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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ACTION**

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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 your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

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

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

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**CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

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

*(Stock Code: 1205)*

**DISCLOSEABLE TRANSACTION****FORMATION OF A JOINT VENTURE COMPANY  
FOR MANGANESE MINING AND PROCESSING**

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A letter from the board of directors of CITIC Resources Holdings Limited containing information on the establishment of a joint venture company for manganese mining and processing is set out on pages 4 to 12 of this circular.

24 August 2005

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## DEFINITIONS

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*In this circular, the following terms have the following meanings unless the context requires otherwise:*

“Asset Restructuring Proposal”	the proposal for the restructuring of assets of Guangxi Dameng for contribution to the JV in the form scheduled to the JV Contract
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CITIC Dameng”	CITIC Dameng Investments Limited ( 中信大錳投資有限公司 ), a company incorporated in the British Virgin Islands and a wholly-owned subsidiary of a company ultimately owned as to 80% by the Company and as to 20% by CITIC United Asia
“CITIC Group”	CITIC Group, a company incorporated under the laws of the PRC and holding approximately 60.47% of the total Shares in issue
“CITIC United Asia”	CITIC United Asia Investments Limited ( 中信裕聯投資有限公司 ), a company incorporated in Hong Kong and a wholly-owned subsidiary of CITIC Group
“Company”	CITIC Resources Holdings Limited, a company incorporated in Bermuda, the Shares of which are listed on the Stock Exchange
“Conditions Precedent”	the conditions precedent to payment by CITIC Dameng of its capital contribution to the JV pursuant to the JV Contract
“Contributed Assets”	the net assets comprising, among others, current assets, long term investments (being the Four Subsidiaries), fixed assets, construction in progress and equipment, intangible assets, current liabilities, long term liabilities, land use rights, mining rights and patents and trademarks to be contributed by Guangxi Dameng to the JV pursuant to the JV Contract
“Director(s)”	director(s) of the Company
“Establishment Date”	the issuance date of the business licence of the JV

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## DEFINITIONS

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“Four Subsidiaries”	the 77% equity interest in 廣西南寧寬廣工貿有限責任公司 (Guangxi Nanning Kuanguang Industry & Trade Co., Ltd.), the 60% equity interest in 天等縣大錳鐵合金有限公司 (Tiandeng Dameng Ferroalloy Co., Ltd.), the 50.98% equity interest in 廣西斯達特錳材料有限公司 (Guangxi Start Manganese Material Co., Ltd.) and the 60% equity interest in 廣西大新縣大寶鐵合金有限公司 (Guangxi Daxin Dabao Ferroalloy Co., Ltd.) to be contributed to the JV by Guangxi Dameng as part of the Contributed Assets
“Group”	the Company and its subsidiaries from time to time
“Guangxi Dameng”	廣西大錳錳業有限公司 (Guangxi Dameng Manganese Industrial Co., Ltd.), a state-owned limited liability company established in the PRC
“Guangxi Daxin Manganese Mine”	廣西壯族自治區大新錳礦 (Guangxi Zhuang Autonomous Region Daxin Manganese Mine), a state-owned enterprise established in the PRC and authorized by Guangxi SAASC to be operated by Guangxi Dameng
“Guangxi SAASC”	State-owned Asset Administration and Supervision Commission of the People’s Government of Guangxi Zhuang Autonomous Region, the PRC
“Guangxi Tiandeng Manganese Mine”	廣西壯族自治區天等錳礦 (Guangxi Zhuang Autonomous Region Tiandeng Manganese Mine), a state-owned enterprise established in the PRC and authorized by Guangxi SAASC to be operated by Guangxi Dameng
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“JV”	CITIC Dameng Mining Industries Limited (中信大錳礦業有限責任公司), a sino-foreign equity joint venture to be established in Chongzuo City, Guangxi Zhuang Autonomous Region, the PRC pursuant to the JV Contract
“JV Contract”	the contract dated 2 August 2005 entered into between Guangxi Dameng and CITIC Dameng relating to the establishment of the JV
“Latest Practicable Date”	22 August 2005, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information for inclusion in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

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## DEFINITIONS

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“Mining Permits”	the mining permits issued by the State-owned Land and Resources Administration Office of the Guangxi Zhuang Autonomous Region, the PRC
“Mining Rights”	the mining rights of Guangxi Daxin Manganese Mine and Guangxi Tiandeng Manganese Mine which form part of the Contributed Assets
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	holders of Shares
“Shares”	shares of HK\$0.05 each in the share capital of the Company
“Staff Arrangement Proposal”	the proposal regarding the arrangements for the staff of Guangxi Dameng in connection with the restructuring of Guangxi Dameng for establishment of the JV in the form scheduled to the JV Contract
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“working day”	a day on which commercial banks in the PRC and in Hong Kong are both open for corporate business
“Valuation Reports”	the valuation reports in respect of the Contributed Assets, copies of which are scheduled to the JV Contract
“A\$”	Australian dollars, the lawful currency of Australia
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

*In this circular, amounts in RMB, US\$ and A\$ have been converted into HK\$ or vice versa at the rate of HK\$1=RMB1.04, US\$1 = HK\$7.8 and A\$1=HK\$5.868 respectively for illustration purposes only. No representation is made that any amounts in RMB, US\$, A\$ or HK\$ have been or could have been or can be converted at the above rate or at any other rates or at all.*

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## LETTER FROM THE BOARD

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### **CITIC RESOURCES HOLDINGS LIMITED**

*(incorporated in Bermuda with limited liability)*

*Website: www.citicresources.com*

(Stock Code: 1205)

*Executive Directors:*

Mr. KWOK Peter Viem (*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 3001-3006  
30/F, One Pacific Place  
88 Queensway  
Hong Kong

24 August 2005

*To the Shareholders*

Dear Sir or Madam,

### **DISCLOSEABLE TRANSACTION**

#### **FORMATION OF A JOINT VENTURE COMPANY FOR MANGANESE MINING AND PROCESSING**

#### **INTRODUCTION**

On 2 August 2005, CITIC Dameng (a non-wholly-owned subsidiary of the Company) entered into the JV Contract with Guangxi Dameng to jointly establish a sino-foreign equity joint venture in Chongzuo City, Guangxi Zhuang Autonomous Region, the PRC, namely, CITIC Dameng Mining Industries Limited (中信大錳礦業有限責任公司) to undertake the business of manganese mining and processing. Pursuant to the JV Contract, the JV shall be owned as to 40% by Guangxi Dameng and as to 60% by CITIC Dameng. The JV will become a subsidiary of the Company and the financial results of the JV will be consolidated into the accounts of the Group.

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## LETTER FROM THE BOARD

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### JV CONTRACT

#### Date

2 August 2005

#### The Parties

- (a) Guangxi Dameng; and
- (b) CITIC Dameng

#### Registered Capital and Total Investment of the JV

Registered capital: RMB500 million (HK\$480.8 million)

Total investment: RMB800 million (HK\$769.2 million)

The registered capital of the JV shall be contributed by Guangxi Dameng and by CITIC Dameng in the ratio of 2:3. The difference between the registered capital and the total investment amount shall be raised by the JV by methods allowed under the laws of the PRC (including shareholder's loans and external borrowings).

#### Capital Contributions by the Parties to the Joint Venture

- (a) Guangxi Dameng shall contribute the Contributed Assets as approved by the relevant authorities of the PRC including Guangxi SAASC as its capital contribution to the JV in the amount of RMB200 million (HK\$192.3 million). The Contributed Assets include:
  - (i) operational assets and liabilities of Guangxi Daxin Manganese Mine (which owns the exclusive mining right in respect of a manganese mine in Xialei Town, Daxin County, Guangxi) and Guangxi Tiandeng Manganese Mine (which owns the exclusive mining right in respect of a manganese mine in Dongping Village, Tiandeng County, Guangxi) comprising, among others, current assets, fixed assets, construction in progress and equipment, intangible assets, current liabilities, long term liabilities and long term investments being a 77% equity interest in 廣西南寧寬廣工貿有限責任公司 (Guangxi Nanning Kuanguang Industry & Trade Co., Ltd.) and a 60% equity interest in 天等縣大錳鐵合金有限公司 (Tiandeng Dameng Ferroalloy Co., Ltd.), with an aggregate assessed value of RMB61,274,200 (HK\$58.9 million);
  - (ii) the mining right of Guangxi Daxin Manganese Mine (for a period of 30 years which commenced from February 2005) and the mining right of Guangxi Tiandeng Manganese Mine (for a period up to November 2008), with an aggregate assessed value of RMB111,352,900 (HK\$107.1 million);
  - (iii) land use rights owned by Guangxi Dameng, Guangxi Daxin Manganese Mine and Guangxi Tiandeng Manganese Mine respectively in respect of land located in Chongzuo City, Daxin County and Tiandeng County in Guangxi Zhuang Autonomous

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## LETTER FROM THE BOARD

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Region (currently used for industrial and commercial purposes) for a term of 50 years from the date such land use rights are transferred to the JV, with an aggregate area of 4,470,127.43 square meters and an aggregate assessed value of RMB61,459,100 (HK\$59.1 million);

- (iv) a 50.98% equity interest in 廣西斯達特錳材料有限公司 (Guangxi Start Manganese Material Co., Ltd.) being a long term investment by Guangxi Dameng with an assessed value of RMB7,095,000 (HK\$6.8 million); and
  - (v) a 60% equity interest in 廣西大新縣大寶鐵合金有限公司 (Guangxi Daxin Dabao Ferroalloy Co., Ltd) being a long term investment by Guangxi Dameng with an assessed value of RMB1,613,100 (HK\$1.6 million).
- (b) CITIC Dameng shall pay its capital contribution in cash in foreign currency (as required under applicable PRC laws and regulations) equivalent to RMB300 million (HK\$288.5 million) at the exchange rate as announced by the People's Bank of China on the date of payment.

The value of the Contributed Assets (except the Mining Rights) was assessed as at 30 June 2004 according to the relevant Valuation Reports. The value of the Mining Rights was assessed as at 31 March 2005 according to the relevant Valuation Reports. The Valuation Reports in respect of operational assets and liabilities, the Mining Rights and the land use rights were issued on 22 April 2005, 14 June 2005 and 22 June 2005 respectively. Negotiations on the JV Contract commenced towards the end of 2004 and the terms of the JV Contract were only finalised after the obtaining of necessary governmental approvals and agreement by the parties on certain figures in the JV Contract.

The Contributed Assets were valued by the following independent professional valuers in the PRC:

Type of Assets	Name of Valuer(s)
Operational assets and liabilities and long term investments	中通城資產評估有限公司 (China Tong Cheng Assets Appraisal Limited Cooperation)
Mining Rights	北京中寶信資產評估有限公司 (Beijing Zhongbaoxin Assets Appraisal Co., Limited)  北京礦通資源開發諮詢有限責任公司 (Beijing Kaung Tong Resources Exploitation Consultation Co., Limited)
Land use rights	廣西公大房地產評估有限公司 (Guangxi Kung Da Real Estate Appraisal Co., Limited)



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## LETTER FROM THE BOARD

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The above valuers are independent of and not connected with any member of the Group or any of their directors, chief executive and substantial shareholders or their respective associates.

CITIC Dameng is ultimately owned as to 80% by the Company and as to 20% by CITIC United Asia. The capital contribution in cash by CITIC Dameng to the JV will be paid by the Group and by CITIC United Asia according to their respective percentage ownership in CITIC Dameng from their respective internal resources.

Apart from the contribution to the registered capital of the JV, there are no other capital commitment obligations on the parties to the JV under the JV Contract.

### **Schedule for Capital Contribution by Guangxi Dameng**

Guangxi Dameng shall contribute the Contributed Assets to the JV in accordance with the following schedule:

- (a) within 10 working days from the Establishment Date, Guangxi Dameng shall deliver or cause to be delivered all the Contributed Assets to the JV for its actual possession, use and for the benefit of the JV;
- (b) within 60 working days from the Establishment Date, Guangxi Dameng shall legally transfer, or procure the transfer of the ownership of the Contributed Assets (except the Mining Rights) to the JV; and
- (c) within 6 months from the Establishment Date, Guangxi Dameng shall legally change or procure a change in the registration of the title to the Mining Rights so that the Mining Rights are registered in the name of the JV.

### **Schedule and Conditions for Capital Contribution by CITIC Dameng**

CITIC Dameng shall pay its capital contribution to the JV in two stages as set out below.

#### **(First Stage)**

Subject to the fulfilment (or waiver by CITIC Dameng in writing) of the Conditions Precedent set out below, CITIC Dameng shall within 10 working days from the fulfilment (or waiver) of such Conditions Precedent pay such portion of its capital contribution in cash to the JV pro rata to the portion of the Contributed Assets (except the Mining Rights) which have been assigned by Guangxi Dameng to the JV pursuant to its contribution:

- (a) Guangxi Dameng satisfying its obligation to transfer or procure the transfer of the Contributed Assets (except the Mining Rights) to the JV;
- (b) the PRC legal advisers engaged by Guangxi Dameng having issued a PRC legal opinion to confirm that:
  - (i) the Asset Restructuring Proposal has been approved by the state-owned asset administration authorities of the PRC with competent authorisation;

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## LETTER FROM THE BOARD

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- (ii) the Valuation Reports have been approved by and filed with the relevant government authorities of the PRC with competent authorisation;
  - (iii) the ownership or contractual rights or equity interest (as the case may be) in the properties, the bank loan agreements and mortgage agreements and the Four Subsidiaries comprised in the Contributed Assets have been legally transferred to the JV;
  - (iv) Guangxi Dameng has obtained the Mining Permits in respect of the Mining Rights and that there are no actual legal obstacles to the transfer of the title to the Mining Permits in respect of the Mining Rights to the JV;
  - (v) the Staff Arrangement Proposal in relation to the restructuring of Guangxi Dameng has been approved by the staff representatives of Guangxi Dameng and the authorities of the PRC with competent authorisation;
  - (vi) Guangxi Dameng has obtained all the necessary approval documents for carrying out its capital contribution obligations under the JV Contract in accordance with the laws and regulations of the PRC;
  - (vii) the Valuation Reports and the proposal for treatment of the land use rights comprised in the Contributed Assets have been confirmed by/filed with and approved by the state-owned land and resources administration authorities of the PRC with competent authorisation, and that the JV has obtained the certificates in respect of the land use rights comprised in the Contributed Assets; and
- (c) the Company has fulfilled all the requirements of the Stock Exchange and the Listing Rules for entering into the JV Contract (including the publication of the announcement of the Company dated 2 August 2005 and the despatch of this circular to Shareholders pursuant to Chapter 14 of the Listing Rules).

The pro-rata portion of capital contribution by CITIC Dameng to the JV in cash payable at this First Stage is estimated to be about RMB197.2 million (HK\$189.6 million).

If the Conditions Precedent mentioned above are not fulfilled or otherwise waived by CITIC Dameng within 3 months from the Establishment Date, CITIC Dameng may postpone the payment of its capital contribution to the JV. If the Conditions Precedent mentioned above are not fulfilled or otherwise waived by CITIC Dameng during the postponement of the payment of capital contribution by CITIC Dameng, either party shall have the right to terminate the JV Contract and neither party shall be regarded as in breach of the JV Contract.

With the despatch of this circular to Shareholders, the Condition Precedent under item (c) above has been fulfilled. The other Conditions Precedent have not yet been fulfilled as at the Latest Practicable Date.

All of the Conditions Precedent may be waived by CITIC Dameng. There is no present intention on CITIC Dameng to waive any of the Conditions Precedent. The JV Contract does not provide for any further amount to be paid by either party in the event any of the Conditions Precedent are waived. The Company will make a further announcement if any of the Conditions Precedent is waived.

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## LETTER FROM THE BOARD

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### **(Second Stage)**

CITIC Dameng shall pay the balance of its capital contribution (estimated to be about RMB102.8 million (HK\$98.9 million)) within 10 working days from the date of registration of the title to the Mining Rights in the name of the JV.

If the title to the Mining Rights is not registered in the name of the JV within 6 months from the Establishment Date, CITIC Dameng shall have the right to unilaterally terminate the JV Contract. Guangxi Dameng has agreed that the JV shall within 30 working days from the date of written notice of termination by CITIC Dameng repay to CITIC Dameng all amounts of capital contributed by CITIC Dameng to the JV plus the corresponding amount of entitlements on the capital contribution. Alternatively, CITIC Dameng may negotiate with Guangxi Dameng for other settlement proposals. The JV Contract does not provide for any further amount to be paid by either party to the JV in such event.

### **Scope of Business**

Pursuant to the JV Contract, the scope of business of the JV will be the exploitation of manganese mines, selection of minerals and advanced processing of manganese.

### **Composition of the Board of Directors and Senior Management of the JV**

The board of directors of the JV shall consist of five directors, two of whom shall be appointed by Guangxi Dameng and three of whom shall be appointed by CITIC Dameng. There shall be one chairman and one vice chairman who shall be nominated by CITIC Dameng and Guangxi Dameng respectively.

The chief executive officer, the chief financial officer and the deputy general managers of the JV shall be appointed by its board of directors. The chief financial officer shall be recommended by CITIC Dameng.

### **Term of the JV**

The JV shall have an initial term of 30 years commencing from the Establishment Date.

### **Restrictions on Competition**

During the term of the JV, Guangxi Dameng and CITIC Dameng and any company in which either of them controls over 50% of the shareholding shall not directly or indirectly carry on any business which is the same as or similar to or in competition with the business carried on by the JV without the consent of the other party. Neither Guangxi Dameng nor CITIC Dameng may transfer or license its intellectual property rights to a third party without the consent by the other party.

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## LETTER FROM THE BOARD

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### **Profit Distribution**

From the Establishment Date, Guangxi Dameng and CITIC Dameng shall be entitled to the profits of the JV in proportion to their respective contribution to the registered capital of the JV.

For each of the first five years from the Establishment Date, the JV shall distribute not less than 30% of its distributable profits in cash to its shareholders.

### **Borrowings and Security**

If the JV requires additional capital as working capital, it shall apply for bank loans. Unless agreed by both parties to the JV, bank loans of the JV shall be secured by its own assets. Shareholders of the JV are not obligated to provide any guarantee or other security in respect of such borrowings.

### **Pre-emptive Rights and Mortgage**

If any party to the JV wishes to transfer all or part of its equity interest to a third party, it shall obtain the consent of the other party. The other party shall have pre-emptive right to acquire the equity interest under the same terms.

Neither party to the JV Contract may pledge or mortgage its rights pursuant to the JV Contract or provide security in respect of such rights in any other manner without the written consent of the other party.

### **Treatment of Capital Contribution by Guangxi Dameng**

The net asset value of the Contributed Assets has been assessed in the amount of RMB242,794,300 (HK\$233.5 million). After the contribution of capital by Guangxi Dameng to the JV, the Contributed Assets shall be verified and confirmed by a firm of certified public accountants in the PRC approved by both parties to the JV. The amount of capital contributed to the JV by Guangxi Dameng in the form of the Contributed Assets in excess of RMB200 million (being RMB42,794,300 (HK\$41.1 million)) shall be treated as a premium amount paid by Guangxi Dameng. Such premium shall be repaid by the JV to Guangxi Dameng in cash within one month from the date the registered capital of the JV has been fully paid-up. If the value of the Contributed Assets, after being verified and confirmed by a firm of certified public accountants in the PRC approved by both parties to the JV, is less than RMB242,794,300, Guangxi Dameng shall unconditionally and forthwith pay an amount in cash to the JV to make up the shortfall.

From 30 June 2004 up to the Establishment Date, any increase in the net asset value of the Contributed Assets due to profits made by Guangxi Dameng shall belong to Guangxi Dameng and such amount shall be regarded as a debt due by the JV to Guangxi Dameng, and any decrease in the net asset value of the Contributed Assets due to losses made by Guangxi Dameng shall be made up by Guangxi Dameng to the JV and such amount shall be regarded as a debt due by Guangxi Dameng to the JV. Such amount of increase or decrease in the net asset value of the Contributed Assets shall be audited and confirmed by a firm of certified public

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## LETTER FROM THE BOARD

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accountants in the PRC (which is approved and engaged by Guangxi Dameng and CITIC Dameng) and shall be settled within 6 months from the date the registered capital of the JV has been fully paid-up.

The Valuation Report in respect of the operational assets comprised in the Contributed Assets stated that its validity was for one year from the valuation date of 30 June 2004 and it expired on 30 June 2005. The validity of such report has been approved for extension from 30 June 2005 to 31 December 2005 by Guangxi SAASC. Pursuant to the approval by Guangxi SAASC, where changes occur to the assets, liabilities or net asset value of those operational assets during 1 July 2005 to 31 December 2005, Guangxi SAASC has the right to require a re-valuation of such assets if it considers necessary. If the re-valuation causes an increase in the value of the Contributed Assets, CITIC Dameng shall have the right to unilaterally terminate the JV Contract. Alternatively, CITIC Dameng may negotiate with Guangxi Dameng for other settlement proposals.

### **Taking Effect of JV Contract**

The JV Contract shall take effect from the date of approval by the examination authority of the People's Government of Guangxi Zhuang Autonomous Region, the PRC.

### **FINANCIAL EFFECTS OF THE TRANSACTION**

Upon completion of the transaction, the Group shall, on consolidation basis, be entitled to 100% of the net earnings/loss of CITIC Dameng. The Directors expect that the transaction will have a positive effect to the profits of the Group.

The capital contribution of RMB240 million (HK\$230.8 million) in cash by CITIC Dameng to the JV will be paid by the Group from its internal resources. The Directors are of the opinion that the Group has sufficient resources to meet this payment and there will be no adverse change to its financial position.

### **REASONS FOR AND BENEFITS OF THE JV**

The Group is an integrated provider of key commodities and strategic natural resources to the PRC, particularly base metals and petroleum and petroleum related products.

The Company has been implementing a diversification of its business interests into other categories of natural resources. The establishment of the JV pursuant to the JV Contract is in line with its long term development strategy of becoming the natural resources arm of CITIC Group, its ultimate parent. The JV has the potential of enabling the Company to become the controller of the largest manganese mines in the PRC and the holding company of one of the largest manufacturers and suppliers of manganese products in the world. This will increase the core investment value of the Company and assist to increase the profitability of the Group.

The Directors have confirmed that the JV Contract was entered into on normal commercial terms after arm's length negotiations and the terms thereof are fair and reasonable and in the interests of the Company and Shareholders as a whole.

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## LETTER FROM THE BOARD

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### INFORMATION ON GUANGXI DAMENG

Guangxi Dameng is a state-owned limited liability company established under the laws of the PRC. The principal business activities of Guangxi Dameng and its subsidiaries include mining, selection, refining and processing of manganese and the sale of parts for motor vehicles.

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

### GENERAL

As the applicable percentage ratios for the transaction contemplated under the JV Contract exceeds 5% but are less than 25%, the formation of the JV constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

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

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

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

- (a) As at the Latest Practicable Date, the interests 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 taken or deemed 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 maintained by the Company referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### (i) Long positions in Shares

Name of Director	Nature of interest	Number of Shares held	Percentage of the total issued share capital of the Company
Mr. Kwok Peter Viem (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 United Star International Inc. (“USI”) which is beneficially owned as to 50% by Mr. Kwok Peter Viem and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in 572,966,000 Shares.

**(ii) Long positions in underlying shares of equity derivatives of the Company**

<b>Name of Director</b>	<b>Number of share options held</b>	<b>Percentage of the total issued share capital of the Company</b>
Mr. Kwok Peter Viem	50,000,000	1.16
Mr. Ma Ting Hung	50,000,000	1.16
Ms. Li So Mui	5,000,000	0.12
Mr. Mi Zengxin	10,000,000	0.23
Mr. Qiu Yiyong	10,000,000	0.23
Mr. Sun Xinguo	5,000,000	0.12
Mr. Zeng Chen	5,000,000	0.12
Mr. Zhang Jijing	10,000,000	0.23

**(iii) Long positions in shares or underlying shares of equity derivatives of the associated corporations of the Company**

<b>Name of associated corporation</b>	<b>Name of Director</b>	<b>Capacity and nature of interest</b>	<b>Shares/equity derivatives</b>	<b>Number of shares/equity derivatives held as at the Latest Practicable Date</b>	<b>Percentage of the total issued share capital of the associated corporation</b>
CITIC Australia Trading Limited	Mr. Zeng Chen	Family	Ordinary shares	333,332	0.40
		Directly beneficially owned	Share option	166,666	N/A
	Mr. Zhang Jijing	Directly beneficially owned	Share option	200,000	N/A



- (b) As at the Latest Practicable Date, save as disclosed herein and so far as was known to the Directors, the interests of the persons (not being a Director or chief executive of the Company) in the shares of the Company which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO or which were required pursuant to section 336 of the SFO to be entered in the register maintained by the Company referred to therein were as follows:

Name of substantial shareholders	Number of Shares held	Percentage of the total issued share capital of the Company
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 Group Limited	1,860,180,588	43.09
CITIC Australia Pty Limited	750,413,793	17.38
USI	572,966,000	13.27

Notes:

- (1) The figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited, Keentech Group Limited and CITIC Australia Pty Limited.
- (2) The figure represents an attributable interest of CITIC Projects Management (HK) Limited through its interest in Keentech Group Limited.
- (c) Save as disclosed above, as at the Latest Practicable Date:
- (i) so far as was known to the Directors, none of the Directors or chief executive of the Company had any interest or short positions in any shares or underlying shares or interest in debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed 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 for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange; and
- (ii) there was no person known to the Directors who had an interest or short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or was required pursuant to section 336 of the SFO to be entered in the register maintained by the Company

referred to therein or who was directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or in any options in respect of such share capital.

### 3. DIRECTORS' INTERESTS

- (a) As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.
- (b) 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.

### 4. LITIGATION

So far as the Directors are aware and save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or arbitration of material importance was pending or threatened against the Company or any of its subsidiaries as at the Latest Practicable Date.

- (a) In January 1999, Dongguan Xinlian Wood Products Company Limited (“Dongguan Xinlian”), a Group subsidiary held through Wing Lam (International) Timber Limited (“Wing Lam”), received a writ of summon (the “Claim”) from China Foreign Trade Development Company (the “Plaintiff”) claiming for HK\$49,624,000 and related interest in respect of various re-export contracts entered into by Dongguan Xinlian prior to it becoming a Group subsidiary. A judgment was issued in February 2000 which charged Dongguan Xinlian liable to settle a sum of about HK\$26,894,000. In response, Dongguan Xinlian filed an appeal against this judgment.

In August 2003, certain members of the Plaintiff management team were sentenced to imprisonment for creating forged documents, including those presented by them in relation to the Claim. Despite this, the People’s High Court of Guangdong Province issued a new judgment (the “New Judgment”) in December 2003 holding Dongguan Xinlian liable to US\$4,800,000 (HK\$37,440,000) with related interest. In January 2004, Dongguan Xinlian filed another appeal to the State Supreme Court, requesting the withdrawal of the New Judgment and a decision that it is not liable to the Plaintiff in respect of the New Judgment. In December 2004, the People’s High Court of Guangdong Province issued a decision that it will re-hear the case. It is not expected that the hearing will be concluded within the next 12 months.

As advised by the Group’s legal advisers, there were a number of conflicts and discrepancies with regard to the New Judgment. The New Judgment is not supported by valid evidence and it is in breach of normal legal proceeding, and therefore the New Judgment should be withdrawn.

Furthermore, the ex-shareholders of Wing Lam (the “Ex-shareholders”) have given an undertaking to indemnify the Group against all monetary losses that may arise from the Claim up to HK\$11,862,000, being the outstanding other loans from the Ex-shareholders as at 31 December 2004.

Taking into account the advice from the Group’s legal advisers and the indemnity, the Directors believe that the outcome of the Claim will not have a material adverse impact on the financial results of the Group, and accordingly, no provision is considered necessary.

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

In December 2003, the Manager lodged a notice of dispute against Roche under the terms of the mining contract on behalf of the Joint Venture participants following shortfalls in coal production.

Subsequently, the Manager received a series of claims from Roche as follows.

- (i) In June 2004, the Manager received a number of claims, however no value was assigned to the claims. Roche referred the dispute to arbitration. Some of the claims were withdrawn or struck out by the arbitrator. The remaining claims are now in arbitration. Roche has since assigned a value of A\$78 million (HK\$457.7 million) plus interest to the claims for alleged losses incurred in the first year of the mining contract and for anticipated losses for the balance of the five year contract.
- (ii) In July 2005, a second series of claims were lodged with an estimated aggregate quantum of the claims at A\$29 million (HK\$170.2 million). These claims are being processed in accordance with the dispute procedure under the mining contract. The Joint Venture is currently examining the claims and has identified instances of duplication with the first series of claims. The second series of claims have been referred to the legal counsel.

Roche is yet to provide full details of the claims. The legal counsel is presently of the view that Roche is unlikely to succeed with the total amount of its claims. The Directors understand that the Joint Venture will vigorously defend its position in arbitration.

Given the status of the relevant proceedings, the Directors are not in a position to make a reliable estimate of the outcome of the above claims.

**5. MISCELLANEOUS**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.
- (b) The share registrar and transfer office of the Company is Tengis Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (c) The secretary of the Company is Ms. Li So Mui. She holds a Master's Degree in Business Administration and is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Association of International Accountants. Ms. Li has over 27 years' experience in the accounting and banking field.
- (d) 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.
- (e) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.