in which the CSCIL Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

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

### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The CSCIL Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. Where the profit sharing ratio is different to the CSCIL Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. The CSCIL Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the CSCIL Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in CSCIL's profit and loss account to the extent of dividends received and receivable. CSCIL's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which CSCIL has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The CSCIL Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The CSCIL Group's interests in associates are stated in the consolidated balance sheet at the CSCIL Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of associates are included in CSCIL's profit and loss account to the extent of dividends received and receivable. CSCIL's interests in associates are treated as long term assets and 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.

### **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 and 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, but 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.

**Fixed assets and depreciation**

Fixed assets, other than construction in progress, 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, net of residual value and accumulated impairment losses, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	Over the lease terms
Leasehold improvements	Over the lease terms
Plant and machinery	5% to 20%
Office equipment, furniture and fixtures	4% to 16.67 %
Computer equipment	16.67%
Motor vehicles	12.5% to 20%

Construction in progress represents the costs incurred in connection with the construction of fixed assets less any impairment losses and is not depreciated. Cost comprises direct costs incurred during the period of construction, installation and testing. Construction in progress is re-classified to the appropriate category of fixed assets when completed and ready for use.

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.

**Leased assets**

Leases that transfer substantially all the rewards and risks of ownership of assets to the CSCIL Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing.

Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.



Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the CSCIL Group is the lessor, assets leased by the CSCIL Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the CSCIL 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.

#### **Other assets**

Other assets represent club debentures and are stated at cost less provision for impairment losses.

#### **Inventories**

Inventories comprise finished goods and are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

#### **Accounts receivable**

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable at the balance sheet date are stated net of such provision.

#### **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, associates and jointly-controlled entities, 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 and 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, associates and jointly-controlled entities, 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.

### **Revenue recognition**

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

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the CSCIL Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) management fee income, on an accrual basis;
- (c) rental income, on a time proportion basis over the lease terms; and
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

**Employee benefits***Paid leave carried forward*

The CSCIL Group provides paid 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.

*Pension schemes*

The CSCIL Group operates a number of defined contribution mandatory provident fund retirement benefits schemes (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate. 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 CSCIL Group in an independently administered fund. The CSCIL Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme except for the CSCIL Group’s employer voluntary contributions, which are refunded to the CSCIL Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

The employees of the CSCIL Group’s subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of an amount fixed by the local authority. The contributions are charged to the profit and loss account as they become payable in accordance with the rules of the central pension scheme.

*Bonus plans*

The expected cost of bonus payments are recognised as a liability when the CSCIL Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

**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 CSCIL'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.

**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, jointly-controlled entities and an associate are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entities and an associate are translated into Hong Kong dollars at the weighted average exchange rates for the Relevant Periods and their balance sheets are translated into Hong Kong dollars at the exchange rates ruling 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 ruling at the dates of the cash flows. Frequently recurring cash flows of the subsidiaries which arise throughout the Relevant Periods are translated into Hong Kong dollars at the weighted average exchange rates for the Relevant Periods.

**Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, less bank overdrafts which are repayable on demand and form an integral part of the CSCIL Group's cash management.

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.

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### 3. CONSOLIDATED PROFIT AND LOSS ACCOUNT

The following is a summary of the consolidated profit and loss account of the CSCIL Group for the Relevant Periods, which is presented on the basis set out in section 1 above:

	Notes	Year ended 31 December			Nine months ended 30 September	
		2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2003 HK\$'000 (unaudited)	2004 HK\$'000
TURNOVER	(a)	142,194	149,713	143,053	106,615	124,335
Cost of sales		<u>(49,189)</u>	<u>(52,824)</u>	<u>(54,502)</u>	<u>(40,585)</u>	<u>(50,904)</u>
Gross profit		93,005	96,889	88,551	66,030	73,431
Other revenue	(a)	7,012	9,805	11,391	8,633	8,162
Administrative and operating expenses		<u>(62,095)</u>	<u>(69,523)</u>	<u>(66,838)</u>	<u>(48,293)</u>	<u>(51,647)</u>
PROFIT FROM OPERATING ACTIVITIES	(b)	37,922	37,171	33,104	26,370	29,946
Finance costs	(d)	<u>(6,361)</u>	<u>(2,653)</u>	<u>(2,002)</u>	<u>(1,637)</u>	<u>(1,094)</u>
Share of profits and losses of:						
Jointly-controlled entities		14,655	24,000	15,080	17,614	15,675
Associate		<u>(127)</u>	<u>3,591</u>	<u>–</u>	<u>–</u>	<u>–</u>
PROFIT BEFORE TAX		46,089	62,109	46,182	42,347	44,527
Tax	(e)	<u>(8,545)</u>	<u>(11,903)</u>	<u>(8,914)</u>	<u>(8,814)</u>	<u>(9,668)</u>
PROFIT BEFORE MINORITY INTERESTS		37,544	50,206	37,268	33,533	34,859
Minority interests		<u>(7,240)</u>	<u>(7,023)</u>	<u>(5,009)</u>	<u>(3,344)</u>	<u>(4,386)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>30,304</u>	<u>43,183</u>	<u>32,259</u>	<u>30,189</u>	<u>30,473</u>
DIVIDEND						
Interim	(g)	<u>8,600</u>	<u>20,000</u>	<u>–</u>	<u>–</u>	<u>9,670</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

Notes:

### (a) Turnover and other revenue

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

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

	Year ended 31 December			Nine months ended 30 September	
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2003 HK\$'000 (unaudited)	2004 HK\$'000
Turnover:					
Sale of goods	142,194	149,713	143,053	106,615	124,335
Other revenue:					
Management fee income	4,821	8,851	10,663	7,993	7,337
Interest income	1,059	273	239	221	101
Rental income	132	132	132	99	99
Sundry income	1,000	549	357	320	625
	7,012	9,805	11,391	8,633	8,162
	<u>149,206</u>	<u>159,518</u>	<u>154,444</u>	<u>115,248</u>	<u>132,497</u>

### (b) Profit from operating activities

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

	Year ended 31 December			Nine months ended 30 September	
	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2003 HK\$'000 (unaudited)	2004 HK\$'000
Cost of inventories sold	49,189	52,824	54,502	40,585	50,904
Depreciation – owned fixed assets	5,806	6,125	6,033	4,431	4,593
– leased fixed assets	7	157	157	137	117
Minimum lease payments under operating leases in respect of:					
Land and buildings	2,783	2,793	3,050	2,586	1,934
Computer equipment	–	246	246	184	184
Auditors' remuneration	467	404	501	371	407
Staff costs (excluding directors' remuneration (note (c))):					
Wages and salaries	18,948	19,287	19,059	13,218	13,687
Pension scheme contributions	1,081	1,083	1,072	772	767
	20,029	20,370	20,131	13,990	14,454
Exchange losses/(gains), net	165	(2)	(193)	(213)	46
Loss on disposal of fixed assets	6	903	447	335	248
	<u>165</u>	<u>(2)</u>	<u>(193)</u>	<u>(213)</u>	<u>46</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### (c) Directors' and senior executives' remuneration

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Fees	–	–	–	–	–
Other emoluments					
Salaries, allowances and benefits in kind	4,753	3,875	3,839	2,513	2,513
Pension scheme contributions	–	–	–	–	–
	<u>4,753</u>	<u>3,875</u>	<u>3,839</u>	<u>2,513</u>	<u>2,513</u>

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

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	Number of directors	Number of directors	Number of directors	Number of directors	Number of directors
Nil to HK\$1,000,000	2	2	2	2	2
HK\$1,000,001 to HK\$1,500,000	–	1	1	1	1
HK\$1,500,001 to HK\$2,000,000	–	–	–	1	1
HK\$2,000,001 to HK\$2,500,000	2	1	1	–	–
	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>	<u>4</u>

The five highest paid individuals in the CSCIL Group during the years ended 31 December 2001, 2002 and 2003 and the nine months ended 30 September 2003 and 2004 included 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	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other emoluments					
Salaries, allowances and benefits in kind	1,762	1,905	1,922	1,363	1,358
Pension scheme contributions	176	190	192	136	135
	<u>1,938</u>	<u>2,095</u>	<u>2,114</u>	<u>1,499</u>	<u>1,493</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

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	
	2001	2002	2003	2003	2004
	Number of employees	Number of employees	Number of employees	Number of employees	Number of employees
Nil to HK\$1,000,000	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>	<u>3</u>

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

**(d) Finance costs**

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Interest on bank loans and overdraft repayable within one year	4,102	2,362	1,990	1,628	1,083
Interest on loan from a fellow subsidiary	2,258	279	–	–	–
Interest on finance leases	1	12	12	9	11
	<u>6,361</u>	<u>2,653</u>	<u>2,002</u>	<u>1,637</u>	<u>1,094</u>

**(e) Tax**

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Current year/period provision:					
Hong Kong	174	3,021	1,993	2,007	3,117
Elsewhere	3,653	3,316	2,344	2,627	2,016
Under/(over)-provisions in prior years	–	(317)	(33)	(15)	375
Deferred tax relating to the origination and reversal of temporary differences	1,205	(364)	126	–	–
	<u>5,032</u>	<u>5,656</u>	<u>4,430</u>	<u>4,619</u>	<u>5,508</u>
Share of taxation attributable to: Jointly-controlled entities	3,513	6,247	4,484	4,195	4,160
	<u>8,545</u>	<u>11,903</u>	<u>8,914</u>	<u>8,814</u>	<u>9,668</u>



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## APPENDIX II      FINANCIAL INFORMATION ON THE CSCIL GROUP

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Hong Kong profits tax has been provided at the rates of 16.0%, 16.0%, 17.5% and 17.5% for each of the years ended 31 December 2001, 2002 and 2003 and the nine months ended 30 September 2004 on the estimated assessable profits arising in Hong Kong during the year/period.

Except for the corporate income tax rate applicable to jointly-controlled entities in Shenzhen and Zhuhai Special Economic Zones of 15%, the statutory corporate income tax rate for the other PRC entities including jointly-controlled entities and the wholly-owned subsidiary of the CSCIL Group is 33% throughout the Relevant Periods. During the Relevant Periods, provisions for income tax for the subsidiary and jointly-controlled entities have been made at the applicable rates for these companies.

Macau complementary tax has been provided at the rates of 15.75% for each of the years ended 31 December 2001, 2002 and 2003 and the nine months ended 30 September 2004 on the estimated assessable profits arising in Macau during the year/period.

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, interpretation and practices in respect thereof.

A reconciliation of the tax charge applicable to profit before tax using the statutory rates for the countries in which the CSCIL Group are domiciled to the tax charge at the effective tax rate are as follows:

	Year ended 31 December			Nine months ended	
	2001	2002	2003	30 September 2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before tax	<u>46,089</u>	<u>62,109</u>	<u>46,182</u>	<u>42,347</u>	<u>44,527</u>
Tax at the applicable rates to profits in the countries concerned	8,433	11,253	9,369	9,030	9,140
Adjustments in respect of current tax of previous periods	–	(317)	(33)	(15)	375
Income not subject to tax	(138)	(655)	(628)	(318)	(68)
Expenses not deductible for tax	<u>250</u>	<u>1,622</u>	<u>206</u>	<u>117</u>	<u>221</u>
Tax charge at the CSCIL Group's effective rate	<u>8,545</u>	<u>11,903</u>	<u>8,914</u>	<u>8,814</u>	<u>9,668</u>

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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**(f) Related party transactions**

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

	<b>31 December</b>			<b>Nine months ended 30 September</b>	
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2003</b>	<b>2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Purchases of goods and services from fellow subsidiaries (note (i))	24,095	25,732	25,336	18,614	24,705
Management fee to a company controlled by certain directors (note (ii))	5,280	5,264	5,401	4,087	3,960
Sales of goods to fellow subsidiaries (note (i))	1,775	1,951	2,198	1,693	1,667
Sales of goods and services to jointly-controlled entities (note (i))	19,828	26,300	24,130	20,119	15,473
Marketing services income from jointly-controlled entity (note (iii))	–	3,855	5,292	3,974	3,182
Interest paid to a fellow subsidiary	2,258	279	–	–	–
Commission income from a company controlled by certain directors (note (iv))	<u>3,839</u>	<u>4,390</u>	<u>4,597</u>	<u>3,508</u>	<u>3,545</u>

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## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

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Notes:

- (i) Sales and purchases were made at mutually agreed prices.
- (ii) Management fee was paid for the provision of administrative services, which was charged at a pre-determined amount on a monthly basis.
- (iii) Marketing services fee was charged based on sale volume of refined products purchased by designated customers directly from jointly-controlled entities.
- (iv) Commission income was charged for maintenance services rendered to jointly-controlled entities, calculated based on mutually agreed prices.

The above transactions with related parties were entered into in the normal course of business and on normal commercial terms in accordance with the agreements governing such transactions.

**(g) Dividend**

At the meeting of the board of directors of CSCIL held on 31 October 2001, 20 November 2002 and 16 September 2004, the directors of CSCIL declared and paid interim dividend of HK\$8,600,000 (HK\$17.2 per ordinary share), HK\$20,000,000 (HK\$40.0 per ordinary share) and HK\$9,670,000 (HK\$19.34 per ordinary share) in respect of the years ended 31 December 2001 and 2002 and the nine months ended 30 September 2004, respectively.

Save as aforesaid, no dividend has been paid or declared by CSCIL during the Relevant Periods.

**(h) Earnings per share**

No earnings per share information has been presented as its inclusion, for the purpose of this report, is not considered meaningful.

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### 4. BALANCE SHEETS

The following is a summary of the consolidated balance sheets of the CSCIL Group and balance sheets of CSCIL as at 31 December 2001, 2002 and 2003 and 30 September 2004, which is presented on the basis as set out in Section 1 above:

#### Consolidated balance sheets of the CSCIL Group

		2001	31 December 2002	2003	30 September 2004
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>NON-CURRENT ASSETS</b>					
Fixed assets	(a)	73,360	68,497	66,034	61,616
Interests in jointly-controlled entities	(c)	262,567	276,649	266,104	277,528
Interests in an associate	(d)	(3,761)	(297)	(1,337)	(1,311)
Other assets		3,830	3,830	3,770	3,770
		335,996	348,679	334,571	341,603
<b>CURRENT ASSETS</b>					
Inventories	(e)	4,437	5,358	4,951	4,264
Accounts receivable	(f)	10,834	7,374	5,570	11,883
Deposits, prepayments and other receivables		4,217	4,849	5,600	2,818
Due from fellow subsidiaries	(g)	41	1	–	6
Cash and bank balances		17,199	25,041	24,031	43,938
		36,728	42,623	40,152	62,909
<b>CURRENT LIABILITIES</b>					
Accounts payable	(h)	1,871	716	525	465
Accrued liabilities and other payables		20,513	22,461	21,991	26,826
Due to the immediate holding company	(g)	6,407	–	61	3
Due to fellow subsidiaries	(g)	22,836	4,550	2,142	3,093
Loans from a fellow subsidiary	(i)	60,158	–	–	–
Current portion of finance lease payables	(j)	153	153	140	–
Dividend payable		2,193	–	–	4,800
Tax payable		6,000	5,413	2,017	5,765
Bank loans and overdrafts	(k)	57,886	140,772	96,741	91,265
		178,017	174,065	123,617	132,217
<b>NET CURRENT LIABILITIES</b>		(141,289)	(131,442)	(83,465)	(69,308)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		194,707	217,237	251,106	272,295

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

	Notes	31 December		30 September	
		2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>NON-CURRENT LIABILITIES</b>					
Due to a fellow subsidiary	(l)	35,403	35,403	35,403	35,403
Finance lease payables	(j)	292	140	–	–
Deferred tax liabilities	(m)	1,205	841	967	967
		36,900	36,384	36,370	36,370
<b>MINORITY INTERESTS</b>					
		13,630	14,252	16,662	16,247
		144,177	166,601	198,074	219,678
<b>CAPITAL AND RESERVES</b>					
Issued capital	(n)	500	500	500	500
Reserves	(o)	143,677	166,101	197,574	219,178
		144,177	166,601	198,074	219,678

### Balance sheets of CSCIL

	Notes	31 December		30 September	
		2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
<b>NON-CURRENT ASSETS</b>					
Fixed assets	(a)	27,887	24,649	25,392	23,534
Interests in subsidiaries	(b)	13,911	11,544	10,524	17,765
Interests in jointly-controlled entities	(c)	233,623	226,042	208,762	217,505
Interests in an associate	(d)	468	89	(951)	(925)
Other assets		3,830	3,830	3,770	3,770
		279,719	266,154	247,497	261,649
<b>CURRENT ASSETS</b>					
Accounts receivable	(f)	4,283	1,800	2,644	3,552
Deposits, prepayments and other receivables		3,738	3,578	2,506	2,325
Due from fellow subsidiaries	(g)	41	1	–	6
Tax recoverable		–	–	557	–
Cash and bank balances		7,930	11,448	10,703	15,222
		15,992	16,827	16,410	21,105

**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**

		31 December		30 September	
		2001	2002	2003	2004
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>CURRENT LIABILITIES</b>					
Accrued liabilities and other payables		9,351	10,545	9,758	11,314
Due to the immediate holding company	(g)	6,407	–	61	3
Due to fellow subsidiaries	(g)	16,342	952	185	256
Loan from a fellow subsidiary	(i)	60,158	–	–	–
Due to a jointly-controlled entity of a subsidiary	(c)	1,224	5,414	4,815	1,232
Current portion of finance lease payables	(j)	76	76	70	–
Dividend payable		2,193	–	–	–
Tax payable		173	1,024	–	2,935
Bank loans and overdrafts	(k)	57,886	133,772	96,741	91,265
		<u>153,810</u>	<u>151,783</u>	<u>111,630</u>	<u>107,005</u>
<b>NET CURRENT LIABILITIES</b>		<u>(137,818)</u>	<u>(134,956)</u>	<u>(95,220)</u>	<u>(85,900)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>141,901</u>	<u>131,198</u>	<u>152,277</u>	<u>175,749</u>
<b>NON-CURRENT LIABILITIES</b>					
Finance lease payables	(j)	146	70	–	–
Deferred tax liabilities	(m)	1,205	841	967	967
		<u>1,351</u>	<u>911</u>	<u>967</u>	<u>967</u>
		<u>140,550</u>	<u>130,287</u>	<u>151,310</u>	<u>174,782</u>
<b>CAPITAL AND RESERVES</b>					
Issued capital	(n)	500	500	500	500
Reserves	(o)	140,050	129,787	150,810	174,282
		<u>140,550</u>	<u>130,287</u>	<u>151,310</u>	<u>174,782</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

Notes:

**(a) Fixed assets**

*The CSCIL Group*

	Construction in progress HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:							
At 1 January 2001	–	45,787	56	26,083	19,529	6,979	98,434
Additions	–	35	–	4,710	520	1,537	6,802
Transfer to inventories	–	–	–	(221)	–	–	(221)
Disposals	–	–	–	–	(11)	(355)	(366)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(11)</u>	<u>(355)</u>	<u>(366)</u>
At 31 December 2001 and 1 January 2002	–	45,822	56	30,572	20,038	8,161	104,649
Additions	–	–	37	536	706	1,046	2,325
Transfer	–	7,444	1,428	(8,872)	–	–	–
Disposals	–	–	–	(1,962)	(77)	(68)	(2,107)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,962)</u>	<u>(77)</u>	<u>(68)</u>	<u>(2,107)</u>
At 31 December 2002 and 1 January 2003	–	53,266	1,521	20,274	20,667	9,139	104,867
Additions	–	–	–	490	3,966	1,269	5,725
Disposals	–	–	–	(5,294)	(5,970)	(455)	(11,719)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(5,294)</u>	<u>(5,970)</u>	<u>(455)</u>	<u>(11,719)</u>
At 31 December 2003 and 1 January 2004	–	53,266	1,521	15,470	18,663	9,953	98,873
Additions	242	–	–	59	290	49	640
Disposals	–	–	(55)	(1,001)	(135)	(478)	(1,669)
	<u>242</u>	<u>–</u>	<u>(55)</u>	<u>(1,001)</u>	<u>(135)</u>	<u>(478)</u>	<u>(1,669)</u>
At 30 September 2004	242	53,266	1,466	14,528	18,818	9,524	97,844
	<u>242</u>	<u>53,266</u>	<u>1,466</u>	<u>14,528</u>	<u>18,818</u>	<u>9,524</u>	<u>97,844</u>
Accumulated depreciation:							
At 1 January 2001	–	5,351	56	7,101	8,311	5,017	25,836
Provided during the year	–	1,306	–	1,940	1,716	851	5,813
Disposals	–	–	–	–	(5)	(355)	(360)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>(5)</u>	<u>(355)</u>	<u>(360)</u>
At 31 December 2001 and 1 January 2002	–	6,657	56	9,041	10,022	5,513	31,289
Provided during the year	–	1,505	163	1,625	1,898	1,091	6,282
Disposals	–	–	–	(1,059)	(73)	(69)	(1,201)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(1,059)</u>	<u>(73)</u>	<u>(69)</u>	<u>(1,201)</u>
At 31 December 2002 and 1 January 2003	–	8,162	219	9,607	11,847	6,535	36,370
Provided during the year	–	1,604	244	1,289	1,969	1,084	6,190
Transfer	–	–	(1)	–	1	–	–
Disposals	–	–	–	(4,094)	(5,172)	(455)	(9,721)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(4,094)</u>	<u>(5,172)</u>	<u>(455)</u>	<u>(9,721)</u>
At 31 December 2003 and 1 January 2004	–	9,766	462	6,802	8,645	7,164	32,839
Provided during the period	–	1,204	183	873	1,656	794	4,710
Disposals	–	–	(55)	(710)	(80)	(476)	(1,321)
	<u>–</u>	<u>–</u>	<u>(55)</u>	<u>(710)</u>	<u>(80)</u>	<u>(476)</u>	<u>(1,321)</u>
At 30 September 2004	–	10,970	590	6,965	10,221	7,482	36,228
	<u>–</u>	<u>10,970</u>	<u>590</u>	<u>6,965</u>	<u>10,221</u>	<u>7,482</u>	<u>36,228</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

	Construction in progress HK\$'000	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Net book value:							
At 31 December 2001	–	39,165	–	21,531	10,016	2,648	73,360
At 31 December 2002	–	45,104	1,302	10,667	8,820	2,604	68,497
At 31 December 2003	–	43,500	1,059	8,668	10,018	2,789	66,034
At 30 September 2004	242	42,296	876	7,563	8,597	2,042	61,616

### *CSCIL*

	Leasehold land and buildings HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Office equipment, furniture and fixtures HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:						
At 1 January 2001	18,766	56	9,378	14,215	1,250	43,665
Additions	–	–	–	496	235	731
Disposals	–	–	–	–	(355)	(355)
At 31 December 2001 and 1 January 2002	18,766	56	9,378	14,711	1,130	44,041
Additions	–	–	–	181	–	181
Disposals	–	–	(1,962)	(77)	–	(2,039)
At 31 December 2002 and 1 January 2003	18,766	56	7,416	14,815	1,130	42,183
Additions	–	–	–	3,861	–	3,861
Transfer	–	(1)	–	1	–	–
Disposals	–	–	(3,943)	(4,583)	(320)	(8,846)
At 31 December 2003 and 1 January 2004	18,766	55	3,473	14,094	810	37,198
Additions	–	–	81	63	–	144
Disposals	–	(55)	(442)	(118)	–	(615)
At 30 September 2004	18,766	–	3,112	14,039	810	36,727



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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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	<b>Leasehold land and buildings</b>	<b>Leasehold improve- ments</b>	<b>Plant and machinery</b>	<b>Office equipment, furniture and fixtures</b>	<b>Motor vehicles</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accumulated depreciation:						
At 1 January 2001	1,314	56	4,608	6,605	1,072	13,655
Provided during the year	375	–	1,061	1,332	86	2,854
Disposals	–	–	–	–	(355)	(355)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001 and 1 January 2002	1,689	56	5,669	7,937	803	16,154
Provided during the year	375	–	618	1,362	157	2,512
Disposals	–	–	(1,059)	(73)	–	(1,132)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2002 and 1 January 2003	2,064	56	5,228	9,226	960	17,534
Provided during the year	375	–	293	1,445	98	2,211
Transfer	–	(1)	–	1	–	–
Disposals	–	–	(3,443)	(4,176)	(320)	(7,939)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2003 and 1 January 2004	2,439	55	2,078	6,496	738	11,806
Provided during the period	281	–	253	1,086	72	1,692
Disposals	–	(55)	(210)	(40)	–	(305)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 30 September 2004	2,720	–	2,121	7,542	810	13,193
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book value:						
At 31 December 2001	<u>17,077</u>	<u>–</u>	<u>3,709</u>	<u>6,774</u>	<u>327</u>	<u>27,887</u>
At 31 December 2002	<u>16,702</u>	<u>–</u>	<u>2,188</u>	<u>5,589</u>	<u>170</u>	<u>24,649</u>
At 31 December 2003	<u>16,327</u>	<u>–</u>	<u>1,395</u>	<u>7,598</u>	<u>72</u>	<u>25,392</u>
At 30 September 2004	<u>16,046</u>	<u>–</u>	<u>991</u>	<u>6,497</u>	<u>–</u>	<u>23,534</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

The CSCIL Group's and CSCIL's leasehold land and buildings at their net book values are analysed as follows:

### *The CSCIL Group*

	<b>2001</b>	<b>31 December 2002</b>	<b>2003</b>	<b>30 September 2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Outside Hong Kong, held on leases:				
Less than 10 years	1,626	1,587	2,871	2,818
Between 10 to 50 years	37,539	43,517	40,629	39,478
	<u>39,165</u>	<u>45,104</u>	<u>43,500</u>	<u>42,296</u>

### *CSCIL*

	<b>2001</b>	<b>31 December 2002</b>	<b>2003</b>	<b>30 September 2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Outside Hong Kong, held on leases between 10 to 50 years	<u>17,077</u>	<u>16,702</u>	<u>16,327</u>	<u>16,046</u>

The net book value of the CSCIL Group's fixed assets held under finance leases included in the total amounts of motor vehicles at 31 December 2001, 2002 and 2003 and 30 September 2004 were HK\$457,000, HK\$301,000, HK\$144,000 and Nil, respectively.

### (b) Interests in subsidiaries

#### *CSCIL*

	<b>2001</b>	<b>31 December 2002</b>	<b>2003</b>	<b>30 September 2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted capital, at cost	13,512	13,512	13,662	13,962
Less: Provision for impairment losses	–	(2,572)	(3,827)	(3,827)
	<u>13,512</u>	<u>10,940</u>	<u>9,835</u>	<u>10,135</u>
Due from subsidiaries	826	967	1,034	7,657
Due to subsidiaries	(427)	(363)	(345)	(27)
	<u>13,911</u>	<u>11,544</u>	<u>10,524</u>	<u>17,765</u>

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

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**APPENDIX II      FINANCIAL INFORMATION ON THE CSCIL GROUP**

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(c) **Interests in jointly-controlled entities**

*The CSCIL Group*

	<b>2001</b>	<b>31 December</b>	<b>2003</b>	<b>30 September</b>
	HK\$'000	2002	HK\$'000	2004
		HK\$'000	HK\$'000	HK\$'000
Share of net assets	227,740	238,715	220,735	219,774
Due from jointly-controlled entities	60,449	57,971	50,923	59,180
Due to jointly-controlled entities	(25,622)	(20,037)	(5,554)	(1,426)
	<u>262,567</u>	<u>276,649</u>	<u>266,104</u>	<u>277,528</u>

*CSCIL*

	<b>2001</b>	<b>31 December</b>	<b>2003</b>	<b>30 September</b>
	HK\$'000	2002	HK\$'000	2004
		HK\$'000	HK\$'000	HK\$'000
Unlisted capital, at cost	197,626	202,500	185,732	185,732
Less: Provision for impairment losses	–	(19,737)	(27,110)	(27,110)
	<u>197,626</u>	<u>182,763</u>	<u>158,622</u>	<u>158,622</u>
Due from jointly-controlled entities	60,395	57,901	50,880	59,078
Due to jointly-controlled entities	(24,398)	(14,622)	(740)	(195)
	<u>233,623</u>	<u>226,042</u>	<u>208,762</u>	<u>217,505</u>

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

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

Details of the CSCIL Group's interest in the joint ventures are as follows:

Name	Date of establishment and tenure	Capital contribution	Percentage of interest in voting power	Percentage of interest in profit sharing
深圳加德士石油產品有限公司 (Shenzhen Caltex Petroleum Products Company Limited)	16 July 1984 (28 years)	HK\$46,082,046	60%*	60%
東莞加德士石油產品有限公司 (Dongguan Caltex Oil Products Company Limited)	19 January 1993 (32 years)	2001: HK\$52,000,000 2002: HK\$52,000,000 2003: HK\$35,231,698	60%	85%
廣州穗加石油產品有限公司 (Guangzhou Sui Jia Petroleum Products Company Limited)	31 December 1993 (30 years)	HK\$28,000,000	57%	85% with a minimum profit calculated on the total sales volume of refined products excluding lubricants guaranteed to the PRC joint venturer
廣州加潤石油產品有限公司 (Guangzhou Jiarun Petroleum Products Company Limited)	20 April 1994 (30 years)	HK\$20,000,000	57%	80%
惠州加德士石油產品有限公司 (Huizhou Caltex Petroleum Products Company Limited)	30 April 1994 (30 years)	HK\$29,000,000	67%	90%
肇慶加德士石油產品有限公司 (Zhaoqing Caltex Petroleum Products Company Limited)	14 November 1995 (50 years)	HK\$14,000,000	60%	90% with a minimum annual profit of RMB90,000 guaranteed to the PRC joint venturer from 2004 to 2007
清遠加德士石油產品有限公司 (Qingyuan Caltex Petroleum Products Company Limited)	29 December 1995 (30 years)	HK\$2,500,000	57%	85%
珠海加華加油站有限公司 (Zhuhai Jiahua Gas Stations Company Limited)	29 April 1996 (15 years)	HK\$7,000,000	50%	50%
江門加德士石油產品有限公司 (Jiangmen Caltex Petroleum Products Company Limited)	3 September 1997 (50 years)	HK\$14,000,000	67%	82% with a minimum annual profit of RMB75,000 guaranteed to the PRC joint venturer since 2003

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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Name	Date of establishment and tenure	Capital contribution	Percentage of interest in	
			voting power	profit sharing
恩平加德士石油產品有限公司 (Enping Caltex Petroleum Products Company Limited)	23 June 1997 (50 years)	HK\$7,000,000	67%	85%
番禺南沙加德士石油產品有限公司 (Panyu Nansha Caltex Petroleum Products Company Limited)	4 September 1997 (50 years)	HK\$15,000,000	67%	80%
佛山加德士石油有限公司 (Foshan Caltex Petroleum Company Limited)	20 April 1998 (29 years)	HK\$14,000,000	67%	82%

\* Interest directly held by Skillworld Investments Limited (“Skillworld”), a wholly-owned subsidiary of CSCIL. Other entities are directly held by CSCIL.

All the above entities are accounted for as jointly-controlled entities by virtue of the fact that neither the CSCIL Group nor the joint venturers can exercise unilateral control over the economic activity of the respective entities.

All the jointly-controlled entities are sino-foreign co-operative joint venture enterprises which were established and are operated in Mainland China. These entities are principally engaged in storage and retailing of petroleum products.

The jointly-controlled entities are not audited by Ernst & Young Hong Kong or other Ernst & Young international member firms.

Pursuant to the respective joint venture agreements, the capital contribution to Dongguan Caltex Oil Products Company Limited (“Caltex Dongguan”) and Guangzhou Sui Jia Petroleum Products Company Limited (“Guangzhou Sui Jia”) are repayable to CSCIL annually in amounts equivalent to the depreciation on the fixed assets of Caltex Dongguan and Guangzhou Sui Jia, respectively. An amount of HK\$16,768,302 was repaid to CSCIL by Caltex Dongguan during the year ended 31 December 2003. As at 30 September 2004, the amounts due from Dongguan Caltex and Guangzhou Sui Jia in this respect were HK\$3,775,525 and HK\$1,934,356, respectively. With respect to the other jointly-controlled entities, the capital contribution are repayable to CSCIL after the expiration of the joint venture period.

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

Included in interests in jointly-controlled entities are the CSCIL Group's share of net assets of Caltex Shenzhen and Caltex Dongguan, which in the opinion of the directors of CSCIL, are material in the context of this accountants' report.

A summary of the results for the Relevant Periods and the assets and liabilities at those balance sheet dates of these jointly-controlled entities is set out below:

### *Caltex Shenzhen*

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)				
OPERATING RESULTS					
Turnover	<u>249,504</u>	<u>280,649</u>	<u>328,379</u>	<u>247,687</u>	<u>292,231</u>
Net profit for the year/period	<u>14,013</u>	<u>18,498</u>	<u>15,064</u>	<u>12,768</u>	<u>11,109</u>
			<b>31 December</b>		<b>30 September</b>
			<b>2001</b>	<b>2002</b>	<b>2003</b>
			HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	17,555	17,125	15,162	14,807	14,807
Current assets	38,550	47,244	50,190	55,746	55,746
Current liabilities	<u>(10,362)</u>	<u>(12,064)</u>	<u>(13,857)</u>	<u>(20,584)</u>	<u>(20,584)</u>

### *Caltex Dongguan*

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)				
OPERATING RESULTS					
Turnover	<u>260,482</u>	<u>319,758</u>	<u>379,044</u>	<u>285,894</u>	<u>327,068</u>
Net profit for the year/period	<u>3,233</u>	<u>5,765</u>	<u>4,091</u>	<u>4,794</u>	<u>2,852</u>
			<b>31 December</b>		<b>30 September</b>
			<b>2001</b>	<b>2002</b>	<b>2003</b>
			HK\$'000	HK\$'000	HK\$'000
ASSETS AND LIABILITIES					
Non-current assets	57,701	55,956	52,181	50,370	50,370
Current assets	74,088	80,891	88,361	111,299	111,299
Current liabilities	<u>(75,008)</u>	<u>(94,084)</u>	<u>(99,229)</u>	<u>(117,229)</u>	<u>(117,325)</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

(d) **Interests in an associate**

*The CSCIL Group*

	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net liabilities	(3,977)	(386)	–	–
Due from/(to) an associate	216	89	(1,337)	(1,311)
	<u>(3,761)</u>	<u>(297)</u>	<u>(1,337)</u>	<u>(1,311)</u>

*CSCIL*

	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	252	252	252	252
Less: Provision for impairment losses	–	(252)	(252)	(252)
	252	–	–	–
Due from/(to) an associate	216	89	(951)	(925)
	<u>468</u>	<u>89</u>	<u>(951)</u>	<u>(925)</u>

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

Particulars of the associate at 30 September 2004 are as follows:

Name	Place of incorporation and operation	Principal activities	Particulars of issued shares held	Interest directly held
Corrate Company Limited	Hong Kong	Investment holding	250,000 ordinary shares of HK\$1 each	50%

(e) **Inventories**

*The CSCIL Group*

	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finished goods	<u>4,437</u>	<u>5,358</u>	<u>4,951</u>	<u>4,264</u>

As at the balance sheet dates, there were no inventories carried at net realisable values.

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

**(f) Accounts receivable**

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

	<b>2001</b>	<b>31 December 2002</b>	<b>30 September 2003</b>	<b>2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>The CSCIL Group</i>				
Within one month	6,573	4,444	3,298	6,431
One to two months	3,322	1,918	1,727	4,149
Two to three months	703	568	401	1,042
Over three months	236	444	144	261
	<u>10,834</u>	<u>7,374</u>	<u>5,570</u>	<u>11,883</u>
<i>CSCIL</i>				
Within one month	2,560	933	1,828	2,400
One to two months	1,360	557	642	1,054
Two to three months	283	177	48	71
Over three months	80	133	126	27
	<u>4,283</u>	<u>1,800</u>	<u>2,644</u>	<u>3,552</u>

It is the general policy of the CSCIL Group to allow a credit period ranging from 30 to 60 days.

**(g) Balances with fellow subsidiaries and the immediate holding company**

Balances with fellow subsidiaries and the immediate holding company of CSCIL are unsecured, interest-free and have no fixed terms of repayment.

**(h) Accounts payable**

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

	<b>2001</b>	<b>31 December 2002</b>	<b>30 September 2003</b>	<b>2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<i>The CSCIL Group</i>				
Within one month	1,795	679	496	441
One to two months	–	–	–	6
Over three months	76	37	29	18
	<u>1,871</u>	<u>716</u>	<u>525</u>	<u>465</u>

**(i) Loan from a fellow subsidiary**

The loan from a fellow subsidiary as at 31 December 2001 was unsecured, bore interest at a rate of HIBOR + 0.7% per annum and was repaid during the year ended 31 December 2002.



## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### (j) Finance lease payables

The CSCIL Group leased certain motor vehicles for its business use. These leases are classified as finance leases and have remaining lease terms as of the balance sheet dates ranging from one to three years. The total future minimum lease payments under finance leases are as follows:

#### *The CSCIL Group*

	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	165	165	152	–
In the second to fifth year, inclusive	317	152	–	–
	<u>482</u>	<u>317</u>	<u>152</u>	<u>–</u>
Total minimum finance lease payments	482	317	152	–
Future finance charges on finance leases	(37)	(24)	(12)	–
	<u>445</u>	<u>293</u>	<u>140</u>	<u>–</u>
Total net finance lease payables	445	293	140	–
Portion classified as current liabilities	(153)	(153)	(140)	–
	<u>292</u>	<u>140</u>	<u>–</u>	<u>–</u>
Non-current portion	<u>292</u>	<u>140</u>	<u>–</u>	<u>–</u>

The present value of finance lease liabilities is as follows:

Within one year	153	153	140	–
In the second to fifth year, inclusive	292	140	–	–
	<u>445</u>	<u>293</u>	<u>140</u>	<u>–</u>

#### *CSCIL*

	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	82	82	76	–
In the second to fifth year, inclusive	165	76	–	–
	<u>247</u>	<u>158</u>	<u>76</u>	<u>–</u>
Total minimum finance lease payments	247	158	76	–
Future finance charges on finance leases	(25)	(12)	(6)	–
	<u>222</u>	<u>146</u>	<u>70</u>	<u>–</u>
Total net finance lease payables	222	146	70	–
Portion classified as current liabilities	(76)	(76)	(70)	–
	<u>146</u>	<u>70</u>	<u>–</u>	<u>–</u>
Non-current portion	<u>146</u>	<u>70</u>	<u>–</u>	<u>–</u>

The present value of finance lease liabilities is as follows:

Within one year	76	76	70	–
In the second to fifth year, inclusive	146	70	–	–
	<u>222</u>	<u>146</u>	<u>70</u>	<u>–</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

**(k) Bank loans and overdrafts, unsecured**

The CSCIL Group's bank loans and overdrafts are repayable within one year or on demand. The bank loans of the CSCIL Group are supported by corporate guarantees executed by the ultimate holding company of CSCIL to the extent of HK\$153,600,000.

**(l) Non-current liability-due to a fellow subsidiary**

A fellow subsidiary of CSCIL, Caltex China Limited, paid an amount of HK\$35,402,678 on behalf of the CSCIL Group as part of the CSCIL Group's initial capital contribution to Caltex Shenzhen. With effect from 1 November 1995, the amount was transferred from Caltex China Limited to Caltex Oil Hong Kong Limited ("COHK"), another fellow subsidiary of CSCIL. The amount due to COHK is unsecured, interest-free and is not repayable provided that Caltex Shenzhen's service stations market Caltex petroleum products during the joint venture period.

**(m) Deferred tax**

The movements on the deferred tax liabilities/(assets) during the Relevant Periods are as follows:

	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	–	1,205	841	967
Deferred tax charged/(credited) to profit and loss account (section 3(e))	1,205	(364)	126	–
At end of year/period	<u>1,205</u>	<u>841</u>	<u>967</u>	<u>967</u>

The movements in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the Relevant Periods are as follows:

*Deferred tax liabilities*

	Accelerated tax depreciation			
	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period	–	1,205	841	1,193
Charged/(credited) to profit and loss account	1,205	(364)	352	–
At end of year/period	<u>1,205</u>	<u>841</u>	<u>1,193</u>	<u>1,193</u>

*Deferred tax assets*

	Provisions			
	31 December		30 September	
	2001	2002	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of period/year	–	–	–	(226)
Credited to profit and loss account	–	–	(226)	–
At end of year/period	<u>–</u>	<u>–</u>	<u>(226)</u>	<u>(226)</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

The amounts shown in the balance sheet include the following:

Deferred tax assets to be recovered after more than 12 months	–	–	(226)	(226)
Deferred tax liabilities to be settled after more than 12 months	1,205	841	1,193	1,193
	<u>1,205</u>	<u>841</u>	<u>967</u>	<u>967</u>

**(n) Share capital**

	<b>2001</b>	<b>31 December 2002</b>	<b>2003</b>	<b>30 September 2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised, issued and fully paid: 500,000 ordinary shares of HK\$1 each	500	500	500	500
	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>

**(o) Reserves**

(i) Details of the movements in the reserves of the CSCIL Group are included in consolidated statements of movements in equity in section 5 below.

(ii) CSCIL

	<b>Retained profits</b>			
	<b>2001</b>	<b>31 December 2002</b>	<b>2003</b>	<b>30 September 2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of the year/period	125,884	140,050	129,787	150,810
Net profit for the year/period	22,766	9,737	21,023	33,142
Dividend	(8,600)	(20,000)	–	(9,670)
	<u>140,050</u>	<u>129,787</u>	<u>150,810</u>	<u>174,282</u>

**(p) Commitments**

(i) Capital commitments

	<b>2001</b>	<b>31 December 2002</b>	<b>2003</b>	<b>30 September 2004</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for	5,054	1,165	1,974	392
Authorised but not contracted for	–	195	45	–
	<u>5,054</u>	<u>1,360</u>	<u>2,019</u>	<u>392</u>

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**APPENDIX II      FINANCIAL INFORMATION ON THE CSCIL GROUP**

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(ii) Commitments under operating leases

As 31 December, the CSCIL Group and CSCIL had future aggregate minimum lease payments under non-cancelable operating leases as follows:

	Land and buildings				Others			
	Year ended		Nine months ended		Year ended		Nine months ended	
	31 December	31 December	30 September	30 September	31 December	31 December	30 September	30 September
	2001	2002	2003	2004	2001	2002	2003	2004
	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Within one year	2,723	2,717	2,227	2,665	-	246	246	61
In the second to fifth year, inclusive	1,576	4,007	2,489	1,542	-	246	-	-
	<u>4,299</u>	<u>6,724</u>	<u>4,716</u>	<u>4,207</u>	<u>-</u>	<u>492</u>	<u>246</u>	<u>61</u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### 5. CONSOLIDATED STATEMENTS OF MOVEMENTS IN EQUITY

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

	Share capital HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2001	500	(3,282)	5,061	119,516	121,795
Exchange differences arising on translation of financial statements of jointly-controlled entities and associate	–	678	–	–	678
Net gains not recognised in the profit and loss account	–	678	–	–	678
Net profit for the year	–	–	–	30,304	30,304
Dividend	–	–	–	(8,600)	(8,600)
Transfer to statutory reserve	–	–	856	(856)	–
At 31 December 2001 and 1 January 2002	500	(2,604)	5,917	140,364	144,177
Exchange differences arising on translation of financial statements of jointly-controlled entities and associate	–	(759)	–	–	(759)
Net losses not recognised in the profit and loss account	–	(759)	–	–	(759)
Net profit for the year	–	–	–	43,183	43,183
Dividend	–	–	–	(20,000)	(20,000)
Transfer to statutory reserve	–	–	1,419	(1,419)	–
Reserve transferred to profit and loss account upon termination of jointly-controlled entities	–	3,614	–	(3,614)	–
At 31 December 2002 and 1 January 2003	500	251	7,336	158,514	166,601
Exchange differences arising on translation of financial statements of jointly-controlled entities and associate	–	(786)	–	–	(786)
Net losses not recognised in the profit and loss account	–	(786)	–	–	(786)
Net profit for the year	–	–	–	32,259	32,259
Dividend	–	–	–	–	–
Transfer to statutory reserve	–	–	1,298	(1,298)	–
At 31 December 2003 and 1 January 2004	500	(535)	8,634	189,475	198,074
Exchange differences arising on translation of financial statements of jointly-controlled entities and associate	–	801	–	–	801
Net gains not recognised in the profit and loss account	–	801	–	–	801
Net profit for the year	–	–	–	30,473	30,473
Dividend	–	–	–	(9,670)	(9,670)
Transfer to statutory reserve	–	–	52	(52)	–
At 30 September 2004	<u>500</u>	<u>266</u>	<u>8,686</u>	<u>210,226</u>	<u>219,678</u>

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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	Share capital HK\$'000	Exchange reserve HK\$'000	Statutory reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Reserves/(deficit) shared by:					
Company and subsidiaries	500	–	2,427	153,436	156,363
Jointly-controlled entities and associate	–	(2,604)	3,490	(13,072)	(12,186)
	<u>500</u>	<u>(2,604)</u>	<u>3,490</u>	<u>(13,072)</u>	<u>(12,186)</u>
At 31 December 2001	<u><u>500</u></u>	<u><u>(2,604)</u></u>	<u><u>5,917</u></u>	<u><u>140,364</u></u>	<u><u>144,177</u></u>
Company and subsidiaries	500	–	2,427	150,455	153,382
Jointly-controlled entities and associate	–	251	4,909	8,059	13,219
	<u>500</u>	<u>251</u>	<u>4,909</u>	<u>8,059</u>	<u>13,219</u>
At 31 December 2002	<u><u>500</u></u>	<u><u>251</u></u>	<u><u>7,336</u></u>	<u><u>158,514</u></u>	<u><u>166,601</u></u>
Company and subsidiaries	500	–	2,427	195,008	197,935
Jointly-controlled entities and associate	–	(535)	6,207	(5,533)	139
	<u>500</u>	<u>(535)</u>	<u>6,207</u>	<u>(5,533)</u>	<u>139</u>
At 31 December 2003	<u><u>500</u></u>	<u><u>(535)</u></u>	<u><u>8,634</u></u>	<u><u>189,475</u></u>	<u><u>198,074</u></u>
Company and subsidiaries	500	–	2,427	217,101	220,028
Jointly-controlled entities and associate	–	266	6,259	(6,875)	(350)
	<u>500</u>	<u>266</u>	<u>6,259</u>	<u>(6,875)</u>	<u>(350)</u>
At 30 September 2004	<u><u>500</u></u>	<u><u>266</u></u>	<u><u>8,686</u></u>	<u><u>210,226</u></u>	<u><u>219,678</u></u>

## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### 6. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the CSCIL Group for the Relevant Periods which is presented on the basis set in section 1 above are as follows:

	Year ended 31 December			Nine months ended 30 September	
	2001	2002	2003	2003	2004
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000 (unaudited)	HK\$'000 (audited)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Profit from operating activities	37,922	37,171	33,104	26,370	29,946
Adjustments for:					
Interest income	(1,059)	(273)	(239)	(221)	(101)
Depreciation	5,813	6,282	6,190	4,568	4,710
Amortisation of intangible assets	561	561	561	421	421
Loss on disposal of fixed assets	6	903	447	335	248
Operating profits before working capital changes	43,243	44,644	40,063	31,473	35,224
Decrease/(increase) in inventories	724	(921)	407	1,446	687
Decrease/(increase) in net amounts due from jointly-controlled entities	8,532	(3,107)	(7,435)	(8,911)	(12,385)
Decrease/(increase) in amount due from/to an associate	(48)	127	1,040	–	(26)
Decrease/(increase) in accounts receivable	(1,853)	3,460	1,804	414	(6,313)
Decrease/(increase) in deposits, prepayments and other receivables	107	(632)	(751)	1,727	2,782
Increase/(decrease) in net amounts due to fellow subsidiaries	7,801	(18,246)	(2,407)	(1,870)	945
Increase/(decrease) in amount due to the immediate holding company	–	–	61	–	(58)
Increase/(decrease) in accounts payable	70	(1,155)	(191)	(18)	(60)
Increase/(decrease) in accrued liabilities and other payables	110	1,948	(470)	3,160	4,835
Exchange differences	–	6	2	16	(4)
Net cash inflow generated from/operations	58,686	26,124	32,123	27,437	25,627
Interest paid	(6,360)	(2,641)	(1,990)	(1,628)	(1,083)
Hong Kong profits tax paid	(4)	(2,183)	(3,570)	–	–
Overseas taxation paid	(2,000)	(4,424)	(4,130)	(3,028)	(1,760)
Net cash inflow from operating activities	50,322	16,876	22,433	22,781	22,784

**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**

	Year ended 31 December			Nine months ended	
				30 September	
	2001	2002	2003	2003	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(audited)	(audited)	(audited)	(unaudited)	(audited)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchases of fixed assets	(6,344)	(2,325)	(5,725)	(5,103)	(640)
Sale proceeds of fixed assets	–	3	1,551	1,539	100
Interest received	1,059	273	239	221	101
Dividends received from jointly-controlled entities	3,930	10,326	10,460	10,460	12,859
Repayment of capital contribution from jointly-controlled entities	–	–	16,768	16,768	–
Additional capital contributions to jointly-controlled entities	(21,334)	(4,874)	–	–	–
Repayment from other investment	–	–	60	60	–
Net cash inflow/(outflow) from investing activities	(22,689)	3,403	23,353	23,945	12,420
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Loan advanced from a fellow subsidiary	75,000	278	–	–	–
Loan repayment to a fellow subsidiary	(24,852)	(60,436)	–	–	–
New loans raised	4,115	119,829	237,084	235,949	14,082
Repayment of loans	(81,415)	(36,943)	(281,115)	(274,988)	(19,558)
Capital element of finance lease payments	(13)	(153)	(153)	(115)	(140)
Interest element of finance lease payments	(1)	(12)	(12)	(9)	(11)
Dividend paid	–	(28,600)	–	–	(9,670)
Dividend paid to minority shareholders	(6,000)	(6,400)	(2,600)	–	–
Net cash outflow from financing activities	(33,166)	(12,437)	(46,796)	(39,163)	(15,297)
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>					
Cash and cash equivalents at beginning of year/period	22,732	17,199	25,041	25,041	24,031
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD</b>	<b>17,199</b>	<b>25,041</b>	<b>24,031</b>	<b>32,604</b>	<b>43,938</b>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>					
Cash and bank balances	17,199	25,041	24,031	32,604	43,938



## APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP

### 7. SEGMENT INFORMATION

Segment information is presented by way of segment format, on a primary segment reporting basis, by geographical segment.

In determining the CSCIL 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 segments are presented as over 90% of the CSCIL Group's revenue, assets and liabilities were derived from operating of petroleum stations, retailing of gasoline, diesel, lubricants and liquefied petroleum gas, and the sale of fuel oil, diesel and liquefied petroleum gas directly to commercial and industrial customers.

An analysis of the CSCIL Group's revenue and profit/(loss) and certain asset, liability and expenditure information for the CSCIL Group's geographical segments is as follows:

	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
<b>Year ended 31 December 2001</b>				
Segment revenue:				
Sales to external customers	–	93,933	48,261	142,194
Other revenue	–	571	6,441	7,012
Total	–	94,504	54,702	149,206
Segment results	–	21,674	16,248	37,922
Profit from operating activities				37,922
Finance costs, net				(6,361)
Share of profits and losses of:				
Jointly-controlled entities	–	–	14,655	14,655
Associate	(127)	–	–	(127)
Profit before tax				46,089
Tax				(8,545)
Profit before minority interests				37,544
Minority interests				(7,240)
Net profit attributable to shareholders				30,304
Segment assets	14,063	59,059	299,602	372,724
Segment liabilities	120,950	24,985	59,177	205,112
Unallocated liabilities				9,805
Total liabilities				214,917
Other segment information:				
Depreciation	–	2,572	3,241	5,813
Capital expenditure	549	6,253	–	6,802
Other non-cash expenses	–	–	6	6

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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	<b>Hong Kong</b>	<b>Macau</b>	<b>Mainland China</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2002</b>				
Segment revenue:				
Sales to external customers	–	102,469	47,244	149,713
Other revenue	–	26	9,779	9,805
	<u>–</u>	<u>102,495</u>	<u>57,023</u>	<u>159,518</u>
Total	<u>–</u>	<u>102,495</u>	<u>57,023</u>	<u>159,518</u>
Segment results	<u>–</u>	<u>20,493</u>	<u>16,678</u>	<u>37,171</u>
Profit from operating activities				37,171
Finance costs, net				(2,653)
Share of profits and losses of:				
Jointly-controlled entities	–	–	24,000	24,000
Associate	3,591	–	–	3,591
				<u>62,109</u>
Profit before tax				62,109
Tax				(11,903)
				<u>50,206</u>
Profit before minority interests				50,206
Minority interests				(7,023)
				<u>43,183</u>
Net profit attributable to shareholders				<u>43,183</u>
Segment assets	<u>19,723</u>	<u>62,672</u>	<u>308,907</u>	<u>391,302</u>
Segment liabilities	138,615	27,236	43,757	209,608
Unallocated liabilities				841
				<u>210,449</u>
Total liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>210,449</u>
Other segment information:				
Depreciation	–	3,284	2,998	6,282
Capital expenditure	187	2,138	–	2,325
Other non-cash expenses	–	–	903	903
	<u>–</u>	<u>–</u>	<u>903</u>	<u>903</u>

**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**

	<b>Hong Kong</b>	<b>Macau</b>	<b>Mainland China</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Year ended 31 December 2003</b>				
Segment revenue:				
Sales to external customers	–	100,154	42,899	143,053
Other revenue	–	41	11,350	11,391
	<u>–</u>	<u>100,195</u>	<u>54,249</u>	<u>154,444</u>
Total	<u>–</u>	<u>100,195</u>	<u>54,249</u>	<u>154,444</u>
Segment results	<u>–</u>	<u>14,933</u>	<u>18,171</u>	<u>33,104</u>
Profit from operating activities				33,104
Finance costs, net				(2,002)
Share of profits and losses of:				
Jointly-controlled entities	–	–	15,080	15,080
Associate	–	–	–	–
Profit before tax				46,182
Tax				(8,914)
Profit before minority interests				37,268
Minority interests				(5,009)
Net profit attributable to shareholders				<u>32,259</u>
Segment assets	<u>19,455</u>	<u>58,511</u>	<u>296,757</u>	<u>374,723</u>
Segment liabilities	99,631	16,937	42,452	159,020
Unallocated liabilities				967
Total liabilities	<u>99,631</u>	<u>16,937</u>	<u>42,452</u>	<u>159,987</u>
Other segment information:				
Depreciation	–	3,511	2,679	6,190
Capital expenditure	3,861	1,864	–	5,725
Other non-cash expenses	(640)	1,087	–	447
	<u>–</u>	<u>5,352</u>	<u>2,679</u>	<u>8,671</u>

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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	<b>Hong Kong</b>	<b>Macau</b>	<b>Mainland China</b>	<b>Consolidated</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Nine months ended 30 September 2003 (unaudited)</b>				
Segment revenue:				
Sales to external customers	–	73,320	33,295	106,615
Other revenue	–	31	8,602	8,633
	<u>–</u>	<u>73,351</u>	<u>41,897</u>	<u>115,248</u>
<b>Total</b>	<b><u>–</u></b>	<b><u>73,351</u></b>	<b><u>41,897</u></b>	<b><u>115,248</u></b>
Segment results	–	11,063	15,307	26,370
	<u>–</u>	<u>11,063</u>	<u>15,307</u>	<u>26,370</u>
Profit from operating activities				26,370
Finance costs, net				(1,637)
Share of profits and losses of:				
Jointly-controlled entities	–	–	17,614	17,614
Associate	–	–	–	–
	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Profit before tax				42,347
Tax				(8,814)
				<u>42,347</u>
Profit before minority interests				33,533
Minority interests				(3,344)
				<u>33,533</u>
Net profit attributable to shareholders				<u>30,189</u>
Other segment information:				
Depreciation	–	2,625	1,943	4,568
Other non-cash expenses	(572)	907	–	335
	<u>(572)</u>	<u>907</u>	<u>–</u>	<u>335</u>

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**APPENDIX II FINANCIAL INFORMATION ON THE CSCIL GROUP**


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	Hong Kong HK\$'000	Macau HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
<b>Nine months ended 30 September 2004</b>				
Segment revenue:				
Sales to external customers	–	84,953	39,382	124,335
Other revenue	–	–	8,162	8,162
	<u>–</u>	<u>84,953</u>	<u>47,544</u>	<u>132,497</u>
Total	<u>–</u>	<u>84,953</u>	<u>47,544</u>	<u>132,497</u>
Segment results	<u>–</u>	<u>12,971</u>	<u>16,975</u>	<u>29,946</u>
Profit from operating activities				29,946
Finance costs, net				(1,094)
Share of profits and losses of:				
Jointly-controlled entities	–	–	15,675	15,675
Associate	–	–	–	–
Profit before tax				44,527
Tax				(9,668)
Profit before minority interests				34,859
Minority interests				(4,386)
Net profit attributable to shareholders				<u>30,473</u>
Segment assets	<u>22,211</u>	<u>73,679</u>	<u>308,622</u>	<u>404,512</u>
Segment liabilities	98,502	26,183	38,135	162,820
Unallocated liabilities				5,767
Total liabilities	<u>98,502</u>	<u>26,183</u>	<u>38,135</u>	<u>168,587</u>
Other segment information:				
Depreciation	–	2,583	2,127	4,710
Capital expenditure	144	348	148	640
Other non-cash expenses	–	3	245	248
	<u>–</u>	<u>2,934</u>	<u>2,520</u>	<u>5,598</u>

**8. ULTIMATE HOLDING COMPANY**

The directors of CSCIL consider ChevronTexaco Corporation, a company incorporated in the United States of America, to be the ultimate holding company of the CSCIL Group during the Relevant Periods.

**9. SUBSEQUENT EVENTS**

In addition to the matters set out in other sections, the following events took place subsequent to 30 September 2004:

- (a) Pursuant to a special resolution of CSCIL passed on 12 November 2004, the authorised share capital of CSCIL increased from HK\$500,000 to HK\$10,000,000 by the creation of additional 9,500,000 ordinary shares of HK\$1 each in CSCIL.
- (b) On 19 November 2004, the directors of CSCIL resolved a bonus issue of 4,450,000 ordinary shares of CSCIL of HK\$1 each on the basis of 89 new ordinary shares for every ten existing ordinary shares in CSCIL held by the existing shareholders. The bonus issue was fully capitalised from the retained profits of CSCIL as at 31 December 2004.

Save as aforesaid, no other significant events took place subsequent to 30 September 2004.

**10. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements have been prepared by the CSCIL Group in respect of any period subsequent to 30 September 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 TRANSACTION**

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

- (1) the unaudited pro forma consolidated balance sheet of the Group as set out in section (A)1 of Appendix IV to the circular dated 11 August 2004 issued by the Company; and
- (2) the audited consolidated balance sheet of the CSCIL Group as at 30 September 2004, as set out 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 as at the date to which it is made up to or at any future date.

(Expressed in HK\$'000)	CSCIL Group: audited Group: unaudited pro forma	as at 30 September 2004	Group: pro forma adjustments (Note 1)	Consolidated: pro forma adjustments (Note 2)	Enlarged Group: unaudited pro forma
<b>NON-CURRENT ASSETS</b>					
Fixed assets	1,480,484	61,616			1,542,100
Investment in subsidiaries	–	–	351,000	(351,000)	–
Investment in jointly-controlled entities	–	277,528			277,528
Investment in associated company	–	(1,311)			(1,311)
Prepayments	3,310	–			3,310
Goodwill	33,329	–		65,282	98,611
Investment in securities	178,326	–			178,326
Deferred tax assets	10,062	–			10,062
Other assets	708,972	3,770			712,742
Other receivables	11,466	–			11,466
	<u>2,425,949</u>	<u>341,603</u>			<u>2,832,834</u>

**APPENDIX III PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**

(Expressed in HK\$'000)	CSCIL Group:		Group: pro forma adjustments (Note 1)	Consolidated pro forma adjustments (Note 2)	Enlarged Group: unaudited pro forma
	Group: unaudited pro forma	audited as at 30 September 2004			
<b>CURRENT ASSETS</b>					
Inventories	248,784	4,264			253,048
Accounts receivables, net	483,558	11,883			495,441
Prepayments, deposits and other receivables	28,612	2,818			31,430
Investment in securities	2,694	–			2,694
Due from fellow subsidiaries	–	6			6
Other assets	61,194	–			61,194
Pledged bank deposits	20,399	–			20,399
Cash and cash equivalents	1,568,943	43,938			1,612,881
	<u>2,414,184</u>	<u>62,909</u>			<u>2,477,093</u>
<b>CURRENT LIABILITIES</b>					
Accounts and bills payable	(8,439)	(465)			(8,904)
Tax payable	(13,308)	(5,765)			(19,073)
Accrued liabilities and other payables	(226,952)	(26,826)		(2,474)	(256,252)
Bank and other borrowings	(492,917)	(91,265)			(584,182)
Provisions	(34,338)	–			(34,338)
Due to the immediate holding company	–	(3)			(3)
Due to fellow subsidiaries	–	(3,093)			(3,093)
Deferred income	(2,844)	–			(2,844)
Dividend payable	–	(4,800)			(4,800)
	<u>(778,798)</u>	<u>(132,217)</u>			<u>(913,489)</u>
<b>NET CURRENT ASSETS</b>	<u>1,635,386</u>	<u>(69,308)</u>			<u>1,563,604</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
	4,061,335	272,295			4,396,438
<b>NON-CURRENT LIABILITIES</b>					
Bank and other borrowings	(1,261,746)	–			(1,261,746)
Due to fellow subsidiaries	–	(35,403)			(35,403)
Provisions	(16,290)	–			(16,290)
Deferred tax liabilities	(101,064)	(967)			(102,031)
Deferred income and other payables	(34,152)	–			(34,152)
	<u>(1,413,252)</u>	<u>(36,370)</u>			<u>(1,449,622)</u>
<b>MINORITY INTERESTS</b>	<u>(19,831)</u>	<u>(16,247)</u>		(282,486)	<u>(318,564)</u>
	<u>2,628,252</u>	<u>219,678</u>			<u>2,628,252</u>
<b>SHAREHOLDERS' EQUITY</b>	<u>2,628,252</u>	<u>219,678</u>	351,000	(570,678)	<u>2,628,252</u>



Notes:

1. The adjustment represent the payment of the Subscription Price by the Group to CSCIL to subscribe for new shares in CSCIL.
2. The adjustments represent the elimination of the investment cost in CSCIL Group by the Group on consolidation, the estimated goodwill and minority interests arising from consolidation and the accrual of professional expenses incurred by the Group in relation to the Transaction.
3. Pursuant to the accounting principles generally accepted in Hong Kong, the Group applied the purchase method to account for the Subscription Price.

In applying the purchase method, the identifiable assets and liabilities of the CSCIL Group as at 30 September 2004 will be recorded on the unaudited pro forma consolidated balance sheet of the Enlarged Group at their fair values at Completion, and all the capital and reserves of the CSCIL Group upon Completion will be eliminated as the pre-acquisition reserves of the Enlarged Group. Any goodwill or negative goodwill arising on the Transaction will be determined as the excess or deficit of the Final Subscription Price deemed to be incurred by the Group over the Group's interests in the net fair value of the identifiable assets and liabilities of the CSCIL Group at Completion.

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

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

- (1) the unaudited pro forma combined profit and loss account of the Group as set out in section (A)2 of Appendix IV to the circular dated 11 August 2004 issued by the Company; and
- (2) the audited consolidated profit and loss account of the CSCIL Group for the year ended 31 December 2003, as set out in Appendix II to this circular.

**APPENDIX III PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**

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)	Group unaudited pro forma	CSCIL Group: audited for the year ended 31 December 2003	Consolidated: pro forma adjustments (Note 1)	Enlarged Group: unaudited pro forma
<b>TURNOVER</b>	3,928,975	143,053		4,072,028
Cost of sales	(3,620,181)	(54,502)		(3,674,683)
Gross profit	308,794	88,551		397,345
Other revenue and gains	69,094	11,391		80,485
Selling and distribution costs	(11,970)	–		(11,970)
Administrative expenses	(57,109)	(66,838)		(123,947)
Other operating expenses	(27,979)	–		(27,979)
Amortisation of goodwill	(6,666)	–	(6,528)	(13,194)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	274,164	33,104		300,740
Finance costs	(95,043)	(2,002)		(97,045)
Share of profit and losses of jointly-controlled entities and associate	–	15,080		15,080
<b>PROFIT BEFORE TAX</b>	179,121	46,182		218,775
Tax charge	(101,208)	(8,914)		(110,122)
<b>PROFIT BEFORE MINORITY INTERESTS</b>	77,913	37,268		108,653
Minority interests	(2,280)	(5,009)	(15,968)	(23,257)
<b>NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>	<u>75,633</u>	<u>32,259</u>		<u>85,396</u>

Note:

- The adjustment represents the amortization of estimated goodwill arising from the Transaction and minority's share of profit in the CSCIL Group as if the Transaction had taken place at the beginning of the financial period. For illustrative purposes only, the annual amortization expense on goodwill is about HK\$6,528,000 which is based on a 10-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 TRANSACTION**

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

- (1) the unaudited pro forma combined cash flow statement of the Group as set out in section (A)3 of Appendix IV to the circular dated 11 August 2004 issued by the Company; and
- (2) the audited consolidated cash flow statement of the CSCIL Group for the year ended 31 December 2003, as set out 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)	Group: unaudited pro forma	CSCIL Group: audited for the year ended 31 December 2003	Group: pro forma adjustments (Note 1)	Enlarged Group: unaudited pro forma
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax	280,659	33,104		313,763
Adjustments for:				
Interest expense	171	–		171
Interest income	(40,489)	(239)		(40,728)
Depreciation	101,693	6,190		107,883
Loss on disposal/write-off of fixed assets	20,321	447		20,768
Amortisation	61,338	561		61,899
Professional fees incurred in relation to aborted investment projects	25,662	–		25,662
Provision for impairment of fixed assets	4,502	–		4,502
	4,502	–		4,502

**APPENDIX III PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**

(Expressed in HK\$'000)	Group: unaudited pro forma	CSCIL Group: audited for the year ended 31 December 2003	Group: pro forma adjustments (Note 1)	Enlarged Group: unaudited pro forma
Operating profit before working capital changes	453,857	40,063		493,920
(Increase)/decrease in inventories	(230,257)	407		(229,850)
Increase in net amounts				
due from jointly-controlled entities	–	(7,435)		(7,435)
Decrease in net amounts due to associate	–	1,040		1,040
Decrease/(increase) in prepayments, deposits and other receivables	137,929	(751)		137,178
Decrease/(increase) in amounts due from fellow subsidiaries	192	(2,407)		(2,215)
Decrease in accounts receivable	67,241	1,804		69,045
Increase in amounts due to an immediate holding company	–	61		61
Increase in balances with CA	36,960	–		36,960
Increase/(decrease) in accounts payable	250,488	(191)		250,297
Decrease in accrued liabilities and other payables	(167,490)	(470)		(167,960)
Decrease in provisions	(474)	–		(474)
Exchange differences	–	2		2
Net cash inflow generated from operations	548,446	32,123		580,569
Interest received	27,216	–		27,216
Interest paid	(94,074)	(1,990)		(96,064)
Hong Kong profits tax paid	–	(3,570)		(3,570)
Other taxes paid	(74,430)	(4,130)		(78,560)
Net cash inflow from operating activities	407,158	22,433		429,591

**APPENDIX III PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**

(Expressed in HK\$'000)	Group: unaudited pro forma	CSCIL Group: audited for the year ended 31 December 2003	Group: pro forma adjustments (Note 1)	Enlarged Group: unaudited pro forma
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	12,220	239		12,459
Proceeds from disposal of a long term investment	2,500	–		2,500
Purchases of fixed assets	(46,978)	(5,725)		(52,703)
Proceeds from disposal of fixed assets	397	1,551		1,948
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 acquisition of entire issued share capital of Richfirst and shareholder's loan	(165,360)	–		(165,360)
Dividends received from jointly-controlled entities	–	10,460		10,460
Repayment of capital contribution from jointly-controlled entities	–	16,768		16,768
Repayment from other investments	–	60		60
Payments of legal and professional fee incurred in relation to the Transaction	–	–	(2,474)	(2,474)
Payments of legal and professional fee incurred in relation to potential investment projects	(16,318)	–		(16,318)
Net cash inflow/(outflow) from investing activities	(233,914)	23,353		(213,035)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
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)
New loans raised	–	237,084		237,084
Repayment of current other loans	–	(281,115)		(281,115)
Capital element of finance lease payments	–	(153)		(153)
Interest element of finance lease payments	–	(12)		(12)
Issue of share capital of subsidiaries	30,084	–		30,084
Repayment of bank and other loans	(279,955)	–		(279,955)
Dividend paid to minority shareholders	–	(2,600)		(2,600)
Interest paid	(171)	–		(171)
Net cash inflow/(outflow) from financing activities	10,158	(46,796)		(36,638)

**APPENDIX III PRO FORMA FINANCIAL INFORMATION ON THE ENLARGED GROUP**

(Expressed in HK\$'000)	Group: unaudited pro forma	CSCIL Group: audited for the year ended 31 December 2003	Group: pro forma adjustments (Note 1)	Enlarged Group: unaudited pro forma
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	183,402	(1,010)		179,918
Cash and cash equivalents at beginning of year	1,385,548	25,041		1,410,589
Effect of foreign exchange rate changes, net	(1)	–		(1)
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>1,568,949</u>	<u>24,031</u>		<u>1,590,506</u>
<b>ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS</b>				
Cash and bank balances	239,091	24,031	(2,474)	260,648
Non-pledged time deposits with original maturity of less than three months when acquired	1,329,858	–		1,329,858
	<u>1,568,949</u>	<u>24,031</u>		<u>1,590,506</u>

Note:

- The adjustment represents the payment of related professional expenses incurred.

#### 4. 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.



15th Floor  
Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

4 March 2005

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 Caltex South China Investments Limited (“CSCIL”) and its subsidiaries (collectively the “CSCIL Group”)) set out on pages 93 to 100 in Appendix III to the circular dated 4 March 2005 of CITIC Resources Holdings Limited (the “Company”, and together with its subsidiaries referred to as the “Group”), solely for illustrative purposes, to provide information about how the proposed subscription for the 5,050,000 new ordinary shares of HK\$1 each in the share capital of CSCIL 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 or unaudited historical financial information of the Group, where applicable, and the audited historical financial information of the CSCIL Group 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 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 Institute of Certified Public 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 directors’ judgements and assumptions 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 dates 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 purposes 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 December 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 (excluding trust receipt loans) of about HK\$2,183,288,000. Of the total borrowings, bank borrowings comprised unsecured short term bank loans of about HK\$909,664,000, secured short term bank loans of about HK\$134,808,000 and secured long term bank loans of about HK\$701,551,000.

As at 31 December 2004, the Enlarged Group had long term unsecured other of HK\$11,862,000.

As at 31 December 2004, the Enlarged Group had two existing loans totalling US\$50,000,000 (about HK\$390,000,000) due from the CRA Group to CITIC Group. Details of the loans are:

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

Loan amount:	US\$4,000,000 (about HK\$31,200,000)
Maturity:	August 2005
Interest rate:	LIBOR + 1.5% p.a.

As of 31 December 2004, the Enlarged Group had a loan due from Skillworld Investments Limited ("Skillworld") to COHK of HK\$35,403,000. Caltex China Limited, a fellow subsidiary of CSCIL, paid HK\$35,403,000 on behalf of Skillworld as part of Skillworld's initial capital contributions to Caltex Shenzhen, which is unsecured, interest free and is not repayable (provided that Caltex Shenzhen's service stations solely market Caltex petroleum products during the joint venture period). With effect from 1 November 1995, the amount was transferred from Caltex China Limited to COHK, another fellow subsidiary of CSCIL.

**Security**

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

- (i) corporate guarantees executed by CRA to the extent of about HK\$2,210,993,000;
- (ii) corporate guarantees executed by ChevronTexaco Corporation to the extent of about HK\$153,600,000;
- (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 December 2004, the Enlarged Group had guarantees given by a bank in relation to mining tenements of service contracts of about HK\$19,449,000.

**Disclaimer**

Save as aforesaid or as otherwise mentioned herein and the litigation as detailed in the section headed "Litigation" in Appendix IV 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 December 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 December 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 December 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 a 30-year petroleum development and production sharing contract for the development and production of oil in the Kongnan Block within the Dagang Oilfield, PRC. Pursuant to a working mandate executed on 20 July 2004, Richfirst and Pan-China Resources Limited have mandated an international bank to arrange a loan facility of up to US\$110,000,000.

The Directors are of the opinion that after taking into account the aforesaid mandated syndicated loan 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, have sufficient working capital for its present requirements for the period from 1 March 2005 to 31 March 2006 in the absence of unforeseen material circumstances.

**(D) MANAGERMENTS 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 the 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 made to diversify the products and expand the customer base to secure more market share and to satisfy the customers' demands 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.

During the year, the principal activities of the CSCIL Group were carrying on of the business of operating petrol stations (with integrated convenience stores), retailing of petrol, diesel and lubricants and liquefied petroleum gas, and the sale of fuel oil, diesel and liquefied petroleum gas directly to commercial and industrial customers in Macau and the Guangdong and Fujian provinces of the PRC.

The directors of CSCIL adopted a number of measures to improve the performance of the CSCIL Group, including strengthening the training of its staff, refocusing the product portfolio and customers' priority and implementing cost reduction programmes. The performance for the year was promising as a result of such measures and policies.

The total sales volume of petroleum products of the CSCIL Group increased by 15% to 2,569,000 barrels in 2001 from 2,231,000 barrels in 2000. The total revenue was HK\$142.2 million. CSCIL successfully turned the net loss of HK\$6.3 million in 2000, which was due to the severe competition and the negative impact of consolidation programmes in the local market, into a net profit attributable to shareholders of HK\$30.3 million 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 which 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 customisation 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 optimise 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 aluminium and coal operation.

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

During the year, the principal activities of the CSCIL Group remained as the operation of petrol stations (with integrated convenience stores) and the sale to commercial and industrial customers in the same region. With the PRC's accession to the World Trade Organisation and the booming of the local economy, the demand for petroleum products in the region grew sharply.

The directors of CSCIL sustained its products and services strategies to maintain a profitable operation.

The total sales volume of petroleum products of the CSCIL Group increased by 19% to 3,057,000 barrels in 2002. The total revenue was HK\$149.7 million, 5% higher than that of 2001. The net profit attributable to shareholders was HK\$43.2 million, a significant increase of 43% over 2001.

**(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 2nd 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.

During the year, there was no change to the principal activities of the CSCIL Group. The demand for petroleum products in the region remained high but the outbreak of the viral infection SARS in the 2nd quarter of the year and the shortage of products supply in the 4th quarter presented difficulties to the operations of the CSCIL Group.

The total sales volume of petroleum products of the CSCIL Group increased by 6% to 3,253,000 barrels in 2003. The total revenue was HK\$143.1 million, 4% lower than that of 2002. The net profit attributable to shareholders was HK\$32.3 million, a drop of 25% over 2002.

**(for the nine months ended 30 September 2004)**

During the period, there was no change to the principal activities of the CSCIL Group. The demand for petroleum products in the region recovered rapidly.

To proactively prevent sales loss caused by the shortage of products supply as in the 4th quarter of 2003, the directors of CSCIL successfully secured a stable supply locally.

For the nine months ended 30 September 2004, the total sales volume of petroleum products of the CSCIL Group was 2,473,000 barrels, which was slightly higher than that of the same period in 2003. The total revenue was HK\$124.3 million, a 17% increase as compared with the same period of 2003. However, the retail pump did not move in line with the rising product costs, the net profit attributable to shareholders was HK\$30.5 million, only a slight increase in comparison with the same period of 2003.

## **2. Prospects**

The Company's strategy is to position the Enlarged Group as an integrated provider of key commodities and key natural resources and to establish a unified business platform ranging from production to delivery of commodities and resources of which the PRC is a net importer – from upstream operations to mid-stream processing to distribution of the final products. Currently, the Group has interests in the aluminium, coal and crude oil industries and the manufacture and sale of plywood.

The Transaction will enable the Enlarged Group to participate in the distribution of petrol, diesel, lubricants and liquefied petroleum gas in the PRC and thus broaden its business scope in line with the Company's business strategy.

In the coming two years, the Transaction is not expected to contribute significantly to net cash flows of the Enlarged Group because the Final Subscription Price will be used as working capital for the Existing Business and the New Business. In the long term, the Transaction should have a significant positive effect on the net cash flows of the Enlarged Group.

The Group is financially sound and well-positioned to implement and support its business 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 Caltex, COHK, CTGEI, Star Concept, Profitlink, Unique Time and CSCIL) 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	572,966,000	13.27
Mr. Ma Ting Hung (Note)	Corporate	572,966,000	13.27
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 572,966,000 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 a 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 a director or employee of a company which has an interest or a short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;
- (cc) as at the Latest Practicable Date, none of the Directors or their associates was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole;
- (dd) since 31 December 2003, the date to which the latest published audited financial statements of the Group are made up, none of the Directors or their associates 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; and
- (ee) as at the Latest Practicable Date, none of the Directors or their associates had any interests in a business apart from the business of the Group which competes or is likely to compete, either directly or indirectly, with the business of the Group.

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

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the Directors, the persons or entities who had an interest or a short position in the Shares or the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital



carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of Shareholder	Number of Shares held	Percentage of total issued Shares
CITIC Group	2,610,594,381 <sup>(1)</sup>	60.47
CITIC Projects Management (HK) Limited	1,860,180,588 <sup>(2)</sup>	43.09
Keentech	1,860,180,588	43.09
CA	750,413,793	17.38
Mr. Kwok Viem, Peter	572,966,000 <sup>(3)</sup>	13.27
Mr. Ma Ting Hung	572,966,000 <sup>(4)</sup>	13.27
USI	572,966,000	13.27

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, 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) Interests of experts in assets of the Company**

Save as disclosed in this circular, as at the Latest Practicable Date, Ernst & Young was not 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:

- (a) 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;
- (b) 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);
- (c) 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);
- (d) 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;
- (e) 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;
- (f) the agreement dated 29 June 2004 made between Starbest Venture Limited, CITIC Group and the Company relating to the sale and purchase of the entire issued share capital of Richfirst and the benefit of a shareholder’s loan of US\$20,000,000 advanced by CITIC Group to Richfirst for an aggregate consideration of US\$21,200,000 (about HK\$165,360,000); and
- (g) the Share Subscription 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 adviser in connection with the Claim, there were a number of conflicts and discrepancies in the New Judgment. The legal adviser believes that the New Judgment is not supported by evidence and is in breach of legal proceedings and that the New Judgment should be withdrawn. On 27 December 2004, the People’s High Court of Guangdong Province issued a decision that they would re-hear the matter again. 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:

- (a) by the chairman of the meeting; or
- (b) 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
- (c) 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
- (d) 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 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 EXPERT**

The following is the qualification of the expert who has given, or agreed to the inclusion of, its opinion or advice in this circular:

<b>Name</b>	<b>Qualification</b>
Ernst & Young	Certified Public Accountants

**8. CONSENT**

Ernst & Young has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letters and reports and/or reference to its name, 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 Institute of Certified Public Accountants and the Association of International Accountants. Ms. Li has over 27 years' experience in the accounting and banking field.
- (c) The qualified accountant of the Company is Mr. Chung Ka Fai, Alan. He is an associate member of the Australian Society of Certified Practising Accountants. Mr. Chung has over 14 years' experience in the accounting field and previously worked for a number of multinational companies.
- (d) All references to times and dates in this circular refer to Hong Kong times and dates unless otherwise stated.
- (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 Jones Day at 31st Floor, Edinburgh Tower, The Landmark, 15 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 21 March 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the accountants' report on the CSCIL Group as set out in Appendix II to this circular;
- (c) the report from Ernst & Young on the unaudited pro forma financial information on the Enlarged Group dated 4 March 2005 as set out in Appendix III to this circular;
- (d) the Company's 2002 and 2003 annual reports;
- (e) the material contracts referred to in paragraph 3 of this Appendix;
- (f) the circulars to Shareholders issued by the Company on 6 March 2004 and 11 August 2004 respectively;
- (g) the written consent referred to in paragraph 8 of this Appendix; and
- (h) the Share Option Scheme.

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## NOTICE OF SPECIAL GENERAL MEETING

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### CITIC RESOURCES HOLDINGS LIMITED

*(incorporated in Bermuda with limited liability)*

*Website: www.citicresources.com*

(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, Mont Blanc Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Monday, 21 March 2005 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 entering into by the Company of a share subscription agreement dated 8 January 2005 (the “**Share Subscription Agreement**”) with Caltex (Asia) Limited (“**Caltex**”), Star Concept Holdings Limited (“**Star Concept**”) and Caltex South China Investments Limited (“**CSCIL**”) pursuant to which the Company conditionally agreed that the Company or its wholly-owned subsidiary, CITIC Oil & Gas Holdings Limited (“**COGH**”), shall subscribe for 5,050,000 new ordinary shares of HK\$1.00 each (the “**New CSCIL Shares**”) in, and representing 50.5% of the enlarged issued share capital of, CSCIL as more particularly described in the circular issued by the Company dated 4 March 2005 (the “**Circular**”), 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, for a consideration of US\$45 million (about HK\$351 million), subject to certain adjustments (details of which are contained in the sub-section headed “Consideration” under the section headed “Share Subscription Agreement” in the letter from the Board set out in the Circular) to be satisfied by payment in cash to CSCIL and the execution, delivery and performance by the Company of the Share Subscription Agreement; and
- (ii) in connection with the Share Subscription Agreement, the entering into of the following agreements:
  - (a) the Shareholders’ Agreement (as defined in the Circular) by the Company and COGH with Caltex, Star Concept and CSCIL which will set forth their mutual agreement regarding the corporate governance of CSCIL as described in the section headed “Shareholders’ Agreement” in the letter from the Board set out in the Circular, a copy of which has been produced to the Meeting and marked “B” and signed by the Chairman of the Meeting for the purpose of identification;

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## NOTICE OF SPECIAL GENERAL MEETING

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- (b) the Consulting Agreement (as defined in the Circular) by CSCIL with Caltex Oil Hong Kong Limited (“**COHK**”) pursuant to which COHK will provide certain consulting services to CSCIL as described in the section headed “Consulting Agreement” in the letter from the Board set out in the Circular, a copy of which has been produced to the Meeting and marked “C” and signed by the Chairman of the Meeting for the purpose of identification; and
  
- (c) the Trademark License Agreement (as defined in the Circular) by CSCIL with ChevronTexaco Global Energy Inc. (“**CTGEI**”) pursuant to which CTGEI will grant to CSCIL a non-exclusive and non-transferable license to use certain “Caltex” trademarks within the Fujian and Guangdong provinces in the PRC and Macau and to include the word(s) “Caltex” or “加德士” as part of the company name of CSCIL as described in the section headed “Trademark Licence Agreement” in the letter from the Board set out in the Circular, a copy of which has been produced to the Meeting and marked “D” and signed by the Chairman of the Meeting for the purpose of identification; and
  
- (iii) the directors of the Company (the “**Directors**”) be 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 Share Subscription 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 Share Subscription Agreement including, without limitation, the Shareholders’ Agreement, the Consulting Agreement and the Trademark License Agreement, and to make such amendments thereto as the Directors may consider necessary, desirable or expedient”

be and is hereby ratified, confirmed and approved.

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

Dated 4 March 2005, Hong Kong

*Head Office and  
Principal Place of Business in Hong Kong:*  
Suites 3001-3004  
30/F, One Pacific Place  
88 Queensway  
Hong Kong



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## NOTICE OF SPECIAL GENERAL MEETING

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**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 by-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 Suites 3001-3004, 30/F, One Pacific Place, 88 Queensway, 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.