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CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

Website: www.citicresources.com

(Stock Code: 1205)

DISCLOSEABLE TRANSACTION

ACQUISITION OF A 51% PARTICIPATING INTEREST IN THE SERAM ISLAND NON-BULA BLOCK, INDONESIA

Financial Adviser to CITIC Resources Holdings Limited

 **ROTHSCHILD**

A letter from the board of directors of CITIC Resources Holdings Limited containing information on this discloseable transaction is set out on pages 5 to 12 of this circular.

28 September 2006

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DEFINITIONS

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

“API”	the American Petroleum Institute’s scale for specific gravity for liquid hydrocarbons, measured in degrees. The lower the API gravity, the heavier the liquid and, generally, the lower its commercial value
“associates”	has the meaning ascribed thereto in the Listing Rules
“BPMIGAS”	Badan Pelaksana Kegiatan Usaha Hulu Minyak dan Gas Bumi, the oil and gas upstream regulatory authority in the Republic of Indonesia
“Board”	the board of Directors
“CA”	CITIC Australia Pty Limited, a company incorporated under the laws of the State of Victoria, Australia
“CITIC Seram”	CITIC Seram Energy Limited, a company incorporated under the laws of the British Virgin Islands
“Company”	CITIC Resources Holdings Limited, a company incorporated under the laws of Bermuda and which has its Shares listed on the Stock Exchange
“Completion”	completion of the sale and purchase of the Participating Interest pursuant to the Sale and Purchase Agreement
“Contractor”	the contractor under the Production Sharing Contract, being collectively the participants (other than BPMIGAS) under the Production Sharing Contract
“Director(s)”	the director(s) of the Company
“discloseable transaction”	has the meaning ascribed thereto in the Listing Rules
“Effective Date”	00:00 hours Jakarta time on 1 January 2006, being the date determined by KUFPEC as the basis on which bids were made to acquire the Participating Interest
“Escrow Agent”	HSBC Bank Middle East Limited, Kuwait Branch
“Group”	the Company and its subsidiaries

DEFINITIONS

“Guarantee”	a guarantee dated the same date as the Sale and Purchase Agreement and made between the Company and KUFPEC pursuant to which the Company has guaranteed the obligations of CITIC Seram to pay the purchase price payable under the Sale and Purchase Agreement
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Joint Operating Agreement”	the joint operating agreement dated 1 November 1985 between the then parties to that agreement being (i) CSR Petroleum (Asia) Limited, (ii) KUFPEC, (iii) Canada Northwest Energy Limited, (iv) Canada Northwest Australia Oil N.L., (v) Tricentrol Exploration Overseas Limited, (vi) Amadeus Oil N.L. and (vii) Bligh Oil and Minerals N.L. relating to the Seram Non-Bula Block
“Keentech”	Keentech Group Limited, a company incorporated under the laws of the British Virgin Islands
“KUFPEC”	KUFPEC (Indonesia) Limited, a company incorporated under the laws of the Cayman Islands
“Latest Practicable Date”	25 September 2006
“Lion”	Lion Petroleum (Seram) Limited, a company incorporated under the laws of Hong Kong
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	the date falling 120 days after the date of the Sale and Purchase Agreement
“Operator”	the operator appointed under the Joint Operating Agreement with specific responsibility for operating and managing the operations at the Seram Non-Bula Block on behalf of the Contractor
“Participating Interest”	an interest of KUFPEC in and representing a 51% interest in the whole of the benefits, rights and obligations of the Contractor in the Production Sharing Contract and a corresponding interest in the Joint Operating Agreement and all other commercial interests entered into pursuant to the Production Sharing Contract and the Joint Operating Agreement

DEFINITIONS

“percentage ratios”	has the meaning ascribed thereto in the Listing Rules
“PRC”	the People’s Republic of China
“Production Sharing Contract”	the Seram Non-Bula Block production sharing contract dated 1 November 1969, originally granted by Perusahaan Pertambangan Minyak dan Gas Bumi Negara to Gulf & Western Industries Inc., as renewed in favour of KUFPEC by agreement dated 22 May 2000 and effective 1 November 1999
“Sale and Purchase Agreement”	the sale and purchase agreement dated 11 July 2006 and made between KUFPEC and CITIC Seram relating to the sale and purchase of the Participating Interest in accordance with its terms
“Seram Non-Bula Block”	the Seram Island Non-Bula Block defined as the contract area and more particularly described in the Production Sharing Contract and as varied from time to time under the terms of the Production Sharing Contract
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	holders of the Shares
“Shares”	shares of HK\$0.05 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning ascribed thereto in the Listing Rules
“substantial shareholder”	has the meaning ascribed thereto in the Listing Rules
“Third Party Co”	a third party company independent of the Company and its subsidiaries and their respective chief executives, directors and substantial shareholders
“Third Party Co Sale”	the sale by KUFPEC of an additional 16.5% participating interest in the benefits, rights and obligations of the Contractor in the Production Sharing Contract to Third Party Co which is independent of and not conditional upon Completion
“A\$”	Australian dollars, the lawful currency of Australia

DEFINITIONS

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America

In this circular, amounts in US\$ and A\$ have been converted into HK\$ or vice versa at the rates of US\$1=HK\$7.8, and A\$1=HK\$5.73 respectively for illustration purposes only. No representation is made that any amounts in US\$, A\$ or HK\$ have been or could have been or can be converted at the above rates or at any other rates or at all.

LETTER FROM THE BOARD



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*)

Mr. SHOU Xuancheng (*Vice Chairman*)

Mr. SUN Xinguo

(President and Chief Executive Officer)

Ms. LI So Mui

Mr. MI Zengxin

Mr. QIU Yiyong

Mr. ZENG Chen

Mr. ZHANG Jijing

Registered Office:

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

Independent Non-executive Directors:

Mr. FAN Ren Da, Anthony

Mr. NGAI Man

Mr. TSANG Link Carl, Brian

Head Office and

Principal Place of Business:

Suites 3001-3006

30/F, One Pacific Place

88 Queensway

Hong Kong

28 September 2006

To Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

ACQUISITION OF A 51% PARTICIPATING INTEREST IN THE SERAM ISLAND NON-BULA BLOCK, INDONESIA

INTRODUCTION

On 11 July 2006, CITIC Seram, an indirect wholly-owned subsidiary of the Company, agreed conditionally to acquire from KUFPEC a 51% participating interest in the benefits, rights and obligations of the Contractor in the Production Sharing Contract relating to the Seram Non-Bula Block.

LETTER FROM THE BOARD

SALE AND PURCHASE AGREEMENT

Date

11 July 2006

Parties

- (1) CITIC Seram
- (2) KUFPEC

Asset Acquired

CITIC Seram has agreed conditionally to acquire the Participating Interest which represents a 51% interest in the benefits, rights and obligations of the Contractor in the Production Sharing Contract and a corresponding interest in the Joint Operating Agreement and all other commercial interests relating to the Seram Non-Bula Block with effect from the Effective Date.

Purchase Price and Deposit

The purchase price payable by CITIC Seram to KUFPEC in respect of the acquisition of the Participating Interest is US\$97.4 million (HK\$759.7 million), subject to adjustment as described below.

A cash deposit of US\$5.0 million (HK\$39.0 million), representing 5.1% of the purchase price, has been paid to the Escrow Agent upon signing of the Sale and Purchase Agreement and shall be released to KUFPEC at Completion. In the event the conditions set out below are not satisfied or Completion does not occur, in either case other than as a result of the default of CITIC Seram, the deposit will be refunded to CITIC Seram.

The balance of the purchase price of US\$92.4 million (HK\$720.7 million) shall be paid by CITIC Seram to KUFPEC in cash at Completion.

The purchase price has been determined on an arm's length basis and submitted to KUFPEC as part of a bid process after taking into account factors such as the characteristics of the Seram Non-Bula Block, its potential reserves, the potential for exploration upside and recoverable costs.

The purchase price shall be funded from internal resources of the Company and existing banking facilities.

As CITIC Seram is acquiring the Participating Interest from the Effective Date, all income and other benefits that have been received, and all costs and expenses that have been incurred, by KUFPEC in respect of the Participating Interest during the period from the Effective Date to Completion shall belong to or be borne by (as the case may be) CITIC

LETTER FROM THE BOARD

Seram. The purchase price will be adjusted following Completion by deducting any income payable by KUFPEC to CITIC Seram and adding any costs that should be reimbursed by CITIC Seram to KUFPEC.

Conditions Precedent

Completion is conditional upon the satisfaction of the following conditions precedent:

- (A) receipt by KUFPEC, in the form of a letter, of the approval of the Government of Indonesia and of BPMIGAS with respect to the sale and assignment of the Participating Interest from KUFPEC to CITIC Seram;
- (B) approval (in form and substance satisfactory to CITIC Seram, acting reasonably) by Lion, and Third Party Co if completion of the Third Party Co Sale occurs prior to Completion, as required under Clause 13.2 of the Joint Operating Agreement of the sale and assignment of the Participating Interest from KUFPEC to CITIC Seram (as evidenced by the execution by Lion and Third Party Co (as the case may be) of the deed of assignment relating to the sale and assignment of the Participating Interest by KUFPEC to CITIC Seram);
- (C) receipt by KUFPEC, in the form of a letter, of the approval of the Government of Indonesia with respect to CITIC Seram succeeding KUFPEC as the Operator; and
- (D) all votes and approvals (in form and substance satisfactory to CITIC Seram, acting reasonably) needed under the Joint Operating Agreement to appoint CITIC Seram as Operator with effect from Completion, including if required a waiver of the notice period specified under Clause 5.2 of the Joint Operating Agreement and including Third Party Co as a party to the Joint Operating Agreement if the Third Party Co Sale completes prior to Completion.

In the event any of the conditions precedent set out above is not satisfied by the Long Stop Date, either KUFPEC or CITIC Seram may give notice to the other terminating the Sale and Purchase Agreement unless it has failed to perform or observe in any material respect its covenants and agreements under the Sale and Purchase Agreement so as to cause Completion to fail to occur. As at the Latest Practicable Date, conditions (B) and (D) of the conditions precedent had been satisfied.

Shareholders should note that the implementation of the Sale and Purchase Agreement is subject to the satisfaction or waiver of the above conditions precedent and therefore Completion may or may not occur. Shareholders are advised to exercise caution when dealing in the securities of the Company.

GUARANTEE FROM THE COMPANY

The payment of the purchase price by CITIC Seram to KUFPEC under the Sale and Purchase Agreement is guaranteed by the Company pursuant to the Guarantee.

LETTER FROM THE BOARD

DETAILS OF THE PRODUCTION SHARING CONTRACT AND THE SERAM NON-BULA BLOCK

Production Sharing Contract

Under the Production Sharing Contract, the Contractor has been granted a 100% right to explore, develop and produce oil from the Seram Non-Bula Block for a period of 20 years until 2019. The current Contractor comprises KUFPEC and Lion presently holding 97.5% and 2.5% respectively of the Contractor's benefits, rights and obligations under the Production Sharing Contract.

The Contractor is responsible to BPMIGAS for the execution of all operations at the Seram Non-Bula Block and for providing all financial and technical assistance arising from such operations. The costs relating to the development and production at the Seram Non-Bula Block shall be borne by the participants in accordance with their respective participating interests in the Contractor's rights in the Production Sharing Contract. Under the Production Sharing Contract, the Contractor is able to recover all operating costs from the sales proceeds or other disposition of the required quantity of petroleum equal in value to such operating costs.

Prior to any deduction for the recovery of operating costs, the Contractor and BPMIGAS are entitled to first take and receive each year a quantity of petroleum equal to 15% of the petroleum production for that year ("**First Tranche Petroleum**") which is shared between BPMIGAS (as to 37.5%) and the Contractor (as to 62.5%).

After deduction of the First Tranche Petroleum and recovery of operating costs by the Contractor, the balance of proceeds (if any) is shared between BPMIGAS (as to 37.5%) and the Contractor (as to 62.5%).

Since the Participating Interest represents 51% interest in the benefits, rights and obligations of the Contractor in the Production Sharing Contract, following Completion, CITIC Seram will hold an effective economic interest of 31.875% (i.e. 51% of 62.5%) in the Seram Non-Bula Block.

Participants' interests in the Contractor's rights and obligations in the Production Sharing Contract following Completion and completion of the Third Party Co Sale

Upon Completion and completion of the Third Party Co Sale, the participants holding interests in the Contractor's rights in the Production Sharing Contract and the Joint Operating Agreement will be as follows:

Name/description of participant	Participating interest
(1) CITIC Seram	51.0%
(2) KUFPEC	30.0%
(3) Third Party Co	16.5%
(4) Lion	2.5%

LETTER FROM THE BOARD

Seram Non-Bula Block

The Seram Non-Bula Block is located on Seram Island, Indonesia and occupies an area of about 4,572 square kilometres.

Exploration and Production

Pursuant to the Production Sharing Contract, the Contractor is under an obligation to perform a minimum amount of exploration and production operations in the Seram Non-Bula Block. This commitment amounts to a total gross expenditure of US\$29.0 million (HK\$226.2 million). Of this commitment, about US\$17.0 million (HK\$132.6 million) is outstanding as at 31 December 2005. CITIC Seram's share of this expenditure will be US\$8.7 million (HK\$67.9 million). It is CITIC Seram's intention that, as far as reasonably possible, the expenditure commitment will be funded from future revenue generated from the operation under the Production Sharing Contract.

The principal field in the Seram Non-Bula Block is the Oseil Field. The average production in the first six months of 2006 was about 4,300 barrels per day (gross) of 15° to 22° API oil.

The gross oil reserves of the Oseil Field estimated by DeGolyer and MacNaughton, the independent technical advisers were about 39 million barrels as at 31 December 2005 (being the date immediately before the Effective Date), which comprise 7 million barrels of proven reserves, 6 million barrels of probable reserves and 26 million barrels of possible reserves.

In the period from 1988 to 2002, the Operator has drilled four exploration wells in the Seram Non-Bula Block, resulting in commercial oil discovery in the Oseil Field.

The development of the Oseil Field is divided into two phases in accordance with the Production Sharing Contract. Phase one of the development includes the acquisition and processing of 3D seismic over the Oseil Field, drilling of well, well completions, installation of production facilities, pipelines, storage facilities, oil export facilities and other supporting infrastructure to operate and produce the wells, and establish a commercial market for Oseil crude oil.

Phase two of the development includes drilling and completion of additional development wells and expansion of production facilities, pipelines, storage facilities, oil export facilities and other supporting infrastructure to operate and produce the wells.

As Operator of the Seram Non-Bula Block, it is expected that CITIC Seram will seek to maintain and improve current production levels at the Oseil Field on an economic and efficient basis in order to maximise output at the Oseil Field. Capital expenditure and operational expenditure in relation to oil production for the current financial year is expected to be funded from proceeds from the Oseil Field.

Proposed future exploration in the Seram Non-Bula Block also expected to include a seismic exploration program, seismic survey and the drilling of additional exploration wells.

LETTER FROM THE BOARD

The Group has internally reviewed data and information relating to the Participating Interest and the Seram Non-Bula Block including a technical adviser's report prepared by DeGolyer and MacNaughton pertaining to the Oseil Field located in the Seram Non-Bula Block. An Executive Summary of the technical adviser's report is set out in Appendix I to this circular. Technical review of the Participating Interest and the Seram Non-Bula Block was provided by Mr. Shou Xuancheng and Mr. Chen Liang, both of whom are members of the Group's oil and gas team. Details relating to Mr. Shou Xuancheng and Mr. Chen Liang are set out below.

Mr. Shou Xuancheng was appointed as a Vice Chairman and an Executive Director of the Company in September 2005 and is responsible for the planning and development of the Group's oil investments and portfolio. He holds a Master's Degree and a Doctoral Degree in Engineering from Petroleum University of China and held a number of high-level positions in the China National Petroleum Corporation group of companies between 1985 and 2004. Mr. Shou has over 35 years' experience in the oil and gas industry. The interests of Mr. Shou Xuancheng in the share capital of the Company are set out in the section "Disclosure of Interests" in the Appendix II to this circular.

Mr. Chen Liang is a Vice President of the Company with responsibility for oil and gas project evaluation and investments of the Group. He holds a Doctoral Degree in Coal, Oil and Gas Geology and Exploration from the Petroleum University of China and was a senior geologist at Teknica Petroleum Services Limited, Calgary, Canada from 2002 to 2005. Prior to that, he worked for various oil companies and research institutes in China, France, United Kingdom and Canada. Mr. Chen has over 10 years' experience in petroleum exploration and development. Mr. Chen Liang has confirmed to the Company that he does not hold any interests in the capital of the Company.

OPERATOR OF THE SERAM NON-BULA BLOCK

Under the terms of the Sale and Purchase Agreement, CITIC Seram will become the Operator responsible for the day to day petroleum operations at the Seram Non-Bula Block and an assignment of the operatorship related contracts and transfer of the existing employees from KUFPEC to CITIC Seram will take place at Completion. The transferring employees will include geophysicists; petroleum engineers; drilling engineers, field technicians; health, safety and environmental officers and other relevant qualified personnel with experience in operations in the Seram Non-Bula Block.

INFORMATION ON THE COMPANY AND CITIC SERAM

The Company is an integrated provider of key natural resources and commodities with business interests in aluminium smelting, coal mining, import and export of commodities, manganese mining and processing and investments in companies exploring and developing oil and gas. The current principal operating business of the Group are located in Australia and the PRC. The Company has also held direct interests in the oil and gas sector and, until recently, had a participating interest in the Kongnan Block within the Dagang oilfield in the PRC which was converted into common shares of Ivanhoe Energy Inc. in February 2006. The Company's interest in the Kongnan Block was a 40% participating interest with the 60% balance held by Ivanhoe Energy Inc.

CITIC Seram is an indirect wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD

INFORMATION ON KUFPEC

KUFPEC is a subsidiary of Kuwait Petroleum Corporation and has held a participating interest in the Seram Non-Bula Block since 1985. Kuwait Petroleum Corporation is focused on international oil and gas exploration, development and production activities in the Middle East, Africa, Asia and Australia.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, KUFPEC and the ultimate beneficial owner of KUFPEC are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

FINANCIAL EFFECTS OF THE ACQUISITION

The purchase price will be funded from the internal resources and existing banking facilities of the Company and the acquisition of the Participating Interest will be capitalised and will be accounted for as an acquisition in the accounts of CITIC Seram in accordance with the Group's accounting policies.

The acquisition of the Participating Interest will cause an increase in the Group's oil and gas properties and other related assets and in its liabilities (based on purchase price allocation after the transaction is completed in accordance with the requirements of Hong Kong Financial Reporting Standard 3 "Business Combinations"), and a decrease in the amount of US\$97.4 million (HK\$759.7 million) (subject to adjustments as described above) of the Group's cash and cash equivalent upon Completion.

In terms of expected impact that the acquisition of the Participating Interest will have on the Group's earnings, the Company will account for the Participating Interest based on its share of income and expense of the Production Sharing Contract through CITIC Seram. In light of the current stage of development of the Seram Non-Bula Block under the Production Sharing Contract, it is contemplated that there will be minimal positive contribution to the Group's earnings in the short term although this is expected to change in the long term and should, the Directors believe, improve the Group's income diversification.

The Directors are of the opinion that the Group has sufficient resources to meet payment of the purchase price for the Participating Interest and that there will be no material adverse change to its financial position.

BENEFITS OF THE ACQUISITION OF THE PARTICIPATING INTEREST

The acquisition of the Participating Interest follows on from the Group's collaboration with Ivanhoe Energy Inc. in the Kongnan Block. The Directors believe that the acquisition of the Participating Interest is an important step for the Group's business development in the energy sector and it is in line with its long term development strategy of becoming the natural resources arm of CITIC Group, its ultimate parent. The Directors further believe that the acquisition will provide additional income diversification to the Group.

LETTER FROM THE BOARD

The Directors have confirmed that the Sale and Purchase Agreement 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.

DISCLOSEABLE TRANSACTION

The applicable percentage ratios concerning the acquisition of the Participating Interest exceed 5% but are less than 25%. Accordingly, the acquisition of the Participating Interest constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

WRITTEN APPROVAL OF SHAREHOLDERS

The acquisition of the Participating Interest constitutes a discloseable transaction for the Company. In addition, pursuant to Rule 18.07 of the Listing Rules, the Company is, as a result of the acquisition of the Participating Interest by CITIC Seram, deemed to be extending its business activities into exploration for natural resources and the acquisition is expected to result in the diversion to exploration for natural resources of 10% or more of the consolidated total assets of the Company. As a result, the Company is required to obtain the approval of shareholders to the acquisition of the Participating Interest by CITIC Seram.

As at the Latest Practicable Date, Keentech and CA were the registered holders of 43.09% and 17.38% respectively of, and together control about 60.47% of, the issued share capital of the Company. Keentech and CA are indirect wholly-owned subsidiaries of CITIC Group and neither of them nor their associates has any interest in the acquisition of the Participating Interest by CITIC Seram over and above their interests as Shareholders. Keentech and CA have each given to the Company their written approval of the acquisition of the Participating Interest by CITIC Seram.

Based on the written approvals of Keentech and CA and their control of a majority of the voting rights in the Company, the Company has made an application to the Stock Exchange for, and the Stock Exchange has agreed to grant the Company, a waiver from the requirement to convene a special general meeting and for the purposes of Rule 18.07 of the Listing Rules accept the written approvals of Keentech and CA in lieu of a resolution of Shareholders in general meeting.

ADDITIONAL INFORMATION

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

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

The following is the text extracts of a technical adviser's report by DeGolyer and MacNaughton, prepared for the purpose of incorporation in this circular.

DeGolyer and MacNaughton

5001 Spring Valley Road
Suite 800 East
Dallas, Texas 75244

**Report
as of December 31, 2005
on the Oseil Field
located in the Seram Non-Bula PSC, Republic of Indonesia
for CITIC Seram Energy Limited**

FOREWORD

Scope of Investigation

This report presents an estimate, as of December 31, 2005, of the proved, probable, and possible oil reserves of the Oseil field located in the Seram Non-Bula production sharing contract (PSC) area, Republic of Indonesia. On July 11, 2006, CITIC Seram Energy Limited (CITIC Seram) agreed conditionally to acquire from KUFPEC (Indonesia) Limited (KUFPEC) a 51-percent participating interest in the PSC, effective January 1, 2006. Upon completion of the acquisition, CITIC Seram will become the field operator.

Reserves estimated in this report are expressed as gross and net reserves. Gross reserves are defined as the total estimated petroleum to be produced after December 31, 2005, from the Oseil field. Net reserves are defined as that portion of the gross reserves attributable to CITIC Seram's interest in the PSC and after deducting all interests owned by others. Upon completion of the acquisition, CITIC Seram will own an interest in this field under the terms of the PSC that allows CITIC Seram to be reimbursed for its share of the capital and operating expenses and to share in the profits. The reimbursements and profit proceeds are converted to a barrel equivalent by dividing by year-end product prices. Net reserves are estimated by dividing CITIC Seram's share of the future gross revenue by the year-end product prices. Table 1 summarizes the reserves estimated in this report.

Estimates of oil reserves should be regarded only as estimates that may change as production history and additional information become available. Not only are such reserves estimates based on that information which is currently available, but such estimates are also subject to the uncertainties inherent in the application of judgmental factors in interpreting such information.

Authority

This report was authorized by Mr. Shou Xuancheng, Director, CITIC Seram.

Source of Information

Information used in the preparation of this report was obtained from KUFPEC on behalf of CITIC Seram. In the preparation of this report we have relied, without independent verification, upon information furnished by KUFPEC on behalf of CITIC Seram with respect to property interests, production from such properties, costs of operation and development,

current prices for production, agreements relating to future operations and sale of production, and various other information and data that were accepted as represented. A field examination of the properties was not considered necessary for the purposes of this report, since all pertinent data were available for review and there are no special circumstances regarding the location of the block evaluated that would require a field examination. This report provides estimates of oil reserves of the Oseil field as of December 31, 2005, using data available through that date.

EXECUTIVE SUMMARY

This report was prepared at the request of CITIC Seram and contains estimates of the proved, probable, and possible reserves, as of December 31, 2005, found in the Oseil field located within the Seram Non-Bula PSC area. CITIC Seram has agreed conditionally to acquire from KUFPEC a 51-percent participating interest in the PSC, effective January 1, 2006. CITIC Seram becomes the field operator upon completion of the acquisition.

The Oseil field is located in the Seram Non-Bula PSC area on the island of Seram about 300 kilometers east of the city of Ambon. The field is located inland from the northeast coast of the island. Discovery of the field occurred in 1993 with the drilling of the Oseil-1 well, which found oil-bearing sections within the Manusela Carbonate. Since that time, nine additional wells, both vertical and horizontal, have been drilled to develop the field and have identified oil-bearing Manusela accumulations in four separate closures. Currently, oil has been produced from three of the four fault block closures. The reservoirs in the discovered fields contain lower gravity crude oils (15 to 22 degrees API).

The Oseil structure is a complex series of northwest/southeast-trending thrust faults. The field consists of an anticlinal feature divided by a series of transgressive wrench faults. These divisions result in a number of closures across the length of the feature. The field was originally discovered using two-dimensional seismic data with an approximate spacing of about 2.5 kilometers. Three-dimensional (3-D) seismic data were acquired in 2002 by Western GECO (WG) to better define the faults and structural interpretation of the Oseil field complex. The data are fair to good in quality and the top of the Manusela is reasonably well imaged.

The combination of log data, core analysis, and production performance history describes recovery from the productive portion of the Manusela Carbonate to be entirely attributable to the presence of natural fractures. The macrofracturing provides permeabilities in the 1 to 100 darcy range and are considered the sole source of conductivity and storativity for oil production in the field. Conventional log analysis indicates an average porosity in the "rubble" or macrofractured zones of 6.1 percent with an average log-based water saturation of 42.6 percent. Water saturations in fractures are expected to be 10 percent or less. Depletion of the matrix or the microfractures is not expected. The apparent primary drive mechanism based on the production history is that of a strong waterdrive. The Oseil-7ST, -8ST, -9, and Tenggara-1 are flowing naturally. The remaining producers (Oseil-1, -3ST, -4, and -5ST) are on submersible pump.

Evaluation of the reserves for the Oseil field has been performed probabilistically and deterministically. The uncertainties in evaluating the future performance of the field development are mostly dependent upon the degree of macrofracturing present and the porosity of the macrofracture system. The deterministic method applied single parameter values to arrive at a single value of original oil in place (OOIP). Reserves were estimated using performance trends. The results of these interpretations were used to estimate the

proved developed producing reserves. The performance trends associated with the newer wells were used to assess how the wells scheduled for drilling would perform for the purposes of estimating the proved undeveloped reserves. Recovery factors of 20 to 29 percent were used for estimating proved reserves. Probable and possible reserves were based on recovery factors ranging from 24 to 36 percent and 38 to 47 percent, respectively.

The proved reserves were forecast using the data from existing wells plus four additional wells or sidetracks for the Oseil-1/-4 area and the Oseil-2 area. The proved-plus-probable reserves were forecast using the plan of development provided by KUFPEC and the most recent budget forecast as the basis for the well count but excluding development of the Oseil C/D area. A total of six additional wells or sidetracks (two incremental wells to the proved case) were used in the economic evaluation to develop the Oseil-1/-4, Oseil-2, Oseil Tenggara, and Oseil Tenggara Selatan areas. The proved-plus-probable-plus-possible reserves forecast included all of the field areas over two phases. The first phase of the development targeted the fields evaluated for the proved-plus-probable reserves. Development drilling for all cases was forecast to be ongoing in 2006 and 2008. Oil volumes of more than 14,000 barrels of oil per day were forecast in the proved-plus-probable-plus-possible case. These volumes were accommodated by upgrading facilities in the economic evaluation to handle the higher oil and water volumes.

Net reserves have been estimated based on the terms of the PSC. As such, the resulting net interests may vary with product price, actual costs, timing of production, and other factors. Probable and possible net reserves were estimated explicitly by evaluation of each respective reserves projection.

Under the terms of the PSC with the Indonesian Government and upon completion of the acquisition, CITIC Seram will own a 51.0-percent interest in the Oseil field, located in the Seram Non-Bula PSC. Information used in this report regarding the PSC was provided by KUFPEC on behalf of CITIC Seram.

The estimated gross and net proved, probable, and possible oil reserves, as of December 31, 2005, of the fields evaluated in this report are summarized as follows, expressed in thousands of barrels (Mbbbl):

	Gross Reserves (Mbbbl)	Net Reserves (Mbbbl)
Proved	7,047	3,391
Probable*	6,000	2,888
Possible*	26,144	11,149

* Probable and possible reserves have not been adjusted for risk.

We have been advised by CITIC Seram that the average gross production rate of the Oseil field in the first 6 months of 2006 was about 4,300 barrels per day (gross) of 15 to 22 degree API oil. We understand from CITIC Seram that CITIC Seram will seek to maintain and improve current production levels at the Oseil field on an economic and efficient basis in order to maximize output at the Oseil field.

Table 1
Summary of Gross Oil Reserves
as of December 31, 2005
for the Oseil Field
Seram Non-Bula PSC, Republic of Indonesia

<u>Area</u>	<u>Proved (Mbbls)</u>	<u>Probable (Mbbls)</u>	<u>Possible (Mbbls)</u>
Oseil-1 and -4 Area	5,663	1,966	2,948
Oseil-2 Area	1,131	1,667	2,914
Oseil Tenggara	253	385	790
Oseil Tenggara Selatan	0	1,982	1,260
Oseil C/D Area	0	0	1,373
Nief Utara A	0	0	12,075
Nief Utara B	0	0	4,379
Oseil Selatan	0	0	405
Total	7,047	6,000	26,144

Note: Probable and possible reserves have not been adjusted for risk.

Professional Qualifications

DeGolyer and MacNaughton is a Delaware corporation with offices at 5001 Spring Valley Road, Suite 800 East, Dallas, Texas 75244, U.S.A. The firm has been providing petroleum consulting services throughout the world for more than 65 years. The firm's professional engineers, geologists, geophysicists, petrophysicists, and economists are engaged in the independent appraisal of oil and gas properties, evaluation of hydrocarbon and other mineral prospects, basin evaluations, comprehensive field studies, equity studies, and studies of supply and economics related to the energy industry. Except for the provision of professional services on a fee basis, DeGolyer and MacNaughton has no commercial arrangement with any other person or company involved in the interests which are the subject of this report.

The evaluation has been supervised by Mr. Thomas C. Pence. Mr. Pence is a Vice President with DeGolyer and MacNaughton, a Project Leader within the company, a Registered Professional Engineer in the State of Texas, and a member of the Society of Petroleum Engineers. He has 24 years of oil and gas industry experience.

SIGNED: September 25, 2006

Submitted
Thomas C. Pence, P.E.
Vice President
DeGOLYER and MacNAUGHTON

1. RESPONSIBILITY STATEMENT

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

The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (other than information relating to KUFPEC) 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 and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) and which have been notified to the Company and the Stock Exchange were as follows:

Interests in the Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares held	Interests in underlying Shares pursuant to share options	Percentage of the total issued share capital of the Company
Mr. Kwok Peter Viem	Corporate	572,966,000 ⁽¹⁾	–	13.27
Mr. Kwok Peter Viem	Directly beneficially owned	–	50,000,000	1.16
Mr. Ma Ting Hung	Corporate	572,966,000 ⁽¹⁾	–	13.27
Mr. Ma Ting Hung	Directly beneficially owned	–	50,000,000	1.16
Mr. Shou Xuancheng	Directly beneficially owned	–	10,000,000	0.23
Mr. Sun Xinguo	Directly beneficially owned	–	10,000,000	0.23
Ms. Li So Mui	Directly beneficially owned	–	5,000,000	0.12
Mr. Mi Zengxin	Directly beneficially owned	–	10,000,000	0.23
Mr. Qiu Yiyong	Directly beneficially owned	–	10,000,000	0.23
Mr. Zeng Chen	Directly beneficially owned	–	10,000,000	0.23
Mr. Zhang Jijing	Family	28,000 ⁽²⁾	–	–
Mr. Zhang Jijing	Directly beneficially owned	–	10,000,000	0.23

Notes:

- (1) The Shares disclosed above are held by United Star International Inc., a company incorporated in the British Virgin Islands, which is beneficially owned as to 50% by Mr. Kwok Peter Viem and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in the 572,966,000 Shares.
- (2) The Shares disclosed above are held by the spouse of Mr. Zhang Jijing. Accordingly, Mr. Zhang Jijing is deemed to be interested in the 28,000 Shares.

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

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Number of shares/ equity derivatives held	Nature of interest	Exercise period of share options	Exercise price per share A\$	Percentage of the total issued share capital of the associated corporation
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	333,332 ⁽¹⁾	Family	N/A	N/A	0.40
			Share options	166,668	Directly beneficially owned	19 June 2005 to 18 June 2007	0.35	N/A

Note:

- (1) The shares disclosed above are held by the spouse of Mr. Zeng Chen. Accordingly, Mr. Zeng Chen is deemed to be interested in the 333,332 shares.

Save as disclosed herein and so far as is known to the Directors, as at the Latest Practicable Date:

- (i) none of the Directors or chief executive of the Company had an interest or a short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;
- (ii) none of the Directors was a director or employee of a company which has an interest or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO;
- (iii) 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;

- (iv) 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; and
- (v) no Director, technical adviser or promoter named in this circular has been interested in any assets which have been within the two years immediately preceding the issue of this circular acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

(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 in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

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

Notes:

- (1) The figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited (“**CITIC Projects**”) and CA. CITIC Group is a company incorporated in the PRC.
- (2) The figure represents an attributable interest of CITIC Projects through its interest in Keentech. CITIC Projects, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Group.
- (3) Keentech, a company incorporated in the British Virgin Islands, is a direct wholly-owned subsidiary of CITIC Projects.
- (4) CA, a company incorporated in Australia, is a direct wholly-owned subsidiary of CITIC Group.

- (5) The figure represents an attributable interest of each of Mr. Kwok Peter Viem and Mr. Ma Ting Hung respectively as the beneficial owner of 50% each of United Star International Inc. These interests are also included as corporate interests of Mr. Kwok Peter Viem and Mr. Ma Ting Hung, as disclosed under the heading “Disclosure of interests of Directors” above.
- (6) The share options granted to Mr. Kwok Peter Viem and Mr. Ma Ting Hung are their respective personal interests.

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

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

Note:

- (1) CITIC United Asia Investments Limited, a company incorporated in Hong Kong, is an indirect wholly-owned subsidiary of CITIC Group.

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

3. LITIGATION

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

- (a) In January 1999, Dongguan Xinlian Wood Products Company Limited (“**Dongguan Xinlian**”), a wholly-owned subsidiary of the Company held through Wing Lam (International) Timber Limited (“**Wing Lam**”), received a writ of summons (the “**Claim**”) from China Foreign Trade Development Company (the “**Plaintiff**”) claiming for US\$6,362,000 (HK\$49,624,000) and related interest in respect of six re-export contracts purported to have been entered into by Dongguan Xinlian prior to it becoming a Group subsidiary. A judgment (the “**First Judgment**”) was issued by the Shenzhen Intermediate People’s Court in February 2000 against Dongguan Xinlian for a sum of US\$3,448,000 (HK\$26,894,000). In response, Dongguan Xinlian filed an appeal against the First Judgment with the People’s High Court of Guangdong Province.

In August 2003, certain members of the Plaintiff management team were sentenced to imprisonment for creating forged documents, including those presented by them in relation to the Claim. Despite this, the People's High Court of Guangdong Province issued a judgment (the "**Second Judgment**") in December 2003 against Dongguan Xinlian for US\$4,800,000 (HK\$37,440,000) with related interest. In January 2004, Dongguan Xinlian filed another appeal to the State Supreme Court requesting the withdrawal of the Second Judgment and a decision that Dongguan Xinlian is not liable to the Plaintiff in respect of the Second Judgment. In December 2004, the People's High Court of Guangdong Province overturned the Second Judgment and issued a decision that it will re-hear the case.

In December 2005, the People's High Court of Guangdong Province issued a judgment whereby the validity of the Second Judgment against Dongguan Xinlian was maintained (the "**Third Judgment**").

As advised by the Group's legal advisers, there were a number of conflicts and discrepancies with regard to the Second Judgment and the Third Judgment. The Second Judgment and the Third Judgment were not supported by valid evidence and although the People's High Court of Guangdong Province acknowledged the criminal liabilities of certain members of the Plaintiff's management team (including forging the contracts connected to the Claim), the People's High Court of Guangdong Province did not, contrary to normal legal procedures, take these factors into account when it gave the Third Judgment. In February 2006, Dongguan Xinlian commenced an appeal process against the Third Judgment. In the meantime, the Shenzhen Intermediate People's Court has frozen the assets and machinery of Dongguan Xinlian and the Group has also taken steps to apply for a suspension of the auction of the assets and machinery of Dongguan Xinlian.

The ex-shareholders of Wing Lam (the "**Ex-shareholders**") have given an undertaking to indemnify the Group against all monetary losses that may arise from the Claim up to HK\$11,862,000, being the outstanding other loans from the Ex-shareholders as at 30 June 2006. In light of the indemnity from the Ex-shareholders and the advice of the Group's legal advisers, the Directors believe that the outcome of the Claim will not have a material adverse impact on the financial results of the Group.

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

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

In June 2004, following rejection by the superintendent of claims from the Contractor, the Contractor lodged a notice of dispute on the Manager under the mining contract. The rejected claim, consisting of 9 heads of claim, included higher costs of mining in the 2004 financial year due to alleged delay in access to particular mining areas and alleged adverse mining conditions. The Contractor then referred the dispute to arbitration.

In February 2005, the arbitrator determined that 7 of the 9 points of claim could proceed to arbitration. The Manager received the detailed points of claim from the Contractor in March 2005 and detailed further particulars in September 2005. In April 2006, the Manager lodged its defence to the points of claim and lodged a counterclaim against the Contractor.

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

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

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A\$99 million (HK\$567 million) out of which the Group's share amounted to A\$7 million (HK\$40 million). Areas of duplication have been identified across these three claims and the Contractor is yet to provide particulars regarding basis and quantum of the second and third claim.

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

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

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into any 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.

5. MISCELLANEOUS

- (a) The share registrar and transfer office of the Company is Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, 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 28 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. Prior to joining the Company, he worked for various multinational companies. Mr. Chung has over 15 years' experience in the accounting field.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

6. EXPERT

DeGolyer and MacNaughton, the technical adviser to the Company, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of extracts of its report and the reference to its name and report in the form and context in which it appears.

DeGolyer and MacNaughton has confirmed that it has 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.