IMPORTANT

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

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

This circular is not an offer of, nor is it intended to invite offers for, shares or other securities of CITIC Resources Holdings Limited.

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
Website: www.citicresources.com
(Stock Code: 1205)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF INTEREST IN KAZAKHSTAN OIL ASSETS
ACQUISITION OF LOAN AND OTHER INDEBTEDNESS

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

SOMERLEY LIMITED

A letter from the Independent Board Committee (as defined in this circular) containing its advice to the Independent Shareholders (as defined in this circular) is set out on page 16 of this circular.

A letter from the Independent Financial Adviser (as defined in this circular) containing its opinion and advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 33 of this circular.

A notice convening a special general meeting of CITIC Resources Holdings Limited to be held at Pacific Place Conference Centre, Tien Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 27 June 2007 at 3:30 p.m. is set out on pages 34 to 35 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting (or any adjournment thereof) should you so wish.

12 June 2007

CONTENTS

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

"Acquisition Agreement"	the conditional sale and purchase agreement dated 30 April 2007 entered into between CITIC Group and the Company in respect of the transfer of the Sale Share and assignment of part of the KEL Indebtedness
"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 hydrocarbon and, generally, the lower its commercial value
"Arrangement Agreement"	the arrangement agreement dated 25 October 2006 entered into between CITIC Group, CCPL, CCEL and Nations Petroleum Company Ltd. relating to the acquisition of all of the outstanding common shares of CCPL
"associate"	has the meaning ascribed to it under the Listing Rules
"ATS"	Argymak TransService LLP, a limited liability partnership established under the laws of Kazakhstan. CCPL holds 100% of the participation rights in ATS
"Board"	the board of Directors
"Business Day"	a day (other than Saturday and Sunday and any day on which a tropical cyclone warning no. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a "black" rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which licensed banks are open for business in Hong Kong
"Bye-laws"	the bye-laws of the Company as amended from time to time
"CA"	CITIC Australia Pty Limited, a company incorporated in Australia and a direct wholly-owned subsidiary of CITIC Group
"CCEL"	CITIC Canada Energy Limited, a company incorporated in Alberta, Canada and an indirect wholly-owned subsidiary of CITIC Group
"CCEL Group"	CCEL, CCPL and the Kazakhstan Companies
"CCPL"	CITIC Canada Petroleum Limited, formerly Nations Energy Company Ltd., a company incorporated in Alberta, Canada and a direct wholly-owned subsidiary of CCEL
"CCPL Group"	CCPL and the Kazakhstan Companies
"CITIC Group"	CITIC Group, a company established in the PRC
"CITIC Netherlands"	CITIC Netherlands Energy Coöperatief U.A., a cooperative (coöperatie) established in the Netherlands and an indirect wholly-owned subsidiary of RNL
"Company"	CITIC Resources Holdings Limited, a company incorporated in Bermuda with limited liability and whose Shares are listed on the main board of the Stock Exchange
"Completion"	completion of the Transaction
"Conditions"	the conditions precedent to Completion, details of which are set out in the sub-section headed "Conditions to the Transaction Agreements" under the section headed "Principal Terms of the Transaction Agreements" in the letter from the Board in this circular

"connected person"	has the meaning ascribed to it under the Listing Rules
"controlling shareholder"	has the meaning ascribed to it under the Listing Rules
"Deposit"	the sum of US$200,000,000 (HK$1,560,000,000) paid by the Company to CITIC Group
"Directors"	the directors of the Company, including its independent non-executive directors
"Enlarged Group"	the Group as enlarged by the RNL Group
"Group"	the Company and its subsidiaries
"HKFRS"	the Hong Kong Financial Reporting Standards
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	an independent committee of the Board (comprising Mr. Fan Ren Da, Anthony; Mr. Ngai Man and Mr. Tsang Link Carl, Brian) established by the Board for the purpose of advising the Independent Shareholders on the Transaction
"Independent Financial Adviser"	Somerley Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Transaction and a licensed corporation under the SFO to carry out types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities
"Independent Shareholders"	Shareholders other than CA and Keentech and their respective associates
"Kazakhstan"	the Republic of Kazakhstan
"Kazakhstan Approvals"	(1) the prior consent of the competent authority under article 53(1) of the law of Kazakhstan No. 2350 dated 28 June 1995 Concerning Petroleum, as amended; and (2) the waiver by the Government of Kazakhstan of (or decision not to exercise) the pre-emptive right vested in the Government of Kazakhstan to acquire the Sale Share under article 71 of the law of Kazakhstan No. 2828 dated 27 January 1996 Concerning the Subsurface and its Use, as amended
"Kazakhstan Assets"	100% of the issued voting shares of KBM (which represent 94.6% of the total issued shares of KBM), a 100% participation share in each of TMS and ATS and all assets of the RNL Group that are required to carry on the Kazakhstan Business
"Kazakhstan Business"	the operation of oil and oil related businesses and activities in Kazakhstan including but not limited to the development and production of oil at the Karazhanbas oilfield in Kazakhstan by the Kazakhstan Companies
"Kazakhstan Companies"	KBM, ATS and TMS
"Kazakhstan Interests"	50% of the Kazakhstan Assets
"KBM"	JSC Karazhanbasmunai, a joint stock company incorporated under the laws of Kazakhstan. CCPL holds 94.6% of the equity of, representing 100% of the voting rights of, KBM
"Keentech"	Keentech Group Limited, a company incorporated in the British Virgin Islands and an indirect wholly-owned subsidiary of CITIC Group
"KEL"	KBM Energy Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of RNL

"KEL Debt Purchase Agreement"	the conditional sale and purchase agreement dated 30 April 2007 entered into between CITIC Group and the Company relating to part of the KEL Indebtedness
"KEL Indebtedness"	an approximate amount of US$1,003,500,000 (HK$7,827,300,000) owing by KEL to CITIC Group, to be acquired by the Company under the Transaction Agreements
"KMG"	JSC National Company KazMunaiGaz, a state-owned oil company of Kazakhstan or its assignee or nominee
"KMG Option"	the option of KMG to acquire indirectly the Retained Kazakhstan Interests
"Latest Practicable Date"	11 June 2007, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	the People's Republic of China (for the purpose of this circular only, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
"Preferential Dividend"	US$16,200,000 (HK$126,360,000)
"Retained Kazakhstan Interests"	the remaining 50% of the Kazakhstan Assets which are, or will prior to Completion, be indirectly held by SAHL
"RNL"	Renowned Nation Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of CITIC Group
"RNL Group"	the group of companies comprising RNL, KEL, CITIC Netherlands, CCEL, CCPL, KBM, TMS and ATS
"SAHL"	State Alliance Holdings Limited, a company incorporated in the British Virgin Islands and a direct wholly-owned subsidiary of CITIC Group
"Sale Share"	one issued share of US$1 (HK$7.8) par value of RNL, representing the entire issued share capital of RNL
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"SGM"	the special general meeting of the Company to be held on 27 June 2007 and convened pursuant to the notice contained in this circular
"Shares"	ordinary shares of HK$0.05 each in the share capital of the Company
"Shareholders"	holders of the Shares from time to time
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"TMS"	Tulpar Munai Service LLP, a limited liability partnership established under the laws of Kazakhstan. CCPL holds 100% of the participation rights in TMS
"Transaction"	the sale and purchase of the Sale Share and the KEL Indebtedness pursuant to the Transaction Agreements
"Transaction Agreements"	the Acquisition Agreement and the KEL Debt Purchase Agreement
"USI"	United Star International Inc., a company incorporated in the British Virgin Islands

"A$"	Australian dollars, the lawful currency of Australia
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent

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$6.172 respectively for illustration purposes only. No representation is made that any amounts in US$, 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.

The financial information prepared in respect of the RNL Group, the CCPL Group and the Enlarged Group and contained in Appendix II, Appendix III and Appendix IV respectively to this circular was disclosed in the offering circular relating to the issue of US$1,000,000,000 6.75% senior notes due 2014 issued by CITIC Resources Finance (2007) Limited and US$ amounts therein were translated into HK$ at the rate of US$1=HK$7.7791. For the purposes of this circular, the US$ amounts in such financial information have been converted in HK$ at the rate of US$ = HK$7.8 as specified in the preceding paragraph.

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

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

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Head Office and Principal Place of Business:
Suites 3001-3006
30/F, One Pacific Place
88 Queensway
Hong Kong

12 June 2007

To Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF INTEREST IN KAZAKHSTAN OIL ASSETS
ACQUISITION OF LOAN AND OTHER INDEBTEDNESS

INTRODUCTION

Reference is made to the announcement of the Company dated 8 May 2007 in respect of the Transaction. On 30 April 2007, the Company conditionally agreed to acquire from CITIC Group the entire issued share capital of RNL, and thereby the Kazakhstan Interests, and the benefit of the KEL Indebtedness.

The Kazakhstan Interests comprise 50% of the voting rights in each of KBM, ATS and TMS. KBM is engaged in the development and production of oil and holds the right to explore, develop and produce oil in the Karazhanbas oilfield in Kazakhstan until 2020. As of 31 December 2006, the Karazhanbas oilfield had an estimated 363.8 million barrels of proved reserves. ATS is engaged in the provision of transportation services and other oilfield related logistics services. TMS is engaged in the provision of oil well drilling, construction and workover services.

The aggregate consideration payable by the Company to CITIC Group in respect of the Transaction is about US$1,003,500,001 (HK$7,827,300,008).

The Transaction constitutes a very substantial acquisition for the Company under the Listing Rules.

The Transaction also constitutes a connected transaction for the Company under the Listing Rules and requires the approval of Independent Shareholders. CITIC Group is an associate of CA and Keentech, each of which is a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. The SGM shall be convened for the purpose of asking Independent Shareholders to consider and, if thought fit, approve the Transaction.

The main purposes of this circular are:

(a) to provide Shareholders with further information relating to the Transaction, the Kazakhstan Companies, the Kazakhstan Assets and the Kazakhstan Business;

(b) to set out the opinion from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders on the Transaction;

(c) to set out the recommendation of the Independent Board Committee in respect of the terms of the Transaction; and

(d) to give Shareholders notice of the SGM.

PRINCIPAL TERMS OF THE TRANSACTION AGREEMENTS

Date of the Transaction Agreements

30 April 2007

Parties to the Transaction Agreements

(1) CITIC Group

(2) the Company

Acquisition of RNL and KEL Indebtedness

Pursuant to the Transaction Agreements, the Company shall purchase the Sale Share, representing the entire issued share capital of RNL, and the KEL Indebtedness.

RNL holds indirectly the Kazakhstan Interests comprising an interest in 50% of the Kazakhstan Assets.

The Retained Kazakhstan Interests will be retained by CITIC Group subject to the KMG Option.

Conditions to the Transaction Agreements

Completion is conditional upon satisfaction of the following Conditions on or before 31 October 2007 or such other date as the Company and CITIC Group may agree in writing:

1. in respect of the Acquisition Agreement:

    (a) the Company being satisfied with its due diligence review and investigation in respect of the RNL Group and their respective businesses and assets including but not limited to the Kazakhstan Companies, the Kazakhstan Assets and the Kazakhstan Business;

    (b) all necessary approval from Independent Shareholders who are permitted under the Listing Rules or by the Stock Exchange to vote at a duly convened special general meeting of the Company of a resolution approving the Transaction; and

    (c) the Kazakhstan Approvals having been obtained on terms acceptable to each of CITIC Group and the Company, acting reasonably, in respect of the Transaction and such approvals continuing in full force and effect; and

2. in respect of the KEL Debt Purchase Agreement:

   (a) all necessary approval from Independent Shareholders who are permitted under the Listing Rules or by the Stock Exchange to vote at a duly convened special general meeting of the Company of a resolution approving the KEL Debt Purchase Agreement; and

   (b) completion of the Acquisition Agreement.

The Company has the right to waive the Condition described in paragraph 1(a) above. The other Conditions are not capable of being waived.

As at the Latest Practicable Date, none of the Conditions have been satisfied or waived.

Completion of the Transaction

Completion shall take place on a date (being a Business Day) nominated by the Company falling not more than three months after the date on which the last of the Conditions described above under the heading "Conditions to the Transaction Agreements" to be satisfied or waived is duly satisfied or, as applicable, waived by the Company or such other date (being a Business Day) as the Company and CITIC Group may agree in writing but in any event shall not be later than 31 December 2007.

Warranties

Under the terms of the Arrangement Agreement pursuant to which CCEL, and thereby CITIC Group, acquired the Kazakhstan Assets, the representations and warranties made to CITIC Group and CCEL by CCPL in respect of CCPL, the Kazakhstan Companies, the Kazakhstan Assets and the Kazakhstan Business were limited. Accordingly, CITIC Group and CCEL were required to primarily rely on their own due diligence and investigations into CCPL, the Kazakhstan Companies, the Kazakhstan Assets and the Kazakhstan Business. The Company is required to acquire RNL, and thereby the Kazakhstan Interests, from CITIC Group on a similar basis.

CONSIDERATION PAYABLE IN RESPECT OF THE TRANSACTION

Aggregate Consideration

The aggregate consideration payable by the Company to CITIC Group in respect of the Transaction is about US$1,003,500,001 (HK$7,827,300,008).

Basis for Determination of Consideration

The consideration has been arrived at after arm's length negotiations between the Company and CITIC Group on normal commercial terms taking into account various factors, including the oil reserves at the Karazhanbas oilfield, the financial position of the RNL Group, prevailing oil prices and the net value and growth prospects of the principal activities of the RNL Group described in the section headed "Information on the RNL Group" in this circular.

TERMS OF PAYMENT OF CONSIDERATION

Deposit

The Company has paid the Deposit, being the amount of US$200,000,000 (HK$1,560,000,000), to CITIC Group.

At Completion, the Company will pay the balance of the consideration of about US$803,500,001 (HK$6,267,300,008) to CITIC Group in cash. The Company intends to finance the balance of the consideration from available internal resources and third party debt and borrowings. On 17 May 2007, CITIC Resources Finance (2007) Limited, a wholly-owned subsidiary of the Company, raised US$1,000,000,000 (HK$7,800,000,000) through the issue of 6.75% senior notes due 2014, which are fully and unconditionally guaranteed by the Company. Details of the principal terms of the senior notes are set out in the announcement of the Company dated 17 May 2007.

Refund of Deposit

The Deposit, together with interest, shall be repaid to the Company if the Transaction is terminated for any reason.

KMG OPTION AND EFFECT OF EXERCISE OF THE KMG OPTION

KMG has been granted the KMG Option pursuant to which KMG has the right (but not the obligation) to acquire indirectly the Retained Kazakhstan Interests.

The Retained Kazakhstan Interests comprise 50% of the Kazakhstan Assets.

If KMG exercises the KMG Option and assuming Completion occurs, the Company and KMG will each hold, directly or indirectly, a 50% interest in the Kazakhstan Assets. It is expected that in such circumstances the Company and KMG will operate CCEL, CCPL and the Kazakhstan Companies as joint ventures. CCEL will be treated a jointly-controlled entity by the Company.

Under the existing terms of the KMG Option, unless otherwise agreed, members of the CCEL Group will distribute by dividends and other distributions all of their distributable reserves to their respective shareholders. CCEL will pay its dividends to its shareholders rateably and equally except that if the dividends declared and paid by CCEL are less than US$32,400,000 (HK$252,720,000) in any year, KMG, in priority to any dividends payable to the Company, has the right to receive the Preferential Dividend. Any shortfall in the Preferential Dividend may be carried over to the next or subsequent years. In addition, CITIC Group has agreed to procure financing for KMG, if the KMG Option is exercised. In such case, a cost will be incurred by RNL for which provision has been made in the audited consolidated financial statements of the RNL Group.

KMG and the Company will provide certain management and other services to members of the CCEL Group in consideration for the payment annually of net service fees of US$10,000,000 (HK$78,000,000) per annum.

The Company will have the right to nominate the chief executive officer of CCEL, CCPL and each Kazakhstan Company and the technical director of KBM during the first five years of the joint venture, with KMG nominating the deputy chief executive officer of CCEL, CCPL and each Kazakhstan Company and chief financial officer of KBM during the same period. In addition, the Company and KMG will have the right to each appoint a marketing and commercial director of KBM.

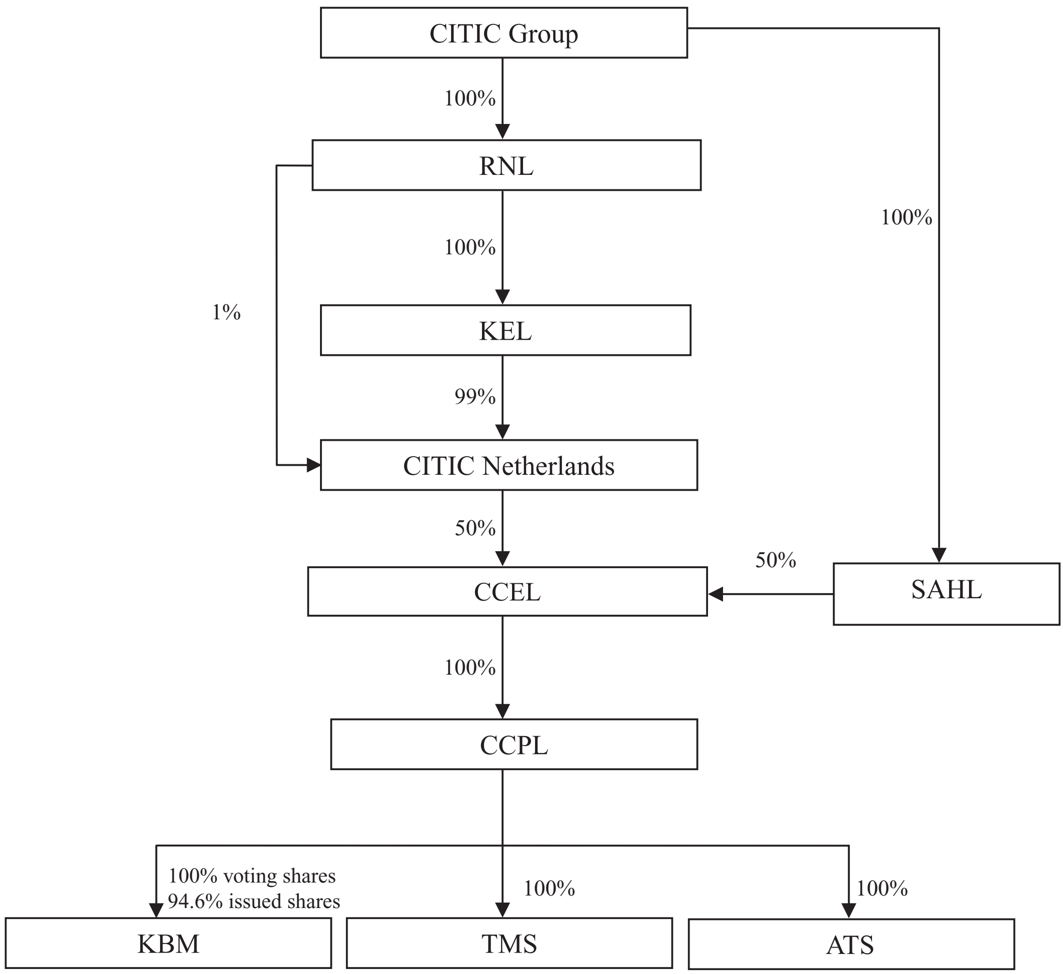
Decisions of the board of directors of CCEL, CCPL and KBM on matters such as, but not limited to, approval of annual work programs, annual budgets and capital expenditure programs, long term oil supply contracts, the acquisition or disposal of major assets and amendments to the policy on dividends will be determined by unanimous approval. The Company will have the right to appoint a majority of the directors to the boards of CCEL, CCPL and KBM. ATS and TMS will be managed by a management board comprising two members, one appointed by the Company and the other by KMG.

Certain decisions will be reserved to shareholders of CCEL, CCPL and the Kazakhstan Companies and these will include, but are not limited to, decisions concerning the dissolution, liquidation, merger or amalgamation, changes in share capital, changes to the constitutional documents and the entry into of a new field business or any substantial expansion of the current business of CCEL, CCPL and the Kazakhstan Companies.

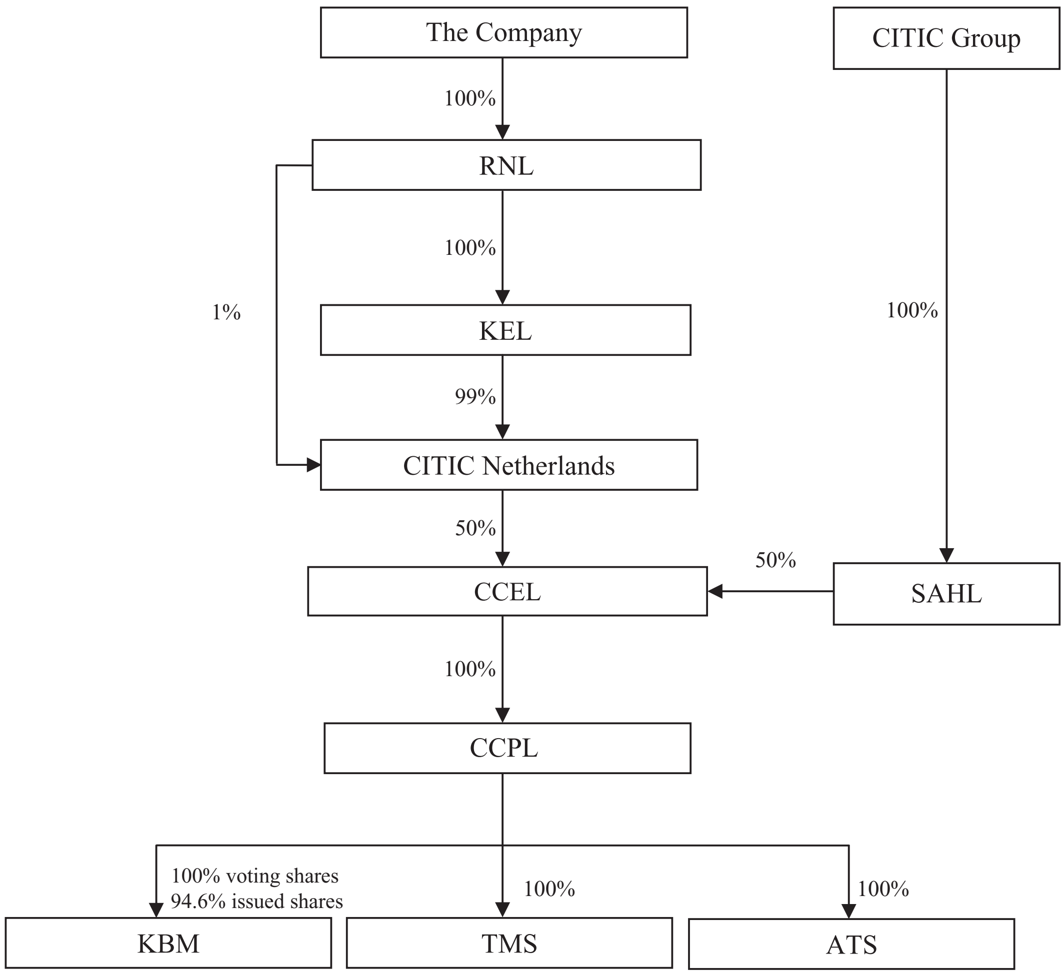
CORPORATE STRUCTURE BEFORE AND AFTER COMPLETION

The following diagrams illustrate the simplified corporate structure of the RNL Group immediately before and after Completion:

Immediately before Completion



Immediately after Completion



INFORMATION ON THE GROUP

The Company is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in oil, aluminum smelting, coal mining, import and export of commodities and manganese mining and processing. The Group operates in the PRC, Australia and Indonesia and, assuming Completion, in Kazakhstan. The Company anticipates profits from its oil business to become the largest contributor to the results of the Group in the future after Completion.

INFORMATION ON CITIC GROUP

CITIC Group was established in October 1979 pursuant to a special order of the State Council of the PRC as a state-owned enterprise “under the direct leadership of the State Council”. CITIC Group conducts its business activities primarily through its domestic and overseas operating subsidiaries. Its business activities are divided into two main areas: financial services businesses and non-financial businesses. Financial services businesses, consisting primarily of commercial banking, insurance, trust and funds and asset management businesses, constitute the core business of CITIC Group. Non-financial businesses range from information technology, infrastructure, manufacturing, natural resources, real estate development to construction.

CITIC Group acquired CCPL and the Kazakhstan Companies on 29 December 2006 for a consideration of about US$1,910,000,000 (HK$14,898,000,000) subject to adjustment for cash, debt and other liabilities.

INFORMATION ON THE RNL GROUP

RNL

RNL is an investment holding company and was incorporated in the British Virgin Islands on 26 July 2005 and used solely for the purposes of CITIC Group's indirect acquisition of the Kazakhstan Assets.

Business Overview of the RNL Group

RNL's principal operating subsidiaries are the Kazakhstan Companies.

The principal activities of the Kazakhstan Companies are the operation of oil and oil related businesses and activities in Kazakhstan.

KBM

KBM is engaged in the development and production of oil and holds the right to explore, develop and produce oil in the Karazhanbas oilfield in Kazakhstan until 2020.

The quality of oil produced from the Karazhanbas oilfield is typically 19 degree API.

The table below summarises information relating to the reserves at the Karazhanbas oilfield for the periods indicated:

	As of 31 December						
Reserves (in million barrels)	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
Proved							
Developed	123.4	206.3	278.2	253.7	265.1	229.1	244.0
Undeveloped	102.4	138.6	105.8	137.7	140.9	117.9	119.8
Total Proved	225.8	344.9	384.0	391.4	406.0	347.0	363.8
Probable	73.8	94.6	89.6	67.6	110.8	78.9	74.6
Possible	91.5	167.2	138.5	103.9	33.6	29.2	21.6

The table below sets out information regarding oil production from the Karazhanbas oilfield for the year ended 31 December 2006:

	For the year ended 31 December 2006
Revenue from sales of oil (before payment of royalties)	HK$6,579.5 million
Sales volume	15.6 million barrels of oil
Average sales price per barrel	HK$421.8 (US$54.1)

The table below sets out information on the number of wells drilled by KBM for the three years ended 31 December 2006:

	Productive	**Dry**	**Total**
Year ended 31 December 2004	105	2	107
Year ended 31 December 2005	132	3	135
Year ended 31 December 2006	194	11	205

ATS

ATS is engaged in the provision of transportation services and other oilfield related logistics services.

TMS

TMS is engaged in the provision of oil well drilling, construction and workover services.

Financial information on the RNL Group and the CCPL Group

As of 31 December 2006, the audited net book value of the assets of the RNL Group (with a 50% interest in CCEL reclassified as "Interests in jointly-controlled entities held for sale") determined under HKFRS, as extracted from the audited consolidated financial statements of the RNL Group, was HK$59,778,000.

The results of the CCPL Group (with a carve-out of the assets of CCPL not operating in Kazakhstan which were disposed of prior to the acquisition of CCPL by CITIC Group) for the two financial years ended 31 December 2006 determined under HKFRS, as extracted from the audited consolidated financial statements of the CCPL Group, were as follows:

	Year ended 31 December	
	2006	**2005**
	HK$'000	**HK$'000**
Profit before taxation and minority interests	3,309,149	2,816,857
Taxation	1,901,437	1,620,787
Minority interests	94,540	71,002
Net profit	1,313,172	1,125,068

REASONS AND BENEFITS OF THE TRANSACTION

As stated in the section headed "Information on the Group" of this letter, the Group is a diversified energy and natural resources investment holding company with an increasing focus on the oil and gas industry. The Company is the principal energy and natural resources investment company of CITIC Group. The Transaction, if completed, will be a further and significant step forward in the Company's business strategy.

The Directors believe that the terms of the Transaction are fair and reasonable so far as the Independent Shareholders are concerned and the Transaction is in the interests of the Company and Shareholders as a whole.

FINANCIAL EFFECTS OF THE TRANSACTION

Following Completion, RNL will become a wholly-owned subsidiary of the Company which through CCEL will indirectly have a 50% interest in the Kazakhstan Assets. Accordingly, the Company's 50% interest in the CCEL Group will be proportionately consolidated into the results of the Group. The following sets out for illustrative purposes only the key financials of (i) the unaudited pro forma combined income statement of the Enlarged Group commencing on 1 January 2006 as if the Transaction had been completed on 1 January 2006; and (ii) the unaudited pro forma combined balance sheet of the Enlarged Group as at 31 December 2006 as if the Transaction had been completed on 31 December 2006. Appendix IV to this circular presents the pro forma financial information on the Enlarged Group as if Completion had taken place on 31 December 2006 and describes the basis of preparation of the pro forma financial information on the Enlarged Group.

Earnings

Following Completion, the Group will be able to proportionately consolidate 50% of the revenue from the CCEL Group. The audited net profit of the Group as at 31 December 2006 as extracted from the consolidated income statement of the Company for the year ended 31 December 2006 was HK$246,037,000. According to the unaudited pro forma combined income statement of the Enlarged Group for the year ended 31 December 2006 which has been prepared for the purpose of illustration as if Completion had taken place on 1 January 2006 as set out in Appendix IV to this circular, the pro forma net profit of the Enlarged Group for the year ended 31 December 2006 would be HK$249,871,000.

Net Asset Value

The audited net asset value of the Group as at 31 December 2006 as extracted from the consolidated balance sheet of the Company as at 31 December 2006 was HK$3,505,089,000. As set out in Appendix IV to this circular, assuming Completion had taken place on 31 December 2006, the pro forma net asset value of the Enlarged Group would have been HK$5,286,867,000 (after taking into account the issue of new Shares by the Company in February and April of 2007, and the issue of senior notes in May 2007).

PROSPECTS OF THE ENLARGED GROUP

Completion of the Transaction will help significantly in achieving the Group's objective to be a diversified energy and natural resources company, increase the scale of the Group's existing oil portfolio and enhance its profile as an oil producer, all of which the Directors believe will contribute in bringing about an increase in investment opportunities in the sector for the Group. As demand in Asia, together with strong demand in the United States of America, Japan and Europe continues to drive competition for energy resources, in particular oil and gas, the Directors believe that it is in the Company's interest and that of Shareholders to develop the Group's oil portfolio further as and when suitable investment opportunities arise.

The Kazakhstan Business will improve considerably the Group's annual oil production and oil related generated revenue and is expected to be the single largest contributor to the Group's annual revenue. Capital expenditure and operating expenses associated with the Kazakhstan Business will, however, increase the Group's overall capital commitments and operating costs although net cash flows of the Group should still generally improve as a result of the Transaction.

Concurrent with the Transaction, the Group is conducting a due diligence review of the Hainan-Yuedong Block in Bohai Bay Basin in Liaoning Province in the PRC to determine whether the Group will proceed with its option to acquire an effective 90% interest in the contractor's rights and obligations in the Hainan-Yuedong Block. If the results of the due diligence review prove satisfactory and this interest can also be successfully acquired, the Group's overall oil interests will be further enhanced as a result. However, as the Hainan-Yuedong Block project is currently in the appraisal and development stage, there will not be an immediate contribution to the Group's revenue from this project. Capital expenditure and operating expenses associated with the development of the Hainan-Yuedong Block would add to the Group's overall capital commitments and operating costs and will likely cause a decrease in net cash flows of the Group until production is commenced.

As a whole, the Group is financially sound and well positioned to implement and support its business strategy. It has a strong cash position and is able to continue to leverage on the support of its major shareholders when necessary to develop the Group's businesses.

LISTING RULES IMPLICATIONS

The Transaction constitutes a very substantial acquisition for the Company under the Listing Rules.

The Transaction also constitutes a connected transaction for the Company under the Listing Rules and requires the approval of Independent Shareholders. CITIC Group is an associate of CA and Keentech, each of which is a substantial shareholder of the Company, and is therefore a connected person of the Company under the Listing Rules. As at the Latest Practicable Date, CA and Keentech held in aggregate 54.5% of the issued share capital of the Company. The Transaction is therefore subject to the reporting, announcement and Independent Shareholders' approval requirements of the Listing Rules.

As required under the Listing Rules, the votes of the Independent Shareholders to be taken at the SGM will be taken by way of a poll. CA, Keentech and their respective associates are required to abstain from voting in respect of the ordinary resolution to be proposed at the SGM to approve the Transaction.

SGM

A notice convening the SGM at which an ordinary resolution will be proposed to the Independent Shareholders to consider and, if thought fit, to approve the Transaction and all matters relating thereto is set out on pages 34 to 35 of this circular.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong not less than 48 hours before the time appointed for the holding of the SGM (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM (or any adjourned meeting thereof) should you so wish.

An announcement will be made by the Company following conclusion of the SGM to inform Shareholders of the results of the voting in respect of the resolution put to the Independent Shareholders at the SGM.

PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to Bye-law 66 of the Bye-laws, at any general meeting of the Company, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is required under the Listing Rules or any other applicable laws, rules or regulations or unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of the meeting; or

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

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

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

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

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

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Fan Ren Da, Anthony; Mr. Ngai Man and Mr. Tsang Link Carl, Brian, has been appointed to advise the Independent Shareholders in respect of the Transaction.

Your attention is drawn to the letter from the Independent Board Committee set out on page 16 of this circular.

INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Transaction. Your attention is drawn to the letter from the Independent Financial Adviser set out on pages 17 to 33 of this circular.

RECOMMENDATION

Having taken into account the advice of the Independent Financial Adviser, the Directors are of the opinion that the terms of the Transaction are fair and reasonable so far as the Independent Shareholders are concerned and the Transaction is in the interests of the Company and Shareholders as a whole. Accordingly, the Directors recommend you to vote in favour of the resolution set out in the notice of the SGM contained in pages 34 to 35 of this circular.

ADDITIONAL INFORMATION

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

Shareholders and potential investors should note that the Transaction, which is subject to satisfaction of a number of conditions, may or may not be completed. Shareholders and potential investors are therefore advised to exercise caution when dealing in the securities of the Company.

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

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
Website: www.citicresources.com
(Stock Code: 1205)

To Independent Shareholders

12 June 2007

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF INTEREST IN KAZAKHSTAN OIL ASSETS
ACQUISITION OF LOAN AND OTHER INDEBTEDNESS

Dear Sir or Madam,

We refer to the circular of the Company dated 12 June 2007 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

As the Independent Board Committee, we have been appointed to consider and advise you as to whether, in our opinion, the terms of the Transaction are fair and reasonable so far as Independent Shareholders are concerned and whether the Transaction is in the interests of the Company and Shareholders as a whole.

Somerley Limited has been appointed by the Company as the independent financial adviser to advise us and the Independent Shareholders as to whether the terms of the Transaction are fair and reasonable so far as Independent Shareholders are concerned and whether the Transaction is in the interests of the Company and Shareholders as a whole. Details of the advice of the Independent Financial Adviser including the factors taken into consideration in arriving at such advice, are set out on pages 17 to 33 of the Circular.

Having considered the terms and conditions of the Transaction Agreements, the reasons for the Transaction and the advice of the Independent Financial Adviser in relation thereto, we are of the opinion that the terms of the Transaction are fair and reasonable so far as Independent Shareholders are concerned and the Transaction is in the interests of the Company and Shareholders as a whole. We therefore recommend you to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Transaction.

Yours faithfully,
For and on behalf of
the Independent Board Committee
Fan Ren Da, Anthony **Ngai Man** **Tsang Link Carl, Brian**
Independent non-executive Directors

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

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

12 June 2007

To: The Independent Board Committee and Independent Shareholders

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

ACQUISITION OF INTEREST IN KAZAKHSTAN OIL ASSETS
ACQUISITION OF LOAN AND OTHER INDEBTEDNESS

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and Independent Shareholders in connection with transactions contemplated under the Acquisition Agreement and the KEL Debt Purchase Agreement. Details of the Acquisition Agreement and the KEL Debt Purchase Agreement are contained in the circular to Shareholders dated 12 June 2007 (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, defined terms used in this letter shall have the same meanings as those defined in the Circular.

The Transaction constitutes a very substantial acquisition for the Company under the Listing Rules. As CITIC Group, through CA and Keentech, is interested in 54.50% of the issued share capital of the Company as at the Latest Practicable Date, CITIC Group is a connected person of the Company under the Listing Rules. Accordingly, the Transaction also constitutes a connected transaction for the Company and is subject to Independent Shareholders' approval under the Listing Rules.

The Independent Board Committee, comprising the three independent non-executive Directors, namely Messrs. Fan Ren Da, Anthony; Ngai Man and Tsang Link Carl, Brian, has been established to make a recommendation to Independent Shareholders on whether the terms of the Transaction are fair and reasonable so far as Independent Shareholders are concerned and whether the Transaction is in the interests of the Company and Shareholders as a whole. We, Somerley Limited, have been appointed to advise the Independent Board Committee and Independent Shareholders in this regard.

In formulating our opinion and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the Directors and management of the Group and have assumed that they are true, accurate and complete and will remain true, accurate and complete up to the time of the SGM. We have also sought and received confirmation from the Directors that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to believe that any material information has been withheld from us, or to doubt the truth or accuracy of the information provided. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view. We have not, however, conducted any independent investigation into the business and affairs of the Group or the RNL Group or the Kazakhstan Assets.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion, we have taken into consideration the following principal factors and reasons:

1. Business of the Group

The Company is the flagship energy and natural resources investment holding company of CITIC Group, which ultimately controls the Company. Since 2002, when CITIC Group became a controlling shareholder of the Company, the Group has adopted a business strategy to diversify its activities and position itself as an integrated provider of key energy and natural resources, and to shift its business focus and reliance from the manufacture and sale of plywood. The Group currently has interests in oil, aluminum smelting, coal mining, the import and export of commodities and manganese mining and processing. The Group initially entered the natural resources industry through the acquisition of its aluminum smelting, coal mining and the import and export of commodities businesses in March 2004 from CITIC Group. The Group acquired its first oil interest in October 2004 by acquiring a 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC (the "**Dagang Interest**"). In February 2006, the Group commenced its manganese mining and processing business by forming a joint venture to manage and operate manganese mines in the PRC. The Group has since acquired a 51% participating interest (the "**Seram Interest**") in the contractors' rights and obligations in the production sharing contract relating to, and was appointed the operator of, the Seram Island Non-Bula Block in Indonesia (the "**Seram Block**"). The Seram Interest comprises the Group's only interest in oil at present. Further details are set out in paragraph 3 below.

2. Financial results and position of the Group

A full statement of the financial results and position of the Group with accompanying notes is set out in Appendix I to the Circular, to which Independent Shareholders' attention is drawn. Some principal points are summarised below.

(i) Consolidated income statement

The following are summaries of the audited results of the Group for the three years ended 31 December 2006.

	Year ended 31 December		
	2004	**2005**	**2006**
	HK$'000	**HK$'000**	**HK$'000**
		Restated	
Revenue	3,610,791	5,786,386	7,503,428
Profit before tax	59,725	342,157	316,189
Tax	(52,322)	(110,642)	(70,152)
Profit for the year	7,403	231,515	246,037
Attributable to :			
Shareholders of the Company	4,772	221,703	200,815
Minority interests	2,631	9,812	45,222
	7,403	231,515	246,037

The following tables present revenue and results information for the Group's business segments for the two years ended 31 December 2006.

	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
Year ended 31 December 2006							
HK$'000							
Segment revenue:							
Sales to external customers	1,602,930	274,752	5,074,136	538,006	13,604	—	7,503,428
Other income	37,039	120	9,756	15,193	5,637	—	67,745
	1,639,969	274,872	5,083,892	553,199	19,241	—	7,571,173
Segment results	108,340	76,756	111,025	65,759	15,847	(11,980)	365,747
Year ended 31 December 2005							
HK$'000							
Restated							
Segment revenue:							
Sales to external customers	1,148,078	259,705	4,300,699	—	77,429	475	5,786,386
Other income/ (expenses)	(3,138)	78,463	21,602	—	—	10	96,937
	1,144,940	338,168	4,322,301	—	77,429	485	5,883,323
Segment results	173,383	177,792	82,631	—	(6,620)	(15,507)	411,679

At present, based on the segment results as shown above, the import and export of commodities is the largest contributor to the results of the Group. The Group anticipates profit from its oil business will become the largest contributor to the Group's results in the future after Completion.

In 2005, the Group's revenue increased by 60.3% to HK$5,786.4 million. It achieved a profit attributable to Shareholders of HK$221.7 million, representing an increase of 45.2 times when compared to HK$4.8 million for 2004. The improved financial performance for 2005 was primarily attributable to the aluminum smelting, coal mining and the import and export of commodities businesses acquired by the Group in March 2004.

In 2006, the businesses of aluminum smelting, coal mining and the import and export of commodities formed the basis for the increase in the Group's turnover. The Group's revenue rose from HK$5,786.4 million in 2005 to HK$7,503.4 million in 2006, representing a 29.7% increase. This increase was primarily due to the commencement of Chinese steel exports to Europe and the Middle East in the first half of 2006, which is a new business line for the import and export business. The manganese mining and processing business made a contribution to the Group's revenue from April 2006 following completion of the establishment of the manganese joint venture. There was also an increase in aluminum sales which was driven by higher selling prices despite a partial offset brought about by a drop in sales volume. Increases in selling and distribution costs and administrative expenses resulted from the acquisition of the manganese mining and processing business and the Seram Interest in 2006. There was also an increase in finance costs mainly attributable to the increase in trade finance associated with the import and export of commodities and the commencement of the Group's manganese mining and processing business. There was a gain on sales of coal exploration interests of HK$78.5 million (after tax: HK$55.0 million) in 2005. Excluding this extraordinary income, the profit arising from the ordinary activities increased by 20.5% in 2006.

(ii) Consolidated balance sheet

The following is a summary of the Group's audited assets and liabilities as at 31 December 2006.

	31 December 2006 HK$'000
Non-current assets	4,373,701
Current assets	4,954,660
Total assets	9,328,361
Current liabilities	2,854,539
Non-current liabilities	2,968,733
Total liabilities	5,823,272
Equity attributable to Shareholders	3,225,343
Minority interests	279,746
Total equity	3,505,089

As at 31 December 2006, the Group had total assets of HK$9,328.4 million, with property, plant and equipment of HK$2,391.5 million (accounting for 25.6%), prepayments, deposits and other receivables of HK$1,883.7 million (accounting for 20.2%), and cash and bank balances were HK$850.7 million (accounting for 9.1%). Total liabilities amounted to HK$5,823.3 million, including bank and other loans of HK$3,802.6 million (accounting for 65.3%).

Based on such balances, the Group had a current ratio of 1.7 times and a gearing ratio of 54.1% (being total borrowings divided by equity attributable to Shareholders plus total borrowings).

3. Previous and current oilfield investments

The Group first entered the oil sector in October 2004 by acquiring the Dagang Interest from CITIC Group for a cash consideration of US$21.2 million (HK$165.4 million). In February 2006, the Group exercised its option to convert the Dagang Interest with a then carrying value of US$27.4 million (HK$213.7 million) into 8,591,434 shares of Ivanhoe Energy Inc. ("**Ivanhoe**"), with an aggregate prevailing market value of US$20 million (HK$156 million), representing 3.7% of the then entire issued share capital of Ivanhoe as enlarged by such conversion. The remaining carrying value of the Dagang Interest of US$7.4 million (HK$57.7 million) was converted into a loan of the same amount repayable by Ivanhoe to the Group (the "**Ivanhoe Loan**").

Ivanhoe is an international energy company engaged in the exploration and production of oil and gas. Ivanhoe's subsidiary still operates the Kongnan Block within the Dagang Oilfield. Ivanhoe is currently quoted on the NASDAQ Capital Market and listed on the Toronto Stock Exchange. As at the Latest Practicable Date, the Group held about 3.0% of the issued share capital of Ivanhoe and the Ivanhoe Loan at the level of US$4.3 million (HK$33.5 million) remained outstanding.

In November 2006, the Group acquired the Seram Interest and was appointed the operator in respect of the Seram Block. The purchase price of US$97.4 million (HK$759.7 million) (subject to adjustment) was determined on an arm's length basis after taking into account factors such as the characteristics of the Seram Block, the potential reserves, the exploration upside potential and recoverable costs. The Group has been managing and operating the Seram Block since its acquisition. As of 31 December 2005, the estimated gross reserves of the Oseil Field, the principal field currently in the Seram Block, were 39.1 million barrels comprising 7.0 million barrels of proved reserves, 6.0 million barrels of probable reserves and 26.1 million barrels of possible reserves according to a report prepared by an independent third party oil and gas consultant.

On 8 May 2007, the Company announced that its wholly-owned subsidiary had acquired a 90-day option from an independent third party to purchase 90% of the issued shares of a company holding the right to explore, develop and operate the Hainan-Yuedong Block in the Bohai Bay Basin in Liaoning Province in the PRC for US$150 million (HK$1,170 million) (subject to adjustment). The oilfield is in the appraisal and development stage and is estimated to have original oil in place of 65 to 75 million tonnes. The right to explore, develop and operate the Hainan-Yuedong Block expires in 2034. The Group has commenced a due diligence review in respect of this asset.

4. Background to and reasons for the Transaction

CITIC Group and CCEL agreed to acquire the Kazakhstan Business by acquiring all of the outstanding common shares of Nations Energy Company Ltd. ("**Nations Energy**") (renamed as CITIC Canada Petroleum Limited) pursuant to an arrangement agreement signed in October 2006.

As the Company is CITIC Group's principal vehicle for its energy and natural resources investments, CITIC Group granted a right to the Company to acquire CITIC Group's interest in the Kazakhstan Assets on 27 October 2006. This purchase right provided the Company with the opportunity to review and conduct due diligence and investigations into and assess an investment in the Kazakhstan Business at a nominal cost before committing itself to the Transaction.

An option was also granted by CITIC Group to KMG to acquire an effective 50% interest in the Kazakhstan Assets. Hence, the Transaction structure represents a purchase by the Company of a 50% interest in the Kazakhstan Assets.

5. Principal terms of the Transaction Agreements

As discussed in the paragraph headed "Business of the Group", the Group's investments are in energy and natural resources with an increasing focus on oil. The growth of Asian economies, particularly in the PRC and India, has contributed to strong demand for oil in recent years. The Directors are of the view that the demand in Asia, together with the strong demand in the United States of America, Japan and Europe, will continue. It is the strategic goal of the Group to further its interests in the oil business. With such development strategy in mind, the Company has entered into the Transaction.

(i) Assets to be purchased by the Company

Pursuant to the Transaction Agreements, the Company will purchase from CITIC Group the entire issued share capital of RNL and the full benefit of the KEL Indebtedness in the amount of about US$1,003.5 million (HK$7,827.3 million) owing by KEL to CITIC Group.

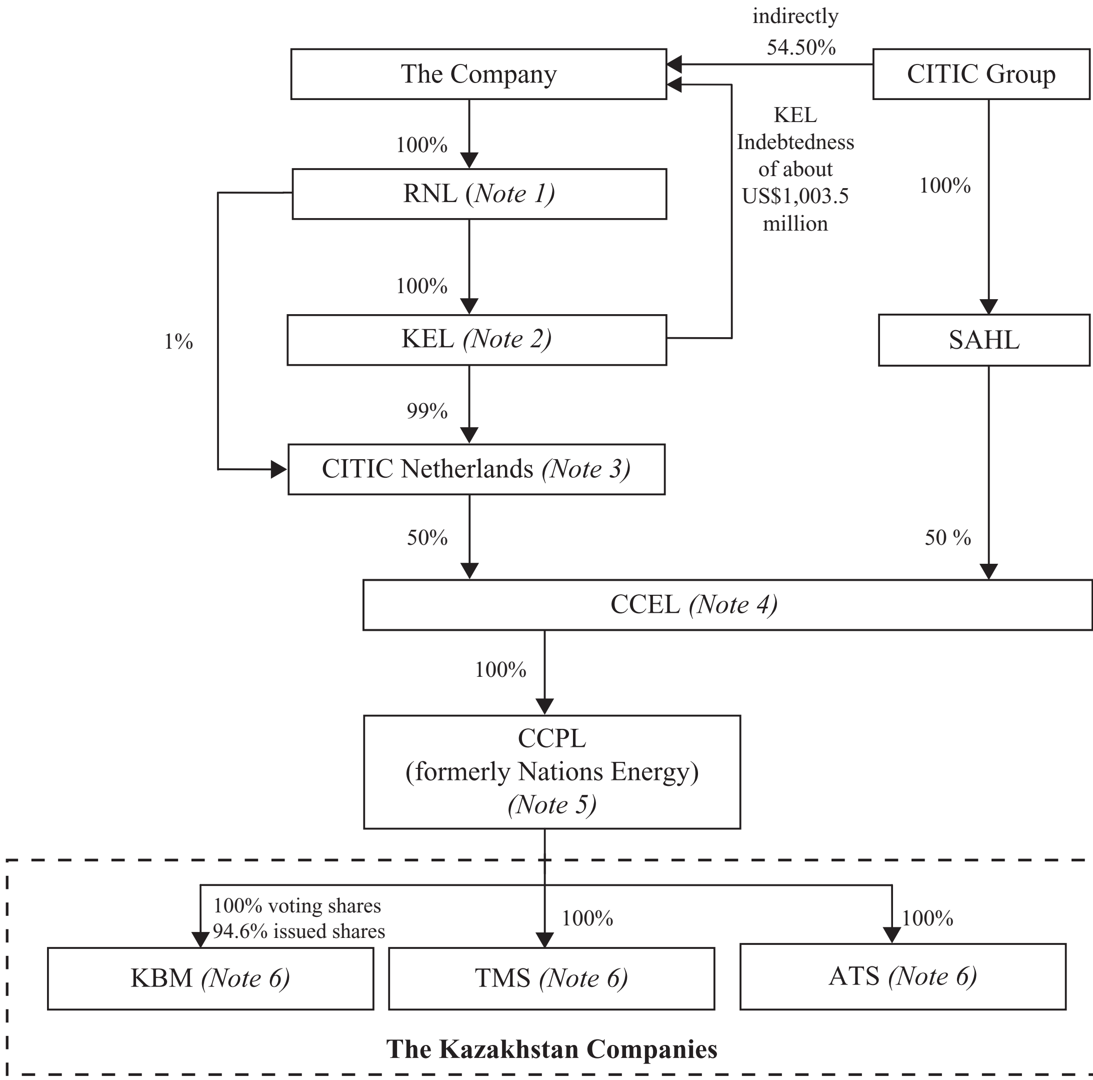
Following Completion, the Company will be effectively interested in (i) 47.3% of the total issued shares, representing 50% of the voting rights, of KBM; (ii) 50% of the participation share in ATS; (iii) 50% of the participation share in TMS; and (iv) the benefit of the KEL Indebtedness. KBM, ATS and TMS are referred to as the Kazakhstan Companies and their principal businesses are, respectively, the development and production of oil at the Karazhanbas oilfield in Kazakhstan, the provision of transportation and other oilfield related logistics services and the provision of oil well drilling, construction and workover services.

(ii) Consideration

The aggregate consideration for the Transaction is about US$1,003,500,001 (HK$7,827,300,008), of which US$1 represents the consideration for the Sale Share and US$1,003,500,000 represents the consideration for the KEL Indebtedness.

(iii) Corporate structure

Set out below is the simplified corporate structure of the RNL Group as it will be immediately after Completion:



Notes:

1. RNL is an intermediate holding company for the Kazakhstan Companies. It has a nominal share capital.
2. KEL is an intermediate holding company.
3. CITIC Netherlands is an intermediate holding company.
4. CCEL will be beneficially owned 50% by CITIC Netherlands and 50% by SAHL at Completion. The CCEL shares owned by SAHL are expected to be transferred to KMG under the KMG Option.
5. Nations Energy was incorporated in 1996. It was acquired by CITIC Group in December 2006 and its name was changed to CITIC Canada Petroleum Limited in January 2007.
6. KBM, TMS and ATS are the operating subsidiaries of CCPL carrying on oil production activities and related services at the Karazhanbas oilfield, Kazakhstan. KBM has issued preference shares to its employees representing 5.4% of the total issued shares of KBM.

Pursuant to the Transaction Agreements, the Company will effectively take the place of CITIC Group as the owner of the share capital of RNL and as the beneficiary of the KEL Indebtedness.

As at the Latest Practicable Date, CITIC Group was interested in 94.6% of the equity, representing 100% of the voting rights, of KBM. The remaining 5.4% equity interest in KBM comprises non-voting preference shares held by current and former employees of KBM. These preference shares confer upon their holders the right to receive the higher of (i) annual fixed cumulative dividend of 20% of their nominal value and (ii) the rateable amount of dividends declared and paid by KBM in respect of all shares of KBM. The chartered capital of each of ATS and TMS consists of a 100% participation share wholly-owned by CCPL.

6. Information on the RNL Group and the Karazhanbas oilfield

(i) Business of the RNL Group

RNL is an investment holding company incorporated in the British Virgin Islands on 26 July 2005 and is used solely for the purpose of acquiring and holding Nations Energy, which was funded by a loan from CITIC Group. At Completion, the attributable assets of RNL will be (i) 47.3% of the total issued shares, representing 50% of the voting rights, of KBM; (ii) 50% of the participation share in ATS; and (iii) 50% of the participation share in TMS.

KBM is a joint stock company established in 1993 under the laws of Kazakhstan and holds the right granted by the Kazakhstan government to carry out the exploration, development and production of oil in the Karazhanbas oilfield in Kazakhstan until 2020. The Karazhanbas oilfield has an estimated 363.8 million barrels of proved reserves as of 31 December 2006.

The principal activities of ATS are the provision of transportation and other oilfield related logistics services. TMS is principally engaged in the provision of oil well drilling, construction and workover services.

(ii) Financial information on the RNL Group

(a) Past performance of the RNL Group

As the acquisition of Nations Energy (and thereby the Kazakhstan Companies) was only completed on 29 December 2006 and all other subsidiaries of RNL are investment vehicles with no prior business activities, no consolidated income statement of the RNL Group has been prepared.

(b) Financial position of the RNL Group

Set out below is the audited consolidated balance sheet of the RNL Group as at 31 December 2006 extracted from the accountants' report of the RNL Group as set out in Appendix II to the Circular. On 29 December 2006, CCEL, a subsidiary of RNL, acquired a 100% interest in CCPL. Therefore, a 100% interest in the CCPL Group has been consolidated in the RNL Group. CITIC Group will make an arrangement to retain a beneficial ownership in 50% of the issued shares of CCEL through SAHL (a direct wholly–owned subsidiary of CITIC Group) on or before Completion. Therefore, RNL will only hold (indirectly) 50% of CCEL when it is acquired by the Company under the Transaction. The 50% interest in CCEL retained by CITIC Group and to be disposed of under the KMG Option is shown below as "Interests in jointly-controlled entities held for sale" at a value of HK$6,811.0 million.

	31 December 2006 **HK$'000**
Non-current assets	
Property, plant and equipment	18,088,593
Intangible assets	4,563
Other assets	46,050
	18,139,206
Current assets	
Inventories	210,194
Accounts receivable	233,317
Prepayments, deposits and other receivables	214,659
Tax recoverable	54,371
Cash and cash equivalents	1,769,040
	2,481,581
Interests in jointly-controlled entities held for sale	6,810,976
	9,292,557
Current liabilities	
Accounts payable	100,036
Tax payable	380,676
Accrued liabilities and other payables	986,785
Due to the ultimate holding company	14,616,929
Interest-bearing bank and other borrowings	1,580,113
	17,664,539
Net current liabilities	(8,371,982)
Total assets less current liabilities	9,767,224
Non-current liabilities	
Interest-bearing bank and other borrowings	506,879
Deferred tax liabilities	9,109,278
Provision for dismantlement	91,289
	9,707,446
Net assets	59,778
Equity	
Issued capital	—
Reserves	4,165
	4,165
Minority interests	55,613
	59,778

Oil properties

As at 31 December 2006, the major assets of the RNL Group were its property, plant and equipment, which amounted to HK$18,088.6 million, representing 65.9% of the RNL Group's total assets. As set out in note (a) of the consolidated financial information on the RNL Group in Appendix II to the Circular, included in the property, plant and equipment of the RNL Group are oil properties amounting to HK$17,833.1 million, representing 98.6% of the total property, plant and equipment of the RNL Group. Oil properties are valued based on the cost of acquisition by CCEL, and include holding costs and expenses, and a deferred tax impact on fair value uplift. The Company has performed a sensitivity analysis based on cash flow projections to satisfy itself on the value of this asset.

The Karazhanbas oilfield maintains oil production facilities, including oil processing facilities, oil gathering and transportation lines, steam generators, an electrical distribution system, water injection and disposal systems, and storage facilities with a capacity of 54,000 tonnes (360,720 barrels). In addition, KBM owns one drilling rig and 17 workover rigs with associated equipment which it leases to TMS, and about 530 vehicles which it leases to ATS.

Cash and borrowings

As at 31 December 2006, there were cash and cash equivalents of HK$1,769.0 million. Out of the total borrowings of HK$2,087.0 million, HK$1,750.3 million are bank loans and the remaining HK$336.7 million are non-callable five-year coupon bonds issued by KBM and listed on the Kazakh Stock Exchange in December 2003. The bonds bear interest at a floating rate depending on the inflation index, capped at a maximum rate of 14%.

Interests in jointly-controlled entities held for sale

The balance of HK$6,811.0 million represents the 50% interest in CCEL (held by RNL at 31 December 2006) which will be retained by CITIC Group and is to be disposed of by CITIC Group to KMG in the event the KMG Option is exercised.

Due to the ultimate holding company

The HK$14,616.9 million is an amount due from KEL to CITIC Group. The amount is unsecured, interest free and has no fixed repayment terms. Following Completion, HK$7,805.9 million will be due from KEL to the Company and the balance of HK$6,811.0 million will remain owing to CITIC Group.

Tax payable

The license for the right to explore, develop and produce oil in the Karazhanbas oilfield granted to KBM by the Kazakhstan government on 7 May 1997 requires KBM to pay certain taxes and other amounts. These taxes primarily comprise corporate income tax, withholding tax on payments to persons not resident in Kazakhstan, excess profits tax, value added tax on domestic oil sales and any services provided to third parties in Kazakhstan, excise tax on domestic oil sales, royalties, production bonuses, and property tax. ATS and TMS are also required to pay certain taxes, including corporate income tax, withholding tax, excess profits tax, value added tax on sales and services provided to third parties in Kazakhstan and property tax, in accordance with Kazakhstan laws and regulations from time to time.

Deferred tax liabilities

Deferred tax amounted to HK$9,109.3 million. Based on note (n) of the consolidated financial information on the RNL Group in Appendix II to the Circular, the deferred tax liabilities were mainly attributable to the revaluation of property, plant and equipment of the RNL Group compared to carrying amount following the acquisition of Nations Energy. Most of the balance represents the tax effect of the increase in asset value of HK$15,305.6 million taking into account the effective tax rate of Kazakhstan.

(iii) Financial information on the CCPL Group

CCPL is interested in 94.6% of the total issued shares (representing 100% of the voting rights) of KBM, 100% of the participation share in TMS and 100% of the participation share in ATS. Prior to the acquisition of CCPL by CITIC Group, CCPL disposed of all its assets other than the Kazakhstan Companies (the "**Non-Kazakh Business**"). Below is the combined financial information on the CCPL Group, being the combined financial information on CCPL (on a stand-alone basis) and its subsidiaries (being the Kazakhstan Companies) with a carve-out of the Non-Kazakh Business as at and for the three years ended 31 December 2006. The accountants' report on the CCPL Group is set out in full in Appendix III to the Circular.

	2004	**2005**	**2006**
	HK$'000	**HK$'000**	**HK$'000**
Revenue	3,293,107	5,107,472	6,377,844
Cost of sales	(896,339)	(1,126,544)	(1,643,879)
Gross profit	2,396,768	3,980,928	4,733,965
Other income	3,733	8,090	18,684
Selling and distribution costs	(517,189)	(482,332)	(446,746)
Administrative expense	(469,095)	(415,960)	(621,191)
Other operating expenses, net	(76,283)	(92,372)	(109,816)
Finance costs	(150,932)	(181,497)	(265,747)
Profit before tax	1,187,002	2,816,857	3,309,149
Tax	(1,140,465)	(1,620,787)	(1,901,437)
Profit for the year	46,537	1,196,070	1,407,712
Attributable to:			
Equity holders of the holding company	33,719	1,125,068	1,313,172
Minority interests	12,818	71,002	94,540
	46,537	1,196,070	1,407,712
Dividends	163,512	514,026	560,558

Note: As the Company will have a 50% attributable interest in CCPL after Completion, the Company's share in the profits attributable to equity holders of the holding company will be 50% instead of 100%.

For the year ended 31 December 2004

In 2004, about 99.9% of the total revenue, after payment of royalties and settlement of a hedge loss, of the CCPL Group of HK$3,293.1 million was derived from the sale of oil at a gross profit margin of 72.8%. The CCPL Group recorded a net profit attributable to equity holders of the holding company of HK$33.7 million.

The effective tax rate of the CCPL Group was 96.1% in 2004. During the year, KBM projected that its cumulative internal rate of return would reach 30% in 2005, which under the subsoil use contract triggers an excess profits tax at an effective rate of 21%. Therefore, in 2004, KBM provided deferred tax at an effective tax rate of 51% instead of 30%, which was the rate at which deferred tax had been provided for in the previous operating periods prior to 2004, leading to the high tax charge.

For the year ended 31 December 2005

Revenue after payment of royalties of the CCPL Group in 2005 was HK$5,107.5 million, a significant increase of 55.1% as compared with the preceding year. Such growth was primarily due to increases in international oil prices, as evidenced by the increase in the average benchmark end-market quote for Urals Mediterranean crude oil of US$34.5 per barrel and Dated Brent crude oil of US$38.3 per barrel in 2004 to US$50.9 and US$54.5 respectively in 2005. The increase in revenue was offset in part by a decrease in the sales volume of oil produced in the Karazhanbas oilfield from 15.5 million barrels in 2004 to 14.8 million barrels in 2005. The reduction of production was mainly caused by unusually low temperatures in the winter. Increase in gross profit margin from 72.8% in 2004 to 77.9% in 2005 was due to a one-off hedging loss of HK$349.4 million in 2004. Net profit attributable to equity holders of the holding company increased by 32.4 times to HK$1,125.1 million when compared to 2004, due mainly to the factors described above and the one-off additional deferred tax recognised in 2004.

Tax expense increased by 42.1% from HK$1,140.5 million in 2004 to HK$1,620.8 million in 2005. This was primarily due to an increase in profit before tax over the same period.

For the year ended 31 December 2006

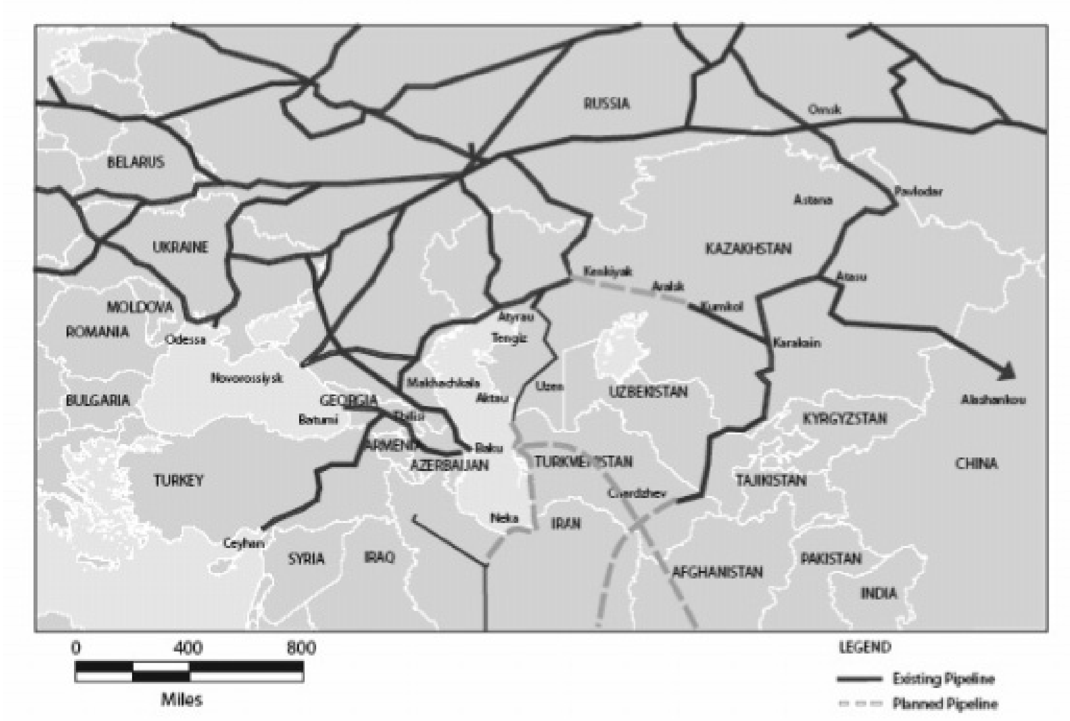
Revenue after payment of royalties increased by 24.9% from HK$5,107.5 million in 2005 to HK$6,377.8 million in 2006. This growth resulted from rising international oil prices reflected in the increase in the average benchmark end-market quote for Urals Mediterranean crude oil of US$50.9 per barrel and Dated Brent crude oil of US$54.5 per barrel in 2005 to US$61.4 and US$65.1 respectively in 2006.

The increase in revenue was also attributable to the increase in the sales volume of oil produced in the Karazhanbas oilfield from 14.8 million barrels in 2005 to 15.6 million barrels in 2006. The increase in sales volume was mainly a result of the increase in the number of wells drilled in the Karazhanbas oilfield in 2006.

(iv) Location and characteristics of the Karazhanbas oilfield

The Karazhanbas oilfield is located on the shore of the Caspian Sea. The oilfield is in close proximity to pipelines and port facilities supplying oil to the major markets in Central Asia, Europe and the Middle East. It covers a gross area of approximately 160 square kilometers with a depth of up to 500 meters. The Karazhanbas oilfield is characterised by its shallow depth and low paraffin content of its oil, making it less capital intensive to drill than oilfields with deep underground reserves or higher paraffin content.

The following map sets forth the existing and planned major pipeline routes in Kazakhstan and neighboring countries:



As can be seen from the above map, the Karazhanbas oilfield is strategically located within the pipeline system bringing oil to the European markets.

(v) *Oil production*

As at 31 December 2006, the Karazhanbas oilfield had about 1,160 active wells. The average volume of oil produced per day in 2004, 2005 and 2006 was about 42,568 barrels, 40,961 barrels and 42,535 barrels respectively. The majority of the oil produced is delivered to two major export distributors, Euro-Asian Oil AG and Glencore International AG, with the remainder being supplied to the domestic market.

The performance of the Karazhanbas oilfield for 2006 was as follows:

Revenue from sales of oil (before payment of royalties)	HK$6,579.5 million
Sales volume	15.6 million barrels of oil
Average sales price per barrel	HK$421.8 (US$54.1)

(vi) *Drilling programme*

The table below sets out information on the number of wells drilled by KBM for the three years ended 31 December 2006:

	Productive	**Dry**	**Total**
Year ended 31 December 2004	105	2	107
Year ended 31 December 2005	132	3	135
Year ended 31 December 2006	194	11	205

Based on the above table, the ratio of productive to dry wells is high.

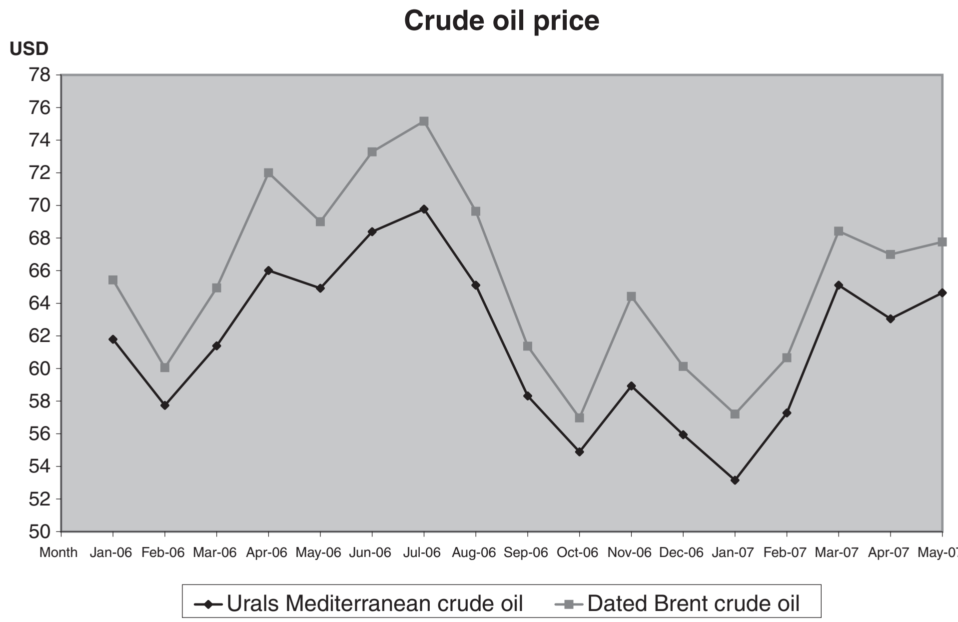
(vii) *Oil reserves*

According to the BP Statistics Review of World Energy published in June 2006, Kazakhstan had 39,600 million barrels of proved reserves as of the end of 2005, which is 3.3% of total proved reserves worldwide. Kazakhstan has the eighth largest oil reserves in the world and the largest oil reserves in the Caspian Sea region. In 2005, oil production in Kazakhstan accounted for 1.6% of the global production.

As set out in the letter from the Board, the Karazhanbas oilfield has an estimated 363.8 million barrels of proved reserves as of 31 December 2006. In addition, as of that date, there were probable reserves of 74.6 million barrels and possible reserves of 21.6 million barrels.

(vii) Oil prices

For the month of December 2006, when CCEL completed the acquisition of CCPL, the weighted average crude oil realised price was US$43.3 per barrel, as compared to a recent price of US$67.8 per barrel for Urals Mediterranean crude oil and US$68.5 per barrel for Dated Brent crude oil. The following graph indicates the price trend of Dated Brent crude oil and Urals Mediterranean crude oil from 1 January 2006 to 31 May 2007:



Source: Bloomberg

During the process of negotiating the Transaction Agreements, the price of crude oil has appreciated which has turned out to be a favourable factor for the Company.

7. Funding of the consideration

A refundable deposit of US$200 million (HK$1,560 million) has already been paid by the Company to CITIC Group. The final payment of about US$803.5 million (HK$6,267.3 million) payable upon Completion is to be funded by available internal resources and third party debt and borrowing. We regard the net proceeds of the Company's issue of US$1,000 million (HK$7,800 million) 6.75% senior notes due 2014 (the "**Senior Notes**"), which completed on 17 May 2007, as a satisfactory form of long-term funding for the Transaction.

8. Financial effects of the Transaction on the Group

Upon Completion, the accounts of the CCEL Group will be proportionately consolidated into the Group's financial statements.

(i) Net assets

Based on the pro forma financial information on the Enlarged Group as set out in Appendix IV to the Circular, the effect of the Transaction on the net assets of the Group is neutral. Net assets are shown to increase from HK$3,505.1 million to HK$5,286.9 million due to the Company's issue of the 700 million new Shares at the issue price of HK$2.46 each in February and April of 2007, generating gross proceeds of HK$1,722.0 million. The proceeds of the issue were intended to finance acquisitions in the natural resources and energy sectors. Part of the proceeds of the issue was used to repay loans which financed the deposit of US$200 million (HK$1,560 million) paid by the Company to CITIC Group in respect of the Transaction.

(ii) Gearing and working capital

The Group's gearing ratio (defined as total borrowings divided by equity attributable to Shareholders plus total borrowings) as at 31 December 2006 was 54.1%. After the issue of the 700 million new Shares and the issue of the Senior Notes, the gearing ratio of the Enlarged Group will increase to 70.7%. However, as the Senior Notes are long term in nature and the cash flow from CCEL is positive (as discussed below), we consider the increase in gearing is not excessive.

According to the pro forma combined cashflow statement of the Enlarged Group upon Completion, after accounting for the Group's 50% share of CCEL, there would be a turnaround of net cash outflow from operating activities of HK$254.9 million to an unaudited pro forma adjusted net cash inflow from operating activities of HK$2,478.2 million. Based on the combined cash flow statements of the CCPL Group as set out in Appendix III to the Circular, the CCPL Group generated HK$2,354.6 million in net cash inflow from operating activities in 2006. It is expected that the CCPL Group will have adequate liquidity and resources to meet its short-term obligations. Nevertheless, whether the CCPL Group is able to generate additional working capital to enhance the overall cashflow position of the Company and the rest of the Enlarged Group will depend on the capital requirements of the CCPL Group which, in particular, will be affected by the expansion of the oil production facilities and supporting infrastructure and the development cost of new technologies for extracting oil.

(iii) Profit and loss

Upon Completion, the Group will, on a consolidated basis, be entitled to account for 50% of the results of the CCEL Group. The pro forma combined income statement of the Enlarged Group for 2006 is set out in Appendix IV to the Circular. On this basis, revenue would increase from HK$7,503.4 million to HK$10,692.4 million. Profit attributable to Shareholders would fall from HK$200.8 million to HK$165.3 million, after payment of estimated interest of HK$552.7 million on the Senior Notes. However, in view of the encouraging prospects for CCEL, we do not consider the pro forma effect on the 2006 results to be representative of likely future performance.

9. Management of the CCEL Group

Assuming that the KMG Option is exercised (which we consider likely) and that Completion occurs, the Company and KMG will each hold 50% of CCEL. The CCEL Group is expected to be managed as a joint venture by the Company and KMG.

The Company will have the right to nominate the chief executive officer of CCEL, CCPL and each Kazakhstan Company and the technical director of KBM during the first five years of the joint venture, with KMG nominating the deputy chief executive officer of CCEL, CCPL and each Kazakhstan Company and the chief financial officer of KBM during the same period. In addition, the Company and KMG will have the right to each appoint a marketing and commercial director of KBM.

Decisions of the board of directors of CCEL, CCPL and the Kazakhstan Companies on major matters such as approval of annual work programs, annual budgets and capital expenditure programs, long term oil supply contracts, the acquisition or disposal of major assets and amendments to the policy as to dividends will be determined by unanimous approval. The Company will have the right to appoint a majority of the directors to the boards of CCEL, CCPL and KBM. ATS and TMS will be managed by a management board comprising two members, one appointed by the Company and the other by KMG.

Since the Company will have majority representation on the board of CCEL, CCPL and KBM and will have the right to appoint the chief executive officer of CCEL, CCPL and each Kazakhstan Company for the first five years following the exercise of the KMG Option, the Directors believe the Company will be able to lead the day-to-day management and operation of the Karazhanbas oilfield.

Under the existing terms of the KMG Option, unless otherwise agreed, members of the CCEL Group will distribute by dividends and other distributions all of their distributable reserves to their respective shareholders. CCEL will pay dividends to its shareholders rateably and equally except that KMG shall have a right to receive the Preferential Dividend in priority to any dividends payable to the Company if the dividends declared and paid by CCEL are less than US$32.4 million (HK$252.7 million) in any year. In addition, CITIC Group has agreed to procure financing for KMG if the KMG Option is exercised. In such case, a cost will be incurred by RNL for which provision has been made in the audited consolidated financial statements of the RNL Group.

KMG and the Company will provide certain management and other services to members of the CCEL Group in consideration of net service fees of US$10 million (HK$78 million) per annum.

10. Risk factors

The Independent Shareholders may wish to bear in mind the following risk factors when considering the Transaction :

(i) Highly capital intensive business nature

Oil exploration and production are capital intensive activities. New production technologies are expected to be introduced to improve recovery rate and production volumes in the later years of the production life of an oil well. Supporting infrastructure and facilities are needed to enhance oil well management and minimise oil wastage. It is uncertain whether bank or other loans facilities can be obtained to fund such capital investment. In that case, the Group may have to use its own resources to develop the Kazakhstan Business.

(ii) Transportation facilities and quotas

Oil produced from the Karazhanbas oilfield is transported through pipelines owned or operated by third parties which may impose an access risk to the Group. Disruption in operation of pipelines due to, among other things, repair and maintenance and damage caused by bad weather conditions or insufficient capacity to transport increased oil volume will result in transportation delays for oil producers.

The majority of the oil production from the Karazhanbas oilfield will be transported through pipelines across national borders for export sales. There are intergovernmental agreements on the establishment of transportation quotas through pipelines of relevant countries. There is no assurance that adequate transportation quotas would be allocated to KBM which may then affect its oil exports.

(iii) Uncertainty about estimated oil reserves

The oil reserves data of the Karazhanbas oilfield presented in the Circular represent estimates only. Actual production, revenue and expenditure with respect to the reserves may differ materially from these estimates. Many of the factors, assumptions and variables involved in estimating reserves are beyond KBM's control and may prove to be incorrect over time.

(iv) Regulatory considerations

The Kazakhstan government exercises control over the Kazakhstan petroleum industry, including with respect to exploration and production licensing, pricing mechanism, import and export quotas and procedure, and environmental and safety standards. The Kazakhstan government requires oil producers to supply a certain amount of their oil production to domestic refineries at prices that are substantially lower than the prices that may be charged for export sales. However, there is no legally binding document setting forth the price and quantity at which domestic sales must be made. The performance of the Kazakhstan Business may be adversely affected by future changes in policies of the Kazakhstan government in respect of the oil industry.

(v) Volatility of oil prices

Oil prices may fluctuate in response to changes in many factors, such as global and regional supply and demand for oil and refinery products, price and availability of other energy sources, global political and economic conditions, and the ability of the Organisation of Petroleum Exporting Countries and other petroleum producing nations to set and maintain production level and prices. Oil prices have recently been at levels of about US$67.8 per barrel for Urals Mediterranean crude oil to US$68.5 per barrel for Dated Brent crude oil. These prices may fall back to lower levels.

DISCUSSION AND ANALYSIS

The Company is the holding company for the energy and natural resources interests of its ultimate controlling Shareholder, CITIC Group, which is under the leadership of the State Council of the PRC. The Company currently manages and operates the Seram Block. The principal field in the Seram Block, the Oseil Field, has estimated gross reserves of 39.1 million barrels as of 31 December 2005. The Company has just recently acquired an option to purchase indirectly an interest in the Hainan-Yuedong Block in Bohai Bay Basin in the PRC for US$150 million (HK$1,170 million) (subject to adjustment). The Transaction will further expand the Company's oil interests significantly, which is its stated policy.

The consideration payable by the Company to CITIC Group in respect of the Transaction is about US$1,003.5 million (HK$7,827.3 million) and is based on the cost to CITIC Group, including holding costs and expenses. Based on the letter from the Board, the estimated proved reserves of the Karazhanbas oilfield are 363.8 million barrels as of 31 December 2006. The weighted average realised price of crude oil at December 2006 was US$43.3 per barrel, a relatively low level compared to the latest oil price of US$67.8 per barrel for Urals Mediterranean crude oil and US$68.5 per barrel for Dated Brent crude oil.

Based on the pro forma financial information on the Enlarged Group set out in Appendix IV to the Circular, the effect of the Transaction on the Company's net assets will be neutral. Gearing will increase, but not to a level we consider imprudent, bearing in mind among other factors the long term nature of the financing of the Transaction and the strong cash flow of the Kazakhstan Companies.

The pro forma impact on earnings will initially be negative, but we do not consider the pro forma impact on the 2006 results fairly reflects the prospects of the Kazakhstan Companies.

A refundable deposit of US$200 million (HK$1,560 million) has been paid from the Group's internal resources and the balance of about US$803.5 million (HK$ 6,267.3 million) will be funded by the net proceeds from the Senior Notes.

The Company's proposed investment in the Kazakhstan Companies is subject to various risk factors. The main ones are summarised in the section headed "Risk factors" above. Although these risks are significant, we do not consider them greater in this case than for typical investments in oil and gas exploration in emerging countries, such as those the Company is undertaking in respect of the Seram Block.

OPINION

Based on the above principal factors and reasons, we consider that the Transaction is on normal commercial terms which are fair and reasonable to the Independent Shareholders and that the Transaction is in the interests of the Company and Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the Transaction.

Yours faithfully,
for and on behalf of
SOMERLEY LIMITED
M. N. Sabine
Chairman

CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)
Website: www.citicresources.com
(Stock Code: 1205)

NOTICE IS HEREBY GIVEN that a special general meeting (the "**Meeting**") of CITIC Resources Holdings Limited (the "**Company**") will be held at Pacific Place Conference Centre, Tien Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 27 June 2007 at 3:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"**THAT** the sale and purchase agreement and the agreement to acquire the benefit of debt of KBM Energy Limited both dated 30 April 2007 (collectively, the "**Transaction Agreements**") entered into between CITIC Group and the Company respectively pursuant to which the Company has conditionally agreed to purchase one issued share of US$1 (HK$7.8) par value of Renowned Nation Limited, representing the entire issued share capital of Renowned Nation Limited, and an approximate amount of US$1,003,500,000 (HK$7,827,300,000) owing by KBM Energy Limited to CITIC Group, copies of which have been produced to the Meeting and marked "A" and signed by the Chairman of the Meeting for the purpose of identification be and are hereby approved and the execution, delivery and performance by the Company of the Transaction Agreements be and are hereby ratified, confirmed and approved AND THAT the directors of the Company be and are hereby authorised to do on behalf of the Company whatever they may consider necessary, desirable or expedient for the purpose of, or in connection with, the performance and implementation and completion of the Transaction Agreements and generally to do all acts and deeds and execute or procure the execution of all agreements and documents required or contemplated by the Transaction Agreements and to make such amendments thereto as the directors of the Company may consider necessary, desirable or expedient."

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

Dated 12 June 2007, Hong Kong

Head Office and
Principal Place of Business in Hong Kong:
Suites 3001-3006
30/F, One Pacific Place
88 Queensway
Hong Kong

Notes:

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

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

(3) To be valid, the form of proxy, together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority must be deposited at Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong, not less than 48 hours before the time appointed for holding the Meeting (or any adjournment thereof) and in default the form of proxy shall not be treated as valid. Completion and return of the form of proxy will not preclude members of the Company from attending and voting in person at the Meeting (or any adjournment thereof) should they so wish. If a member who has lodged a form of proxy attends the Meeting, his form of proxy will be deemed to have been revoked.

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

As at the date hereof, the executive directors of the Company are Mr. Kwok Peter Viem; Mr. Ma Ting Hung; Mr. Shou Xuancheng; Mr. Sun Xinguo; Ms. Li So Mui; Mr. Mi Zengxin; Mr. Qiu Yiyong; Mr. Zeng Chen and Mr. Zhang Jijing, and the independent non-executive directors are Mr. Fan Ren Da, Anthony; Mr. Ngai Man and Mr. Tsang Link Carl, Brian.

(A) SUMMARY OF AUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE THREE YEARS ENDED 31 DECEMBER 2006

The following was extracted from the published audited financial statements for the three years ended 31 December 2006.

Results
HK$'000

	Year ended 31 December		
	2006	**2005**	**2004**
		Restated	
Revenue	7,503,428	5,786,386	3,610,791
Profit before tax	316,189	342,157	59,725
Tax	(70,152)	(110,642)	(52,322)
Profit for the year	246,037	231,515	7,403
Attributable to:			
Shareholders of the Company	200,815	221,703	4,772
Minority interests	45,222	9,812	2,631
	246,037	231,515	7,403

Assets and liabilities and minority interests
HK$'000

	31 December		
	2006	**2005**	**2004**
Non-current assets	4,373,701	3,080,713	2,699,246
Current assets	4,954,660	2,939,314	2,999,004
Total assets	9,328,361	6,020,027	5,698,250
Current liabilities	2,854,539	1,437,385	1,369,385
Non-current liabilities	2,968,733	1,615,235	1,672,332
Total liabilities	5,823,272	3,052,620	3,041,717
Minority interests	279,746	25,634	19,693
	3,225,343	2,941,773	2,636,840

(B) SUMMARY OF AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE TWO YEARS ENDED 31 DECEMBER 2006

The following was extracted from the Company's 2006 annual report. (References to page numbers in the extract reproduced below are to pages contained in the Company's annual report for the year ended 31 December 2006.)

INDEPENDENT AUDITORS' REPORT

ERNST & YOUNG

To the shareholders of CITIC Resources Holdings Limited
(Incorporated in Bermuda with limited liability)

We have audited the financial statements of CITIC Resources Holdings Limited set out on pages 41 to 125, which comprise the consolidated and Company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

20 April 2007

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006
HK$'000

	Notes	2006	2005 Restated
REVENUE	5	7,503,428	5,786,386
Cost of sales		(6,974,598)	(5,376,077)
Gross profit		528,830	410,309
Other income and gains	5	283,245	195,293
Selling and distribution costs		(68,302)	(33,805)
Administrative expenses		(214,910)	(132,526)
Other operating expenses, net		(62,319)	(3,384)
Finance costs	9	(150,355)	(93,730)
PROFIT BEFORE TAX	6	316,189	342,157
Tax	10	(70,152)	(110,642)
PROFIT FOR THE YEAR		246,037	231,515
ATTRIBUTABLE TO:			
Shareholders of the Company	11	200,815	221,703
Minority interests		45,222	9,812
		246,037	231,515
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY	12		
Basic		HK4.65 cents	HK5.14 cents
Diluted		HK4.61 cents	N/A
DIVIDEND PER SHARE		Nil	Nil

CONSOLIDATED BALANCE SHEET
31 December 2006
HK$'000

	Notes	2006	2005
NON-CURRENT ASSETS			
Property, plant and equipment	13	2,391,501	1,170,614
Prepaid land lease premiums	14	58,353	—
Goodwill	17	341,512	341,512
Other intangible assets	15	135,701	—
Other assets	16	555,983	573,878
Available-for-sale equity investments	20	845,936	657,035
Prepayments, deposits and other receivables	21	16,346	326,486
Loan receivable	24	21,615	—
Deferred tax assets	35	6,754	11,188
Total non-current assets		4,373,701	3,080,713
CURRENT ASSETS			
Inventories	22	1,112,150	656,138
Accounts receivable	25	939,938	395,749
Prepayments, deposits and other receivables	21	1,867,396	29,185
Loan receivable	24	17,327	—
Equity investments at fair value through profit or loss	26	1,974	1,830
Derivative financial instruments	31	16,380	12,356
Due from related companies	23	51,486	—
Due from the ultimate holding company	23	34,320	—
Other assets	16	62,945	58,365
Cash and bank balances	27	850,744	1,519,595
		4,954,660	2,673,218
Assets of a disposal group classified as held for sale	28	—	266,096
Total current assets		4,954,660	2,939,314
CURRENT LIABILITIES			
Accounts payable	29	533,788	186,288
Tax payable		47,108	71,709
Accrued liabilities and other payables	30	306,789	51,153
Derivative financial instruments	31	286,920	203,541
Due to a minority shareholder	32	38,174	—
Bank and other loans	33	1,588,022	858,393
Provisions	34	53,738	33,229
		2,854,539	1,404,313
Liabilities of a disposal group classified as held for sale	28	—	33,072
Total current liabilities		2,854,539	1,437,385
NET CURRENT ASSETS		2,100,121	1,501,929
TOTAL ASSETS LESS CURRENT LIABILITIES		6,473,822	4,582,642

CONSOLIDATED BALANCE SHEET
31 December 2006
HK$'000

.	Notes	2006	2005
TOTAL ASSETS LESS CURRENT LIABILITIES		6,473,822	4,582,642
NON-CURRENT LIABILITIES			
Bank and other loans	33	2,214,540	1,047,223
Deferred tax liabilities	35	519,933	470,985
Derivative financial instruments	31	41,063	11,016
Provisions	34	117,549	86,011
Other payables		75,648	—
Total non-current liabilities		2,968,733	1,615,235
Net assets		3,505,089	2,967,407
EQUITY			
Equity attributable to shareholders of the Company			
Issued capital	36	215,909	215,844
Reserves	38(a)	3,009,434	2,725,929
		3,225,343	2,941,773
Minority interests		279,746	25,634
Total equity		3,505,089	2,967,407

Kwok Peter Viem
Director

Ma Ting Hung
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2005

HK$'000

	Attributable to shareholders of the Company										
	Issued capital	**Share premium account**	**Contributed surplus**	**Exchange fluctuation reserve**	**Available-for-sale revaluation reserve**	**Hedging reserve**	**Share option reserve**	**Accumulated losses**	**Sub-total**	**Minority interests**	**Total equity**
At 1 January 2005	215,844	2,561,962	65,527	50,335	203,741	(30,205)	—	(267,558)	2,799,646	19,693	2,819,339
Exchange realignment	—	—	—	(57,175)	—	—	—	—	(57,175)	(1,144)	(58,319)
Net losses on cash flow hedges #	—	—	—	—	—	(122,126)	—	—	(122,126)	—	(122,126)
Change in fair value of available-for-sale equity investments #	—	—	—	—	87,045	—	—	—	87,045	—	87,045
Total income and expense for the year recognised directly in equity	—	—	—	(57,175)	87,045	(122,126)	—	—	(92,256)	(1,144)	(93,400)
Profit for the year	—	—	—	—	—	—	—	221,703	221,703	9,812	231,515
Total income and expense for the year	—	—	—	(57,175)	87,045	(122,126)	—	221,703	129,447	8,668	138,115
Acquisition of interests in subsidiaries by minority shareholders	—	—	—	—	—	—	—	—	—	2,801	2,801
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	(5,528)	(5,528)
Equity-settled share option arrangements	—	—	—	—	—	—	12,680	—	12,680	—	12,680
At 31 December 2005	215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	12,680	(45,855)	2,941,773	25,634	2,967,407

Amounts net of deferred tax impact already.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

HK$'000

		Attributable to shareholders of the Company										
	Notes	**Issued capital**	**Share premium account**	**Contributed surplus**	**Exchange fluctuation reserve**	**Available-for-sale revaluation reserve**	**Hedging reserve**	**Share option reserve**	**Retained profits/ (accumulated losses)**	**Sub-total**	**Minority interests**	**Total equity**
At 1 January 2006		215,844	2,561,962	65,527	(6,840)	290,786	(152,331)	12,680	(45,855)	2,941,773	25,634	2,967,407
Exchange realignment		—	—	—	5,802	—	—	—	—	5,802	2,016	7,818
Net gains on cash flow hedges #		—	—	—	—	—	72,915	—	—	72,915	—	72,915
Change in fair value of available-for-sale equity investments #		—	—	—	—	(23,507)	—	—	—	(23,507)	—	(23,507)
Total income and expense recognised directly in equity		—	—	—	5,802	(23,507)	72,915	—	—	55,120	2,016	57,226
Profit for the year		—	—	—	—	—	—	—	200,815	200,815	45,222	246,037
Total income and expense for the year		—	—	—	5,802	(23,507)	72,915	—	200,815	256,025	47,238	303,263
Acquisition of interests in subsidiaries by minority shareholders	39(a)	—	—	—	—	—	—	—	—	—	213,432	213,432
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	(6,558)	(6,558)
Issue of new shares upon exercise of share options	38(b)	65	1,625	—	—	—	—	(286)	—	1,404	—	1,404
Equity-settled share option arrangements	38(b)	—	—	—	—	—	—	26,141	—	26,141	—	26,141
At 31 December 2006		215,909	2,563,587*	65,527*	(1,038)*	267,279*	(79,416)*	38,535*	154,960*	3,225,343	279,746	3,505,089

* These reserve amounts comprise the consolidated reserves of HK$3,009,434,000 (2005: HK$2,725,929,000) in the consolidated balance sheet.

Amounts net of deferred tax impact already.

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2006
HK$'000

	Notes	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		316,189	342,157
Adjustments for:			
Interest income	5	(144,810)	(75,002)
Dividend income from listed investments	5	(55,115)	(19,768)
Gain on sales of coal exploration interests	5	—	(78,463)
Gain on disposal of available-for-sale equity investments	5	(5,235)	—
Gain on conversion of available-for-sale equity investments	5	(17,502)	—
Equity-settled share option expenses	6	26,158	12,680
Depreciation	6	92,560	114,330
Amortisation	6	68,113	58,348
Loss on disposal/write-off of items of property, plant and equipment	6	4,568	6,563
Provision/(write-back of provision) for impairment of items of property, plant and equipment	6	(4,893)	12,733
Provision for long service and leave payments	6	6,715	12,779
Provision for impairment of accounts receivable	6	1,816	1,725
Provision against inventories	6	1,515	5,151
Provision for rehabilitation cost	6	8,554	1,292
Provision for abandonment cost	6	112	—
Unrealised losses on embedded derivatives	6	111,667	13,235
Unrealised foreign exchange losses		25,777	—
Warranty income, net	6	(14,908)	—
Finance costs	9	150,355	93,730
		571,636	501,490
Decrease/(increase) in inventories		(302,729)	21,180
Increase in accounts receivable		(502,396)	(95,046)
Decrease/(increase) in prepayments, deposits and other receivables		(59,723)	223,100
Increase in due from related companies		(51,486)	—
Increase/(decrease) in accounts payable		313,906	(24)
Decrease in accrued liabilities and other payables		(116,872)	—
Increase in an amount due to a minority shareholder		38,174	—
Cash (used in)/generated from operations		(109,490)	650,700
Australian income tax paid		(144,835)	(80,491)
PRC income tax paid		(623)	—
Net cash inflow/(outflow) from operating activities		(254,948)	570,209

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2006
HK$'000

	Notes	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		142,403	75,002
Dividends received from listed investments	5	55,115	19,768
Purchases of items of property, plant and equipment	13	(173,368)	(149,124)
Purchase of other intangible assets	15	(32)	—
Proceeds from disposal of items of property, plant and equipment		21,632	—
Proceeds from disposal of available-for-sale equity investments		31,221	—
Net cash inflow from acquisition of subsidiaries	39(a)	148,230	—
Repayment of loan receivable		15,990	—
Net cash outflow from acquisition of the participating interest in a joint venture	39(b)	(757,723)	—
Proceeds from disposal of short term investments		—	827
Deposits paid for potential investment projects	21	(1,560,000)	(288,500)
Payments of interest, legal and professional fees and other charges incurred in relation to potential investment projects		(35,177)	(22,929)
Net cash outflow from investing activities		(2,111,709)	(364,956)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of share capital	36	1,404	—
Acquisitions of interests in subsidiaries by minority shareholders		—	2,801
Dividends paid to minority shareholders		(6,558)	(5,528)
New bank and other loans		6,019,860	63,606
Repayment of bank and other loans		(4,183,162)	(222,518)
Interest paid		(137,025)	(91,726)
Finance charges paid		(3,652)	(11,523)
Net cash inflow/(outflow) from financing activities		1,690,867	(264,888)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(675,790)	(59,635)
Cash and cash equivalents at beginning of year		1,519,595	1,606,833
Effect of foreign exchange rate changes, net		6,939	(27,603)
CASH AND CASH EQUIVALENTS AT END OF YEAR		850,744	1,519,595
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	27	310,258	166,033
Non-pledged time deposits with original maturity of less than three months when acquired	27	540,486	1,353,562
		850,744	1,519,595

BALANCE SHEET
31 December 2006
HK$'000

	Notes	2006	2005
NON-CURRENT ASSETS			
Interests in subsidiaries	18	2,382,642	1,721,501
Prepayments, deposits and other receivables		5,527	7,518
Total non-current assets		2,388,169	1,729,019
CURRENT ASSETS			
Prepayments, deposits and other receivables		1,674,413	3,280
Bank balances	27	22,690	887,680
Total current assets		1,697,103	890,960
CURRENT LIABILITIES			
Accrued liabilities and other payables		76,706	82
Bank loans, unsecured	33	343,200	—
Total current liabilities		419,906	82
NET CURRENT ASSETS		1,277,197	890,878
TOTAL ASSETS LESS CURRENT LIABILITIES		3,665,366	2,619,897
NON-CURRENT LIABILITIES			
Bank loans, unsecured	33	1,170,000	—
Net assets		2,495,366	2,619,897
EQUITY			
Issued capital	36	215,909	215,844
Reserves	38(b)	2,279,457	2,404,053
Total equity		2,495,366	2,619,897

Kwok Peter Viem
Director

Ma Ting Hung
Director

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

CITIC Resources Holdings Limited is a limited liability company incorporated in Bermuda. The head office and principal place of business of the Company is located at Suites 3001-3006, 30th Floor, One Pacific Place, 88 Queensway, Hong Kong.

The principal activity of the Company is investment holding.

Following the acquisition of CITIC Dameng Mining Industries Limited (the "Manganese Company") and its subsidiaries, and 51% participating interest in the Seram Island Non-Bula Block production sharing contract (the "Seram PSC"), the Group is principally engaged in the following businesses:

- the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;
- the operation of coal mining and the sale of coal in Australia;
- the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia;
- the sale of crude oil and petroleum drilled from the Dagang Oilfield in the PRC;
- the operation of manganese mining and the sale of refined manganese products in the PRC; and
- the exploration, development, production and sale of crude oil and petroleum drilled from the Seram Island Non-Bula Block, Indonesia.

On 18 February 2006, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC (the "Dagang Participating Interest"), with a then carrying value of US$27,386,135 (HK$213,612,000), into 8,591,434 common shares ("Ivanhoe Shares") in the share capital of Ivanhoe Energy Inc. ("Ivanhoe") and a 3-year non-interest bearing, unsecured loan of US$7,386,135 (HK$57,612,000) ("Ivanhoe Loan") repayable by Ivanhoe. Ivanhoe Loan is repayable by 36 monthly instalments and the first instalment was due and received in March 2006.

In the opinion of the directors, the parent and the ultimate holding company of the Company is CITIC Group, a company incorporated in the PRC.

During the year, the Group continues to explore other investment opportunities in the field of natural resources.

Proposed acquisition of potential oil assets located in Kazakhstan

On 27 October 2006, a memorandum of understanding (the "MOU") was entered into by the Company and CITIC Group. Pursuant to the MOU, the Company has been granted a purchase right (the "Purchase Right"), which is exercisable by the Company during the period of one year (from the date which CITIC Group completed its acquisition of the oil assets located in Kazakhstan), to acquire these assets (the "Potential Assets"). The Potential Assets principally comprise a 94.6% interest in Karazhanbasmunai JSC, a joint stock company formed under the laws of Kazakhstan, which holds 100% of the mineral rights until 2020 to develop the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan. On 29 December 2006, CITIC Group completed the acquisition of the Potential Assets from CITIC Canada Petroleum Limited (formerly known as Nations Energy Company Ltd.) ("CCPL").

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between the CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right has not been exercised by the Company.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and equity investments, which have been measured at fair value. A disposal group held for sale is stated at the lower of carrying amount and fair value less costs to sell as further explained in note 28 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except where otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for certain cases giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HK(IFRIC) - Int 4	Determining whether an Arrangement contains a Lease

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 *Revenue*. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HKFRS 6 - Exploration for and Evaluation of Mineral Resources

HKFRS deals with the accounting for exploration and evaluation of mineral resources, including oil and gas.

(d) HK(IFRIC) - Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Revised Requirements of Segment Reporting
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 *Segment Reporting*.

HK(IFRIC) - Int 7, HK(IFRIC) - Int 8, HK(IFRIC) - Int 9, HK(IFRIC) - Int 10, HK(IFRIC) - Int 11 and HK(IFRIC) - Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture:

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled assets

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

The Group's share of jointly-controlled assets and any liabilities incurred jointly with other venturers are recognised in the consolidated balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests of jointly-controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly-controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Plant and machinery, which include the furnace, water system, pot room and ingot mill, and buildings and structures used in the Portland Aluminium Smelter, are estimated to have a useful life up to 2030.

Other fixed assets are estimated to have the following useful lives:

Leasehold improvements	10 - 12 years or over the unexpired lease terms, whichever is shorter
Motor vehicles, plant, machinery, tools and equipment	5 - 15 years
Furniture and fixtures	4 - 5 years
Buildings and structures	15 - 30 years

Freehold land is not depreciated.

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building and structure under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Oil and gas properties

For oil and gas properties, the successful effort method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterments which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

Productive oil and gas properties and other tangible and intangible costs of production properties are amortised using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved developed reserves is used to determine the depreciation, depletion and amortisation provision. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

Capitalised acquisition costs of proved properties are amortised by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved reserves.

Capital works

Capital works represent exploration and development expenditure in relation to the Group's mining activities, which includes costs of coal mining tenements, are carried forward to the extent that:

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

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

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

Other intangible assets

Other intangible assets represent mining rights and are stated at cost less accumulated amortisation and impairment losses. The mining rights are amortised using the units of production method based on the proven and probable mineral reserves, which are reviewed at least at each balance sheet date. The intangible assets are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Other assets

Other assets represent the amounts paid for an electricity supply agreement (the "ESA"), a 30-year base power contract entered into with the State Electricity Commission of Victoria, Australia. The ESA provides steady electricity supply at a fixed tariff to the Portland Aluminium Smelter for a period up to 31 October 2016. Other assets are stated at cost less accumulated amortisation, provided on a straight-line basis over the term of the base power contract, and any impairment losses.

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts. Gains or losses on these financial assets are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value
The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the consolidated income statement, is transferred from equity to the consolidated income statement. Impairment losses on equity instruments classified as available-for-sale are not reversed through the consolidated income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including bank and other loans)

Financial liabilities including bank and other loans are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency and commodity contracts and interest rate swap to hedge its risks associated with foreign currency, commodity price and interest rate fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the consolidated income statement.

The fair value of forward currency and commodity contracts is calculated by reference to current forward exchange rates and commodity prices for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to applicable interest rates in the market.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability, or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the consolidated income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the consolidated income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the consolidated income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the consolidated income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the consolidated income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the consolidated income statement. The changes in the fair value of the hedging instrument are also recognised in the consolidated income statement.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the consolidated income statement.

Amounts taken to equity are transferred to the consolidated income statement when the hedged transaction affects the consolidated income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the consolidated income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised immediately in equity remain in equity until the forecast transaction or firm commitment occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Except for exported goods held for re-sale which are stated at cost on the first-in, first-out basis, cost is determined on the weighted average basis. In the case of work in progress and finished goods, cost comprises direct materials, direct labor and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

Provision for rehabilitation cost represents the estimated costs of rehabilitation relating to the areas disturbed during the operation of the Portland Aluminium Smelter and the coal mines in Australia. The Group is required to return the sites to the Australian authorities in their original condition. The Group has estimated and provided for the expected costs of removal and clean-up on a periodical basis, based on the estimates provided by the environmental authorities when they reviewed the sites.

Provision for abandonment cost represents the estimated costs of abandoning oil and gas properties. The provision for abandonment cost has been classified under long term liabilities. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

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

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial assets;

(c) handling service fee, when the services have been rendered; and

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals payable under operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Prepaid land lease premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (the "equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using a binominal model, further details of which are given in note 37 to the financial statements. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (the "market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

Ownership-based remuneration is provided to employees via the CITIC Australia Trading Limited ("CATL") director option plan and the employee option plan. Information relating to the schemes is set out in note 37 to the financial statements.

Share-based compensation to directors and employees is recognised as an expense in respect of the services received measured on a fair value basis.

Share options granted after 7 November 2002 and vested on or after 1 January 2005

The fair value of the options granted under the director and employee option plans is recognised as an employee benefits expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value of the options at the grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the options, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the options, the share price at the grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the options.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefits expense recognised during each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share option reserve relating to those options is transferred to the share capital. The market value of any shares issued to employees for no cash consideration under the employee share scheme is recognised as an employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

Long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance or the superannuation legislation of the Australian government in the event of termination of their employment. The Group is liable to make such payments in the event that such termination of employment meets the circumstances as specified in the respective regulations.

The Group provides for the probable long service leave and holiday pay expected to be paid to employees under the superannuation legislation of the Australian government. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

Pension schemes

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

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. Subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the central pension scheme.

The Group operates a defined contribution retirement benefits scheme (the "RB Scheme") under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated income statement as they become payable in accordance with the rules of the RB Scheme. The assets of the RB Scheme are held separately from those of the Group in an independently administered fund. The Group' contributions as an employer vest fully with the employees when contributed into the RB Scheme.

Paid leave carried forward

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity as the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulated amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries and jointly-controlled assets are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries and jointly-controlled assets which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Tax

Determining income tax provisions requires the Group to make judgments on the future tax treatment of certain transactions. The Group carefully evaluates tax implications of transactions in accordance with prevailing tax regulations and makes tax provisions accordingly. In addition, deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised. This requires significant judgment on the tax treatments of certain transactions and also assessment on the probability that adequate future taxable profits will be available for the deferred tax assets to be recovered.

Employee benefits—share-based payment transactions

The valuation of the fair value of the share options granted requires judgment in determining the expected volatility of the share price, the dividends expected on the shares, the risk-free interest rate during the life of the options and the number of share options that are expected to become exercisable, details of which are set in note 37 to the financial statements. Where the outcome of the number of options that are exercisable is different from the previously estimated number of exercisable options, such difference will have impact on the consolidated income statement in the subsequent remaining vesting period of the relevant share options.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2006 was HK$341,512,000 (2005: HK$341,512,000). More details are given in note 17 to the financial statements.

Oil and gas reserve and mining reserves

The most significant estimates in the oil and gas operation pertain to oil and gas reserves and mining reserves volumes and the future development, purchase price allocation, provision for rehabilitation cost and abandonment cost as well as estimates relating to certain oil and gas reserve and mining revenues and expenses. Actual amounts could differ from those estimates and assumptions. More details are given in notes 3, 13 and 34 to the financial statements.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the aluminium smelting segment comprises the operation of the Portland Aluminium Smelter which sources alumina and produces aluminium ingots in Australia;

(b) the coal segment comprises the operation of coal mining and the sale of coal in Australia;

(c) the import and export of commodities segment represents the export of various commodity products such as alumina, aluminium ingots and iron ore and the import of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products in Australia;

(d) the manganese segment comprises the operation of manganese mining operated by the Manganese Company (a non-wholly-owned subsidiary of the Company) and the sale of refined manganese products in the PRC;

(e) the crude oil segment comprises the operation of oilfields and the sale of crude oil in the PRC and Indonesia; and

(f) the others segment comprises other operating activities of the Group.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

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

HK$'000

(a) *Business segments*

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

Group

Year ended 31December 2006	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
Segment revenue:							
Sales to external customers	1,602,930	274,752	5,074,136	538,006	13,604	—	7,503,428
Other income	37,039	120	9,756	15,193	5,637	—	67,745
	1,639,969	274,872	5,083,892	553,199	19,241	—	7,571,173
Segment results	108,340	76,756	111,025	65,759	15,847	(11,980)	365,747
Interest income and unallocated gains							215,500
Unallocated expenses							(114,703)
Profit from operating activities							466,544
Unallocated finance costs							(150,355)
Profit before tax							316,189
Tax							(70,152)
Profit for the year							246,037
Segment assets	2,034,177	157,624	1,360,989	942,910	1,038,281	55,195	5,589,176
Unallocated assets							3,739,185
Total assets							9,328,361
Segment liabilities	922,399	281,107	261,457	351,228	1,087,969	28,788	2,932,948
Unallocated liabilities							2,890,324
Total liabilities							5,823,272
Other segment information:							
Depreciation and amortisation	106,630	10,060	1,460	17,198	11,549	11,534	158,431
Unallocated amounts							2,242
							160,673
Other non-cash expenses	19,750	5,487	842	2,041	—	—	28,120
Unallocated amounts							33,668
							61,788
Capital expenditure	14,955	10,795	2,368	133,111	7,975	—	169,204
Unallocated amounts							4,196
							173,400

HK$'000

Group

Year ended 31 December 2005 Restated	Aluminium smelting	Coal	Import and export of commodities	Manganese	Crude oil	Others	Consolidated
Segment revenue:							
Sales to external customers	1,148,078	259,705	4,300,699	—	77,429	475	5,786,386
Other income/(expenses)	(3,138)	78,463	21,602	—	—	10	96,937
	1,144,940	338,168	4,322,301	—	77,429	485	5,883,323
Segment results	173,383	177,792	82,631	—	(6,620)	(15,507)	411,679
Interest income and unallocated gains							98,356
Unallocated expenses							(74,148)
Profit from operating activities							435,887
Unallocated finance costs							(93,730)
Profit before tax							342,157
Tax							(110,642)
Profit for the year							231,515
Segment assets	2,133,100	160,472	849,057	—	266,096	67,119	3,475,844
Unallocated assets							2,544,183
Total assets							6,020,027
Segment liabilities	485,296	74,925	102,084	—	33,072	25,308	720,685
Unallocated liabilities							2,331,935
Total liabilities							3,052,620
Other segment information:							
Depreciation and amortisation	98,553	9,135	1,278	—	50,043	11,511	170,520
Unallocated amounts							2,158
							172,678
Other non-cash expenses	34,937	2,482	219	—	—	431	38,069
Unallocated amounts							14,854
							52,923
Capital expenditure	15,646	11,499	2,051	—	114,093	4	143,293
Unallocated amounts							5,831
							149,124

HK$'000

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments for the year ended 31 December 2006 and 2005.

Group

Year ended 31 December 2006	**Hong Kong**	**Mainland China**	**Australia**	**Europe**	**North America**	**Other Asian countries**	**Others**	**Consolidated**
Segment revenue:								
Sales to external customers	—	3,305,764	1,495,282	1,850,518	315,187	494,481	42,196	7,503,428
Other segment information:								
Segment assets	1,860,751	1,788,287	4,373,161	215,243	—	1,090,919	—	9,328,361
Capital expenditure	280	137,027	28,118	—	—	7,975	—	173,400
Year ended 31 December 2005								
Segment revenue:								
Sales to external customers	—	3,052,563	1,373,495	866,188	309,394	105,215	79,531	5,786,386
Other segment information:								
Segment assets	1,225,585	333,414	4,461,028	—	—	—	—	6,020,027
Capital expenditure	5,245	114,097	29,782	—	—	—	—	149,124

HK$'000

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold during the year, after allowances for returns, trade discounts and royalties.

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

	2006	2005 Restated
Revenue		
Sale of goods:		
Aluminium smelting	1,602,930	1,148,078
Coal	274,752	259,705
Import and export of commodities	5,074,136	4,300,699
Manganese	538,006	—
Crude oil	13,604	77,429
Others	—	475
	7,503,428	5,786,386
Other income and gains		
Interest income	144,810	75,002
Handling service fees	7,121	13,326
Dividend income from listed investments	55,115	19,768
Gain on sales of coal exploration interests	—	78,463
Gain on disposal of available-for-sale equity investments	5,235	—
Insurance claim income	25,996	—
Gain on conversion of available-for-sale equity investments	17,502	—
Sale of scraps	11,891	5,148
Others	15,575	3,586
	283,245	195,293
	7,786,673	5,981,679

HK$'000

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006	2005 Restated
Cost of inventories sold*		6,974,598	5,376,077
Depreciation	13	92,560	114,330
Amortisation of the ESA	16	62,930	58,348
Amortisation of other intangible assets	15	4,235	—
Amortisation of prepaid land lease premiums	14	948	—
Minimum lease payments under operating leases on land and buildings		8,504	7,215
Auditors' remuneration		7,369	4,374
Employee benefits expense (including directors' remuneration—note 7):			
Wages and salaries		95,218	52,381
Equity-settled share option expenses		26,158	12,680
Pension scheme contributions		289	186
Provision for long service and leave payments		6,715	12,779
		128,380	78,026
Loss on disposal/write-off of items of property, plant and equipment**		4,568	6,563
Provision/(write-back of provision) for impairment of items of property, plant and equipment**		(4,893)	12,733
Exchange (gains)/losses, net**		53,883	(30,754)
Provision against inventories		1,515	5,151
Provision for impairment of accounts receivable**		1,816	1,725
Provision for rehabilitation cost		8,554	1,292
Provision for abandonment cost		112	—
Warranty income, net** #		(14,908)	—

* Cost of inventories sold for the year ended 31 December 2006 included an amount of HK$331,693,257 (2005: HK$153,450,000), which comprised direct staff costs, operating lease rentals, depreciation and amortisation of the ESA. Such amount has also been included in the respective expense items disclosed above. Unrealised losses on embedded derivatives of HK$111,667,000 (2005: HK$ 13,235,000) and hedge loss of HK$162,522,000 (2005: HK$31,678,000) had been included in cost of inventories sold.

** These amounts are included in "Other operating expenses, net" on the face of the consolidated income statement.

The warranty income, net, represents warranty income of HK$34,320,000 received from CITIC Group net of loss on conversion of the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan of HK$19,412,000. More details are given in note 43(c) to the financial statements.

HK$'000

7. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2006	2005
Fees:		
Executive directors	860	—
Independent non-executive directors	567	330
	1,427	330
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	10,717	6,685
Bonuses	1,950	2,643
Share option benefits	24,618	11,564
Pension scheme contributions	60	274
	37,345	21,166
	38,772	21,496

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 37 to the financial statements. The fair value of such options, which has been recognised to the consolidated income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above director's remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2006	2005
Chan Mo Po, Paul	—	90
Fan Ren Da, Anthony	200	120
Ngai Man	167	—
Tsang Link Carl, Brian	200	120
	567	330

There were no other emoluments payable to the independent non-executive directors during the year (2005: Nil).

HK$'000

(b) Executive directors

	Fees	Salaries, allowances and benefits in kind	Bonuses	Share option benefits	Pension scheme contributions	Total remuneration
2006						
Kwok Peter Viem	—	1,873	300	7,825	12	10,010
Ma Ting Hung	—	2,003	300	7,825	12	10,140
Shou Xuancheng	—	2,003	450	1,283	12	3,748
Sun Xinguo	—	2,003	450	1,597	12	4,062
Li So Mui	—	2,003	450	642	12	3,107
Mi Zengxin	215	—	—	1,283	—	1,498
Qiu Yiyong	215	—	—	1,283	—	1,498
Zeng Chen	215	832	—	1,597	—	2,644
Zhang Jijing	215	—	—	1,283	—	1,498
	860	10,717	1,950	24,618	60	38,205
2005						
Kwok Peter Viem	—	1,388	225	3,260	12	4,885
Ma Ting Hung	—	1,388	225	3,260	12	4,885
Shou Xuancheng	—	597	113	917	3	1,630
Sun Xinguo	—	597	450	459	3	1,509
Li So Mui	—	1,548	225	458	12	2,243
Mi Zengxin	—	—	—	917	—	917
Qiu Yiyong	—	—	—	917	—	917
Zeng Chen	—	1,167	1,405	459	232	3,263
Zhang Jijing	—	—	—	917	—	917
	—	6,685	2,643	11,564	274	21,166

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year included five (2005: four) directors, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining one non-director, highest paid employee for 2005 are as follows:

	2006	**2005**
Salaries, housing allowances, other allowances and benefits in kind	—	481
Bonuses	—	1,465
Pension scheme contributions	—	578
	—	2,524

The number of non-director, highest paid employees whose remuneration fell within the HK$2,500,001 to HK$3,000,000 banding is nil (2005: one).

HK$'000

9. FINANCE COSTS

	2006	2005
Interest expense on bank and other loans repayable:		
Within one year	85,452	43,264
In the second to fifth years, inclusive	64,773	10,219
Beyond five years	9,697	34,054
Total interest	159,922	87,537
Less: Interest capitalised	(22,897)	—
	137,025	87,537
Other finance charges:		
Increase in discounted amounts of provision arising from the passage of time	7,673	2,445
Others*	5,657	3,748
	150,355	93,730

* Included amortisation of up-front fees of HK$2,004,600 (2005: HK$501,150).

10. TAX

Group

	2006	2005
Current — Hong Kong	—	—
Current — Elsewhere		
Charge for the year	103,072	102,371
Overprovision in prior years	(4,533)	—
Deferred — note 35	(28,387)	8,271
Total tax charge for the year	70,152	110,642

The statutory tax rate for Hong Kong profits tax is 17.5% (2005: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the year (2005: Nil).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Provision for Australian income tax has been made at the statutory rate of 30% (2005: 30%) on the estimated assessable profits arising in Australia during the year.

For the year ended 31 December 2006, the tax rates applicable to the subsidiaries established and operating in the PRC and Indonesia are 33% and 30% respectively. However, certain PRC subsidiaries of the Group are subject to a full corporate income tax exemption for the first two years and a 50% reduction in the succeeding three years, commencing from the first profitable year. No provision for Indonesian tax has been made for the year as the Indonesian operation of the Group did not generate any assessable profits.

HK$'000

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

Group — 2006

	Australia	Mainland China	Hong Kong	Indonesia	Consolidated
Profit/(loss) before tax	299,407	68,589	(47,222)	(4,585)	316,189
Tax charge/(credit) at the statutory rates	89,822	22,634	(8,264)	(1,376)	102,816
Lower tax rate/tax holiday or concessions for specific provinces or local authorities	—	(25,638)	—	—	(25,638)
Adjustments in respect of current tax of previous periods	(4,533)	—	—	—	(4,533)
Income not subject to tax	(14,454)	(3,375)	(7,990)	—	(25,819)
Expenses not deductible for tax	1,058	5,988	16,254	—	23,300
Tax losses utilised from previous periods	—	(6,815)	—	—	(6,815)
Increase in unutilised tax losses carried forward	—	5,465	—	1,376	6,841
Tax charge/(credit) at the Group's effective rate	71,893	(1,741)	—	—	70,152

Group — 2005

	Australia	Mainland China	Hong Kong	Indonesia	Consolidated
Profit/(loss) before tax	380,231	(23,136)	(14,938)	—	342,157
Tax charge/(credit) at the statutory rates	114,069	(7,635)	(2,614)	—	103,820
Income not subject to tax	(23,727)	—	(6,388)	—	(30,115)
Expenses not deductible for tax	19,413	—	9,002	—	28,415
Increase in unutilised tax losses carried forward	—	8,522	—	—	8,522
Tax charge at the Group's effective rate	109,755	887	—	—	110,642

The Group has unrecognised deferred tax assets from tax losses arising in Hong Kong, the PRC and Indonesia in aggregate of HK$69,569,000 (2005: aggregate of HK$57,183,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses arising in Hong Kong and the PRC as they have arisen in companies that have been loss-making for some time.

11. PROFIT ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to shareholders of the Company for the year ended 31 December 2006 includes a loss of HK$152,093,000 (2005: profit of HK$17,079,000) (note 38(b)) dealt with in the financial statements of the Company.

HK$'000

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY SHAREHOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the profit for the year attributable to ordinary shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

A diluted earnings per share amount for the year ended 31 December 2005 has not been presented as exercise prices of the outstanding share options of the Company were greater than the market price of the Company's shares prevailing during a substantial period of the year ended 31 December 2005.

The calculations of basic and diluted earnings per share are based on:

	2006	2005
Earnings		
Profit attributable to ordinary shareholders of the Company, used in the basic earnings per share calculation	200,815	221,703

	Number of shares	
	2006	2005
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	4,317,072,600	4,316,884,381
Effect of dilution — weighted average number of ordinary shares: Share options	43,138,686	—
	4,360,211,286	4,316,884,381

HK$'000

13. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2006

	Notes	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant machinery, tools and equipment	Construction, in progress and construction material	Furniture and fixtures	Buildings and structures	Capital works	Total
Cost:										
At beginning of year		—	5,832	4,119	977,819	—	1,377	275,926	60,582	1,325,655
Additions		7,975	25	210	41,710	85,714	755	10,700	26,279	173,368
Disposals/write-off		—	—	—	(19,184)	(8,711)	(165)	(3,181)	(163)	(31,404)
Acquisition of subsidiaries	39(a)	—	—	—	117,990	69,172	2,524	122,199	3,996	315,881
Acquisition of a 51% participating interest in the Seram PSC	39(b)	846,530	—	—	—	—	2,067	—	—	848,597
Transfers		—	—	—	15,891	(36,440)		20,549	—	—
At 31 December 2006		854,505	5,857	4,329	1,134,226	109,735	6,558	426,193	90,694	2,632,097
Accumulated depreciation and impairment:										
At beginning of year		—	—	867	125,389	—	238	21,048	7,499	155,041
Provided during the year		3,323	—	742	63,662	—	565	19,253	5,015	92,560
Disposals/write-off		—	—	—	(4,875)	—	(72)	(257)	—	(5,204)
Impairment/ (reversal of impairment)		—	—	—	(14,583)	—	—	191	9,499	(4,893)
Exchange realignment		—	—	2	2,091	—	—	767	232	3,092
At 31 December 2006		3,323	—	1,611	171,684	—	731	41,002	22,245	240,596
Net book value:										
At 31 December 2006		851,182	5,857	2,718	962,542	109,735	5,827	385,191	68,449	2,391,501

Note: As at 31 December 2006, the property, plant and equipment of HK$62,252,000 (2005: Nil) were pledged against the bank loans as further detailed in note 33(b) to the financial statements. Freehold land of the Group is located in Australia.

HK$'000

Group

31 December 2005

	Oil and gas properties	Freehold land	Leasehold improvements	Motor vehicles, plant, machinery, tools and equipment	Construction in progress and construction material	Furniture and fixtures	Buildings and structures	Capital works	Total
Cost:									
At beginning of year	189,612	4,964	2,305	1,015,271	—	3	286,882	57,699	1,556,736
Additions	114,093	1,155	2,239	17,565	—	1,385	8,744	3,943	149,124
Disposals/write-off	—	—	(462)	(1,596)	—	(11)	(5,577)	—	(7,646)
Reclassification to a disposal group held for sale	(303,705)	—	—	—	—	—	—	—	(303,705)
Exchange realignment	—	(287)	37	(53,421)	—	—	(14,123)	(1,060)	(68,854)
At 31 December 2005	—	5,832	4,119	977,819	—	1,377	275,926	60,582	1,325,655
Accumulated depreciation and impairment:									
At beginning of year	3,848	—	373	66,141	—	—	9,278	3,312	82,952
Provided during the year	50,043	—	656	47,436	—	238	11,770	4,187	114,330
Disposals/write-off	—	—	(162)	(921)	—	—	—	—	(1,083)
Impairment	—	—	—	12,733	—	—	—	—	12,733
Reclassification to a disposal group held for sale	(53,891)	—	—	—	—	—	—	—	(53,891)
At 31 December 2005	—	—	867	125,389	—	238	21,048	7,499	155,041
Net book value:									
At 31 December 2005	—	5,832	3,252	852,430	—	1,139	254,878	53,083	1,170,614

Note: During the year ended 31 December 2005, the directors of the Company considered that certain machinery, tools and equipment were impaired following the sudden failure of electricity supply that had occurred in late 2005. Based on the estimated recoverable amount set out in an insurance compensation plan covering the said machinery, tools and equipment, an impairment provision of HK$12,733,000 was made in 2005.

14. PREPAID LAND LEASE PREMIUMS

Group

	2006	2005
Arising on acquisitions of subsidiaries (note 39(a))	60,564	—
Cost at 31 December	60,564	—
Amortisation	(948)	—
Carrying amount at 31 December	59,616	—
Current portion included in prepayments, deposits and other receivables	(1,263)	—
Non-current portion	58,353	—

The leasehold land is held under a long term lease and is situated in the PRC. Leasehold land of HK$1,300,000 is pledged for bank loans as further detailed in note 33(b) to the financial statements.

HK$'000

15. OTHER INTANGIBLE ASSETS

Group

	Mining rights
Arising on acquisitions of subsidiaries (note 39(a))	139,904
Additions	32
At 31 December 2006	139,936
Amortisation provided during the year	(4,235)
Net carrying amount at 31 December 2006	135,701

As at 31 December 2006, the mining rights of HK$135,701,000 were pledged against certain bank loans of the Group as further detailed in note 33(b) to the financial statements.

16. OTHER ASSETS

Group

	2006	2005
Cost:		
At beginning of year	737,311	780,367
Exchange realignment	49,615	(43,056)
At 31 December	786,926	737,311
Accumulated amortisation:		
At beginning of year	105,068	46,720
Provided during the year	62,930	58,348
At 31 December	167,998	105,068
Net book value:		
At 31 December	618,928	632,243
Non-current portion	555,983	573,878
Current portion	62,945	58,365
	618,928	632,243

Other assets represent the amounts paid for the ESA.

17. GOODWILL

Group

	2006	2005
Cost:		
At beginning and end of year	341,512	341,512

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units, which are reportable segments, for impairment testing:

- aluminium smelting segment of HK$316,830,000 (2005: HK$316,830,000); and
- import and export of commodities segment of HK$24,682,000 (2005: HK$24,682,000).

HK$'000

Aluminium smelting segment

The recoverable amount of the aluminium smelter cash-generating unit is determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to cash flow projections is 6.22% (2005: 5.5%).

Import and export of commodities segment

The recoverable amount of the import and export of commodities cash-generating unit is determined based on fair value less costs to sell. The fair value is calculated by reference to the market share price of the listed vehicle of the import and export of commodities segment (CATL) as at 31 December 2006.

18. INTERESTS IN SUBSIDIARIES

Company	**2006**	**2005**
Unlisted shares, at cost	173,134	173,134
Due from subsidiaries	2,822,924	2,004,583
Due to subsidiaries	(1,716)	(1,716)
	2,994,342	2,176,001
Provision for impairments	(611,700)	(454,500)
	2,382,642	1,721,501

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Directly held				
SEA Wood Investment Holdings Limited	British Virgin Islands/ Hong Kong	US$10,000	100	Investment holding
Starbest Venture Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Oil and Gas Holdings Limited	British Virgin Islands/ Hong Kong	US$100	100	Investment holding
Star Elite Venture Limited*	British Virgin Islands/ Hong Kong	US$1	100	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held				
Nusoil Manufacturing Limited	British Virgin Islands/ PRC	US$100	100	Investment holding
Wing Lam (International) Timber Limited	Hong Kong	HK$ 60,000,000	100	Investment holding
Dongguan Xinlian Wood Products Company Limited (note (a))	PRC	HK$ 60,000,000	100	Dormant
Global Enterprises (HK) Limited	Hong Kong	HK$2	100	Provision of management services
Maxpower Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Toplight Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Richfirst Holdings Limited	British Virgin Islands/ PRC	US$100	100	Investment holding
Cogent Assets Limited	British Virgin Islands/ Hong Kong	US$2	100	Investment holding
Group Smart Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
Highkeen Resources Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Petrochemical Holdings Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Petrochemical Investments Limited	British Virgin Islands/ Hong Kong	US$1	100	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Resources Australia Pty Limited#	State of Victoria, Australia	A$199,019,212	100	Investment holding
CITIC Portland Holdings Pty Limited#	State of Victoria, Australia	A$196,791,454	100	Investment holding
CITIC Australia (Portland) Pty Limited#	State of Victoria, Australia	A$45,675,117	100	Aluminium smelting
CITIC Portland Surety Pty Limited#	State of Victoria, Australia	A$1	100	Investment holding
CITIC (Portland) Nominees I Pty Limited (note (b))#	State of Victoria, Australia	A$2	100	Investment holding
CITIC (Portland) Nominees II Pty Limited (note (b))#	State of Victoria, Australia	A$2	100	Investment holding
CITIC Nominees Pty Limited Partnership#	State of Victoria, Australia	A$6,693,943	100	Investment holding
CITIC Nominees Pty Limited#	State of Victoria, Australia	A$2	100	Investment holding
CITIC Portland Finance I Pty Limited#	State of Victoria, Australia	A$2	100	Financing
CITIC Australia Trading Limited (note (c))#	State of Victoria, Australia	A$7,635,440	77.66	Investment holding
CITIC Australia Commodity Trading Pty Limited#	State of Victoria, Australia	A$500,002	77.66	Import and export of commodities and manufactured goods
CITIC Tyres & Wheels Pty Limited#	State of Victoria, Australia	A$100	77.66	Import of tyres and alloy wheels

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Batteries Pty Limited#	State of Victoria, Australia	A$2	77.66	Dormant
CITIC Australia Coal Pty Limited#	State of Victoria, Australia	A$6,589,637	100	Investment holding
CITIC Australia Coal Exploration Pty Limited#	State of Victoria, Australia	A$2,845,375	100	Exploration, development and mining of coal
CITIC Australia Coppabella Pty Limited#	State of Victoria, Australia	A$5,000,002	100	Mining and production of coal
CITIC Australia Moorvale West Pty Limited#	State of Victoria, Australia	A$2	100	Exploration and development of coal mines
CITIC Olive Downs Pty Limited#	State of Victoria, Australia	A$99,958	100	Exploration and development of coal mines
CITIC West Walker Pty Limited#	State of Victoria, Australia	A$91,812	100	Exploration and development of coal mines
CITIC West Rolleston Pty Limited#	State of Victoria, Australia	A$196,390	100	Exploration and development of coal mines
CITIC West/North Burton Pty Limited#	State of Victoria, Australia	A$34,238	100	Exploration and development of coal mines
CITIC Capricorn Pty Limited#	State of Victoria, Australia	A$9,549	100	Exploration and development of coal mines
CITIC Bowen Basin Pty Limited#	State of Victoria, Australia	A$378,353	100	Exploration and development of coal mines
CITIC Nickel Pty Ltd#	State of Victoria, Australia	A$2	100	Investment holding
CITIC Nickel Australia Pty Limited#	State of Victoria, Australia	A$1	100	Exploration and development of nickel mines

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
CITIC Nickel International Pty Limited#	State of Victoria, Australia	A$1	100	Exploration and development of nickel mines
Beijing Qian Quan Investment Consultant Co. Limited#	Beijing, PRC	RMB1,243,173	100	Consulting
Beijing Yi Xin Mei Pty Limited#	Beijing, PRC	RMB500,000	100	Consulting
CITIC Mining Equipment Pty Limited* #	State of Victoria, Australia	A$2	100	Investment holding
Tyre Choice Pty Limited* #	State of Victoria, Australia	A$2	77.66	Investment holding
CITIC Dameng Holdings Limited	Bermuda/ Hong Kong	HK$100,000	80	Investment holding
CITIC Dameng Investments Limited (note (d))	British Virgin Islands/ Hong Kong	US$1	80	Investment holding
CITIC Dameng Trading Limited	Hong Kong	HK$10,000	80	Trading
CITIC Dameng Mining Industries Ltd. (中信大錳礦業有限責任公司)* ^	PRC	RMB500,000,000	48	Exploration and development of manganese mines
Guangxi Start Manganese Material Co., Ltd (廣西斯達特錳材料有限公司)* ▲	PRC	RMB24,280,000	34.16	Exploration and development of manganese mines
Guangxi Nanning Kuanguang Industry & Trade Co., Ltd (廣西南寧寬廣工貿有限責任公司)* ▲	PRC	RMB1,000,000	36.96	Manufacture of manganese and metal products
Tiandeng Dameng Ferroalloy Co., Ltd (天等縣大錳鐵合金有限公司)* ▲	PRC	RMB6,000,000	28.8	Manufacture and sale of metal products

Name	Place of incorporation/ registration and operations	Nominal value of issued share/ paid-up capital	Percentage of equity interest attributable to the Company	Principal activities
Indirectly held (continued)				
Guangxi Daxin Dabao Ferroalloy Co., Ltd (廣西大新縣大寶鐵合金有限公司)* ▲	PRC	RMB2,680,000	28.8	Iron alloy smelting
CITIC Indonesia Energy Limited*	British Virgin Islands/ Hong Kong	US$1	100	Investment holding
CITIC Seram Energy Limited* (note (e))	British Virgin Islands/ Indonesia	US$50,000	100	Investment holding
CITIC New Highland Petroleum Limited*	British Virgin Islands/ Hong Kong	US$1	100	Investment holding

* Acquired or established during the year.
\# Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.
^ Sino-foreign equity joint venture registered under the PRC law.
▲ Limited liability company registered under the PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

Notes:

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

(b) These two companies jointly own CITIC Nominees Pty Limited Partnership, which owns the interests in the Portland Aluminium Smelter joint venture.

(c) The shares of CATL are listed on the Australian Stock Exchange (the "ASX").

CATL operates a pre-IPO share option scheme for its directors and other employees (the "Pre-Scheme"). The purpose of the Pre-Scheme is to provide incentives for employees to remain in their employment for the long term. CATL had granted share options under the Pre-Scheme to its directors and other employees to subscribe for a total of 4,700,000 shares in CATL at subscription prices that range from A$0.20 to A$0.35 per share. No consideration is payable by participants on the grant of the options.

(d) On 28 February 2006, CITIC Dameng Investments Limited completed the acquisition of the Manganese Company. The Manganese Company in turn holds controlling interests in Guangxi Start Manganese Material Co., Ltd., Guangxi Nanning Kuanguang Industry & Trade Co. Ltd., Tiandeng Dameng Ferroalloy Co., Ltd. and Guangxi Daxin Dabao Ferroalloy Co., Ltd.

(e) CITIC Seram Energy Limited ("CITIC Seram") acquired a 51% participating interest in the 30 year Seram PSC which owns certain oil producing assets in Indonesia for a purchase price of HK$874,952,000, subject to adjustment.

On 23 November 2006, CITIC Seram completed the acquisition of a 51% participating interest in the Seram PSC from KUFPEC (Indonesia) Limited. As of the same date, CITIC Seram became the operator responsible for managing and operating exploration and development at the Seram Island Non-Bula Block.

CITIC Seram has granted to Lion Petroleum (Seram) Limited ("Lion") a put option (the "Put Option"), in which Lion has the right (but not the obligation) to sell to CITIC Seram, and require CITIC Seram to acquire Lion's 2.5% participating interest in the Seram PSC for a consideration of US$4,700,000 (HK$36,700,000 million), subject to adjustment. The Put Option may be exercised at any time during the three months period from the date on which the budget and work program for the year 2007 for the Seram joint venture are approved by the operating committee in accordance with the joint operating agreement of Seram. Lion did not exercise the Put Option and the Put Option lapsed in March 2007.

19. INTERESTS IN JOINTLY-CONTROLLED ASSETS

At 31 December 2006, the Group had joint venture operations in which the Group holds interests as follows:

(a) 22.5% participating interest in the Portland Aluminium Smelter joint venture, the principal activity of which is aluminium smelting;

(b) 16% participating interest in the spent potlining project joint venture at Portland, the principal activity of which is the processing of spent potlining;

(c) 7% participating interest in the Coppabella and Moorvale coal mines joint venture, the principal activity of which is the mining and sale of coal;

(d) 10% participating interest in the Olive Downs joint venture, the principal activity of which is the exploration of coal;

(e) 10% participating interest in the Moorvale West joint venture, the principal activity of which is the exploration of coal;

(f) 10% participating interest in the West/North Burton joint venture, the principal activity of which is the exploration of coal;

(g) 10% participating interest in the West Rolleston joint venture, the principal activity of which is the exploration of coal;

(h) 15% participating interest in the West Walkers joint venture, the principal activity of which is the exploration of coal;

(i) 15% participating interest in the Capricorn joint venture, the principal activity of which is the exploration of coal;

(j) 15% participating interest in the Bowen Basin Coal joint venture, the principal activity of which is the exploration of coal;

(k) 50% participating interest in the CB Exploration joint venture, the principal activity of which is the exploration of coal; and

(l) 51% participating interest in the Seram PSC. Details of the acquisition of the participating interest in this oilfield are included in note 39(b) to the financial statements.

The jointly-controlled assets as detailed in (c) to (k) have different reporting dates to the Group, being 30 June compared to 31 December. The jointly-controlled assets as detailed in (a) to (k) are not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms. The audited financial statements issued by another auditors of these jointly-controlled assets up to 31 December 2006 have been used for the purpose of preparation of the consolidated financial statements of the Group.

HK$'000

The Group's interest in the net assets employed in the Portland Aluminium Smelter joint venture, which accounts for over 10% of the Group's total assets, is included in the consolidated balance sheet under the classifications shown below:

	2006	2005
Non-current assets	2,200,182	2,070,585
Current assets	146,986	114,681
Current liabilities	(318,611)	(99,115)
Non-current liabilities	(92,210)	(397,667)
Share of net assets employed in the Portland Aluminium Smelter joint venture	1,936,347	1,688,484

The Group's interests in the net assets employed in the Seram joint venture is included in the consolidated balance sheet under the classifications shown below:

	2006	2005
Non-current assets	853,295	—
Current assets	203,556	—
Current liabilities	(49,604)	—
Non-current liabilities	(100,483)	—
Share of net assets employed in the Seram joint venture	906,764	—

The Group's interests in the combined net assets employed in the other jointly-controlled assets are included in the consolidated balance sheet under the classifications shown below:

	2006	2005
Non-current assets	68,602	61,166
Current assets	94,123	58,356
Current liabilities	(43,599)	(31,768)
Non-current liabilities	(14,696)	(10,564)
Share of net assets employed in the other joint ventures	104,430	77,190

20. AVAILABLE-FOR-SALE EQUITY INVESTMENTS

	Group	
	2006	2005
Non-current listed equity investments, at fair value:		
Australia	770,538	657,035
Canada	75,398	—
	845,936	657,035

HK$'000

	Group 2006	2005
The cost of the above investments were:		
Australia	296,344	258,522
Canada	130,013	—
	426,357	258,522

During the year, the loss on fair value of the Group's available-for-sale equity investments of HK$10,175,000 (2005: gain of HK$124,350,000) and related deferred tax liability of HK$13,332,000 (2005: HK$37,305,000) amounted to HK$23,507,000 had been debited directly from equity (2005: HK$87,045,000 had been credited directly into equity).

The fair values of available-for-sale listed equity investments are based on quoted market prices.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Current portion

The current balance includes an amount of HK$86,115,727 being professional fees incurred for financial and legal advice in connection with the Group's potential investment projects. These amounts are intended to be capitalised into the cost of the potential investments if the Group proceeds with these investments. Otherwise such professional fees will be expensed off to the consolidated income statement once it is determined that the Group will not proceed with the related investment.

The current year's balance also includes an amount of US$200,000,000 (HK$1,560,000,000) which was paid as earnest money for the potential investment project in Kazakhstan, further details of which are set out in note 43(b) to the financial statements.

An amount of HK$2,066,000 (2005: HK$301,000) is included in the current portion represents an amount due from fellow subsidiaries of the Group. The balance is unsecured, interest-free and has no fixed terms of repayment.

Non-current portion

Last year's non-current balance included an amount of RMB300,000,000 (HK$288,500,000) and an amount of HK$17,170,000 which was paid as deposit and prepayment of professional fees for the Manganese Company. Last year's balance also included prepayment of professional fees of HK$5,739,000 directly attributable to the other potential investments.

22. INVENTORIES

	Group 2006	2005
Raw materials	184,149	67,468
Work in progress	124,512	37,830
Finished goods	803,489	550,840
	1,112,150	656,138

HK$'000

23. DUE FROM RELATED COMPANIES/THE ULTIMATE HOLDING COMPANY

The amounts due from related companies/the ultimate holding company of the Group are unsecured, interest-free and repayable on demand. The carrying values of the amounts due from related companies/the ultimate holding company approximate to their fair values.

The maximum outstanding balances during the year for related companies and the ultimate holding company were HK$51,486,000 and HK$34,320,000 respectively.

24. LOAN RECEIVABLE

The Group's loan receivable arose from the conversion of the Dagang Participating Interest. More details are given in notes 28 and 43(c) to the financial statements.

The amortised cost of the Group's loan receivable approximate to its fair value.

The maturity profile of the loan receivable as at the balance sheet date is analyzed into the remaining periods to its contractual maturity dates as follows:

	Group	
	2006	**2005**
Repayable:		
Within three months	4,235	—
Three months to one year	13,092	—
One year to five years	21,615	—
	38,942	—
Portion classified as current assets	(17,327)	—
Portion classified as non-current assets	21,615	—

25. ACCOUNTS RECEIVABLE

	Group	
	2006	**2005**
Notes receivables	18,522	—
Trade receivables	921,416	395,749
	939,938	395,749

Notes receivables represent bank acceptance notes of the Manganese Company which are issued by major banks in China.

The Group normally offers credit terms of 30 to 60 days to its established customers.

HK$'000

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

	Group 2006	Group 2005
Within one month	643,465	313,181
One to two months	255,889	76,950
Two to three months	17,794	4,630
Over three months	22,790	988
	939,938	395,749

Included in the Group's total accounts receivable is an amount due from the Group's fellow subsidiary of HK$235,785,000 (2005: HK$18,313,000), which is repayable on similar credit terms to those offered to other customers of the Group.

26. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group 2006	Group 2005
Current unlisted equity investments, at fair value:		
Australia	1,974	1,830

The above equity investments at 31 December 2005 and 2006 were classified as held for trading.

27. CASH AND BANK BALANCES AND PLEDGED BANK DEPOSITS

	Group 2006	Group 2005	Company 2006	Company 2005
Cash and bank balances	310,258	166,033	1,955	48
Time deposits*	540,486	1,353,562	20,735	887,632
	850,744	1,519,595	22,690	887,680

* Amounts of HK$75,528,279 (2005: HK$522,332,000) and HK$15,372,065 (2005: HK$520,618,000) of the time deposits of the Group and of the Company, respectively, as at 31 December 2006 were placed with CITIC Ka Wah Bank Limited.

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and pledged deposits approximate to their fair values.

HK$'000

At the balance sheet date, the cash and bank balances of the Group and the Company denominated in Renminbi ("RMB") amounted to HK$116,754,514 and HK$2,310,052 (2005: HK$147,509 and Nil). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

28. ASSETS/LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Pursuant to a resolution of the board of directors of the Company passed on 15 November 2005, the Company announced the board's decision to exercise its option to convert the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. The Group decided to cease its holding of Dagang Participating Interest because the Group was of the view that the conversion is in the interests of the Group as it will provide the Group with exposure to all of Ivanhoe's oil and energy interests rather than just the Dagang Oilfield project. The conversion was completed on 18 February 2006. Further details of the conversion are included in note 43(c) to the financial statements. As at 31 December 2005, the assets and liabilities related to the Dagang Participating Interest were classified as a disposal group held for sale.

The results of the Dagang Participating Interest for the period/year are presented below:

	Period from 1 January 2006 to 18 February 2006	**2005**
Revenue	13,604	77,429
Expenses	(13,771)	(84,049)
Loss before tax	(167)	(6,620)
Tax	889	(887)
Net profit /(loss) for the period/year	722	(7,507)

The major classes of assets of the Dagang Participating Interest classified as held for sale as at 31 December are as follows:

	2006	**2005**
Assets		
Property, plant and equipment, net	—	249,814
Accounts receivable	—	16,282
Assets classified as held for sale	—	266,096
Liabilities		
Accounts payable	—	33,072

HK$'000

29. ACCOUNTS PAYABLE

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

	Group 2006	Group 2005
Within one month	455,696	170,572
One to two months	58,416	14,762
Two to three months	5,284	172
Over three months	14,392	782
	533,788	186,288

The accounts payable are non-interest-bearing and are normally settled on 60-day terms.

There is no account payable included in a disposal group (note 28) as at 31 December 2006 (2005: HK$33,073,000) which was aged within three months.

30. ACCRUED LIABILITIES AND OTHER PAYABLES

Included in the total balance was an amount of HK$7,210,000 (2005: HK$6,644,000) due to the CITIC Group, the ultimate holding company of the Company, which represents an interest expense payable on loans totaling US$41,000,000 (HK$327,003,000) that had been advanced by CITIC Group (note 33(g)).

31. DERIVATIVE FINANCIAL INSTRUMENTS

	Group 2006 Assets	Group 2006 Liabilities
Forward currency contracts and currency options	10,064	8,450
Forward commodity contracts	—	134,310
Interest rate swap and options	6,316	—
Derivative financial instruments	—	185,223
	16,380	327,983
Portion classified as non-current:		
Derivative financial instruments	—	(41,063)
Current portion	16,380	286,920

The carrying amounts of forward currency and commodity contracts, interest rate swap and embedded derivatives are the same as their fair values.

The Group is the party to derivative financial instruments in the normal course of business in order to hedge the exposure to fluctuations in foreign exchange rates, commodity prices and interest rates.

HK$'000

Accounting policies in relation to derivative financial instruments are set out in note 2.4 to the financial statements.

Forward currency contracts and currency option — cash flow hedges

The Group's exports business in Australia involves transactions where both the sales revenue and the majority of the related costs of the goods sold are denominated in United States dollars, as well as other currencies. The Group has entered into forward currency contracts and currency options to hedge its net foreign currency exposures in relation to such transactions.

Imports of the Group generally involve transactions where the purchases of imported goods (as well as some of the costs related to such purchases) are denominated in United States dollars, as well as other currencies. However, subsequent sales of such goods are generally denominated in Australian dollars. Therefore, to enable the Group to manage such business operations, including setting the Australian dollar selling prices of the imported goods, forward currency contracts and currency options are entered into to hedge current and anticipated future purchases.

The contracts are timed to mature when major shipments are scheduled to arrive and cover anticipated purchases and sales in the ensuing financial year. Forward currency contracts described above are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy set out in note 2.4 to the financial statements.

At 31 December, the terms of the outstanding contracts held by the Group were as follows:

	2006		2005	
	Weighted average exchange rate	**Contractual amount HK$'000**	**Weighted average exchange rate**	**Contractual amount HK$'000**
Forward contracts:				
(i) Sell A$/Buy US$				
Less than 3 months	0.7681	303,625	0.7426	168,917
Buy A$/Sell US$				
Less than 3 months	0.7312	68,849	0.7403	78,484
In 3 to 12 months, inclusive	0.7137	58,548	0.7435	163,983
In 1 to 2 years, inclusive	0.7134	6,413	0.7435	18,222
Currency options:				
(i) Put US$ option sell				
Less than 3 months	0.7700	40,081	0.7565	12,482
In 3 to 12 months, inclusive	—	—	0.7704	3,531
(ii) Call A$ option buy				
Less than 3 months	—	—	0.7565	12,482
In 3 to 12 months, inclusive	—	—	0.7704	3,531

Amounts disclosed above represent currencies sold measured at the contracted rate.

The portion of gain or loss on the hedging instruments that is determined to be an effective hedge is recognised directly in equity. When a cash flow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount in equity.

Forward commodity contracts — cash flow hedges

The Group has also committed to the following contracts in order to protect the Group from adverse movements in aluminium prices.

All commodity contracts are normally settled other than by physical delivery of the underlying commodities and hence are classified as financial instruments. On maturity, the contracted price is compared to the spot price and the differential is applied to the contracted quantity. A net amount is paid or received by the Group.

HK$'000

Aluminium forward contracts are entered into for the purpose of hedging future production, the contracts are considered to be cash flow hedges, and are accounted for in accordance with the accounting policy in note 2.4 to the financial statements.

At 31 December, the terms of the Group's outstanding commodity derivative financial instruments were as follows:

	2006			2005		
	Quantity hedged (MT)	Average price per tonne HK$	Contractual amount HK$'000	Quantity hedged (MT)	Average price per tonne HK$	Contractual amount HK$'000
Aluminium forward (sold):						
Less than 3 months	5,600	15,733	88,883	7,800	13,697	106,835
In 3 to 12 months, inclusive	15,750	16,988	267,581	19,350	13,681	264,776
In 1 to 2 years, inclusive	6,700	15,444	102,340	2,150	13,681	29,421
In 2 to 5 years, inclusive	450	14,680	6,604	12,000	12,769	153,213

Interest rate swap contracts and options — cash flow hedges

The Group has entered into interest rate swap to hedge against unfavorable movements in interest rates payable on floating rate borrowings. The Group is obliged to pay interest at fixed rates and receive interest at floating rates on the notional principal of the swap, with settlement being on a net basis.

The contracts require settlement of net interest receivable or payable at specified intervals which coincide with the dates on which interest is payable on the underlying debt. Such net receipts or payments are recognised as an adjustment to interest expense at the time the floating rates are set for each interval. The floating rates for A$ denominated swap are set by reference to Bank Bill Swap reference rate ("BBSW") and for US$ denominated swap are set by reference to London Interbank Offered Rate ("LIBOR").

Swap currently in place cover 50% of the syndicate loan principal outstanding in CITIC Australia (Portland) Pty Limited and are timed to expire as each loan repayment falls due. The fixed interest rate is fixed at 3.58% over the whole term of the contract and the variable interest rates are set at 6-month LIBOR.

Interest rate options are entered from time to time by the coal mining and other joint venture managers on behalf of the joint venture partners to reduce the impact of changes in interest rates on floating rate long-term basis.

At 31 December, the remaining terms, notional principal amounts and other significant terms of the Group's outstanding interest rate swap contracts and options were as follows:

US$ interest rate swap:

	2006		2005	
	Weighted average rate (%)	Notional amount	Weighted average rate (%)	Notional amount
Within 1 year	3.58	23,400	3.58	23,400
In the fifth year	3.58	296,400	3.58	319,800

HK$'000

The terms of the forward contracts and options have been negotiated to match the terms of the commitments. The cash flow hedges of the expected future sales and the expected future purchases were assessed to be highly effective and a net loss, before deferred tax, of HK$78,385,000 was included in the hedging reserve as follows:

	2006	**2005**
Total fair value losses included in the hedging reserve	78,385	174,468
Total fair value losses included in profit or loss	111,667	13,235
Deferred tax on fair value losses	(9,989)	(56,313)
Net losses on cash flow hedges	180,063	131,390

32. DUE TO A MINORITY SHAREHOLDER

The amount due to a minority shareholder is unsecured, interest-free and repayable on demand. The carrying amount of the amount due to a minority shareholder approximates to its fair value.

33. BANK AND OTHER LOANS

		Group	
	Notes	**2006**	**2005**
Bank loans—unsecured #	(a)	2,465,035	772,594
Bank loans—secured * # (Note)	(b)	878,650	686,405
Unsecured loan from Transport Infrastructure Corridor *	(c)	6,815	7,850
Unsecured loan from Exploration Permit for coal *	(d)	6,242	6,775
Unsecured loans from former minority shareholders ^	(e)	11,862	11,862
Unsecured loan from a minority shareholder ^	(f)	61,930	61,330
Unsecured loan from CITIC Group #	(g)	327,003	358,800
Unsecured loan from 廣西金孟錳業有限公司^	(h)	45,025	—
		3,802,562	1,905,616

	Company	
	2006	**2005**
Bank loans—unsecured #	1,513,200	—

* Fixed rate
# Floating rate
^ Interest free

Note: Includes the effects of a related interest rate swap as further detailed in note 31 to the financial statements.

Notes:

(a) The unsecured bank loans of HK$2,465,035,000 include mainly a revolving term loans denominated in U.S. dollars that totalled US$230,000,000 (HK$1,419,560,000), which was interest bearing at LIBOR + (0.5% to 0.7%). The unsecured bank loans also include trade finance facilities of A$154,218,268 (HK$951,835,000) which were interest bearing at LIBOR and are guaranteed by CITIC Resources Australia Pty Limited.

(b) The secured bank loans of HK$878,650,000 include mainly:

A US$82,000,000 (HK$639,600,000) loan due by 31 December 2008 (extendable in accordance with the terms of the Portland Aluminum Smelter joint venture), which was interest-bearing at LIBOR and secured by a 22.5% participating interest in Portland Aluminium Smelter joint venture.

A loan of RMB243,846,336 (HK$239,050,000) with due date from 17 January 2007 to 14 September 2010, which was interest-bearing at rates ranging from 6.12% to 7.25% per annum and secured by property, plant and equipment of HK$62,252,000, prepaid land lease premiums of HK$1,300,000, a letter of credit, mining rights of HK$135,701,000 and a guarantee provided by a minority shareholder.

(c) The loans were obtained from the State Government of Queensland, Australia. The loans are unsecured, interest bearing at 6.69% per annum and repayable in equal quarterly instalments by 30 September 2012.

(d) The loans were obtained from the manager of the Coppabella and Moorvale coal mines joint venture. The loans are unsecured, interest bearing at 6% per annum and repayable in equal annual instalments by 11 December 2013.

(e) The loans were from the former minority shareholders (details of which are set out in note 40(a)). The loans are unsecured, interest-free and not repayable within one year.

(f) The loan was from a minority shareholder of CITIC Dameng Investments Limited, namely CITIC United Asia Investments Limited (which is an indirect wholly-owned subsidiary of CITIC Group). The loan is unsecured, interest-free and not repayable within one year.

(g) The loan of US$41,000,000 (HK$327,003,000) was granted by CITIC Group, the ultimate holding company of the Group. The loan is unsecured, interest bearing at LIBOR + 1.5% per annum and repayable in equal annual instalments by September 2015.

(h) The loans were from 廣西金孟錳業有限公司. The loans are unsecured, interest-free and repayable on 1 July 2007.

HK$'000

	Group 2006	2005
Bank loans repayable:		
Within one year or on demand	1,495,017	817,476
In the second year	833,648	48,719
In the third to fifth years, inclusive	1,015,020	140,400
Beyond five years	—	452,404
	3,343,685	1,458,999
Other loans repayable:		
Within one year	46,796	1,917
In the second year	1,878	1,917
In the third to fifth years, inclusive	6,335	5,751
Beyond five years	3,073	5,040
	58,082	14,625
Loans from former minority shareholders, beyond one year	11,862	11,862
Loans from minority shareholders, beyond one year	61,930	61,330
Loans from CITIC Group:		
Within one year	46,209	39,000
In the second year	38,999	39,000
In the third to fifth years, inclusive	116,998	117,000
Beyond five years	124,797	163,800
	327,003	358,800
Total bank and other loans	3,802,562	1,905,616
Portion classified as current liabilities	(1,588,022)	(858,393)
Non-current portion	2,214,540	1,047,223

	Company 2006	2005
Bank loans repayable:		
Within one year or on demand	343,200	—
In the second year	234,000	—
In the third to fifth years, inclusive	936,000	—
	1,513,200	—
Portion classified as current liabilities	(343,200)	—
Non-current portion	1,170,000	—

HK$'000

The carrying amounts of the Group's and the Company's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

Group

	Effective interest rate p.a. (%)	Carrying amounts 2006	Carrying amounts 2005	Fair values 2006	Fair values 2005
Unsecured loans from Transport Infrastructure Corridor	5.921	5,788	7,850	5,923	7,955
Unsecured loans from Exploration Permit for coal	5.960	5,498	6,775	5,506	6,826
Unsecured loans from CITIC Group	6.034	280,794	319,800	289,509	315,863
Unsecured bank loans	5.855	1,170,000	—	1,176,820	—
Secured bank loans	5.898	592,785	639,606	593,662	630,411
Unsecured bank loans	5.898	6,863	—	6,955	—
Other secured bank loans	5.844 - 5.855	79,020	—	81,091	—
Unsecured loans from former minority shareholders	5.960	11,862	11,862	11,557	11,615
Unsecured loan from a minority shareholder	5.960	61,930	61,330	59,755	60,051
		2,214,540	1,047,223	2,230,778	1,032,721

Company

	Effective interest rate p.a. (%)	Carrying amounts 2006	Carrying amounts 2005	Fair values 2006	Fair values 2005
Unsecured bank loans	6.034	1,170,000	—	1,176,820	—

34. PROVISIONS

Group

	Long service and leave payments	Provision for rehabilitation cost	Provision for abandonment cost	Total
At 1 January 2006	45,877	73,363	—	119,240
Acquisition of a joint venture (note 39(b))	—	—	24,682	24,682
Additions	6,715	34,365	112	41,192
Amount written back	—	(23,225)	—	(23,225)
Exchange realignment	3,600	5,798	—	9,398
At 31 December 2006	56,192	90,301	24,794	171,287
Portion classified as current liabilities	(45,476)	(8,262)	—	(53,738)
Non-current portion	10,716	82,039	24,794	117,549

HK$'000

35. DEFERRED TAX

The movements in the Group's deferred tax liabilities and assets during the year were as follows:

Deferred tax liabilities — 2006

	Accelerated tax depreciation	Fair value adjustments	Total
At 1 January 2006	430,687	40,298	470,985
Acquisitions of subsidiaries (note 39(a))	3,465	7,788	11,253
Deferred tax charged to the consolidated income statement during the year (note 10)	(14,363)	(15,458)	(29,821)
Deferred tax credited to equity during the year	—	30,461	30,461
Exchange realignment	30,613	6,442	37,055
Gross deferred tax liabilities at 31 December 2006	450,402	69,531	519,933

Deferred tax assets — 2006

	Losses available for offset against future taxable profit
At 1 January 2006	11,188
Deferred tax charged to the consolidated income statement during the year (note 10)	(1,434)
Deferred tax credited to equity during the year	(4,484)
Exchange realignment	1,484
Gross deferred tax assets at 31 December 2006	6,754
Net deferred tax liabilities at 31 December 2006	513,179

Deferred tax liabilities — 2005

	Accelerated tax depreciation	Fair value adjustments	Total
At 1 January 2005	449,170	62,955	512,125
Deferred tax charged to the consolidated income statement during the year (note 10)	9,317	(3,971)	5,346
Deferred tax debited to equity during the year	—	(15,046)	(15,046)
Exchange realignment	(27,800)	(3,640)	(31,440)
Gross deferred tax liabilities at 31 December 2005	430,687	40,298	470,985

HK$'000

Deferred tax assets — 2005

	Losses available for offset against future taxable profit
At 1 January 2005	14,984
Deferred tax charged to the consolidated income statement during the year (note 10)	(2,925)
Exchange realignment	(871)
Gross deferred tax assets at 31 December 2005	11,188
Net deferred tax liabilities at 31 December 2005	459,797

36. SHARE CAPITAL

Shares

	2006	2005
Authorised:		
6,000,000,000 (2005: 6,000,000,000) ordinary shares of HK$0.05 each	300,000	300,000
Issued and fully paid:		
4,318,184,381 (2005: 4,316,884,381) ordinary shares of HK$0.05 each	215,909	215,844

During the year, the subscription rights attaching to 1,300,000 share options were exercised at the subscription price of HK$1.08 per share, resulting in the issue of 1,300,000 ordinary shares of HK$0.05 each for a total cash consideration, before issuance expenses, of HK$1,404,000. The use of the proceeds is for the Group's normal daily operation.

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 37 to the financial statements.

37. SHARE OPTION SCHEME

On 30 June 2004, a new share option scheme (the "New Scheme") was adopted by the Company to replace the share option scheme which was adopted by the Company on 21 August 1997 (the "Old Scheme"). The Old Scheme was terminated on 30 June 2005.

Pursuant to the New Scheme, the Company may grant options to eligible participants to subscribe for shares in the Company subject to the terms and conditions stipulated therein. A summary of the New Scheme is as follows:

(a) Purpose	—	To enable the Company to grant options to Eligible Participants (as defined below) as incentives and rewards for their contributions to the Group.
(b) Eligible Participants	—	Being employees or executives or officers of the Company or any of its subsidiaries (including their respective executive and non-executive directors) and consultants, business associates and advisers who will provide or have provided services to the Group.
(c) Total number of shares available for issue under the New Scheme	—	The total number of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the total number of shares of the Company in issue.
(d) Maximum entitlement of each Eligible Participant	—	The total number of shares issued and to be issued upon exercise of the options granted to each Eligible Participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant shall not exceed 1% of the total number of shares of the Company in issue at the date of grant.
(e) Period during which the shares must be taken up under an option	—	The period during which an option may be exercised is determined by the board of directors of the Company at its absolute discretion, except that no option may be exercised after 10 years from the date of adoption of the New Scheme, subject to early termination of the New Scheme.
(f) Minimum period for which an option must be held before it can be exercised	—	The minimum period for which an option must be held before it can be exercised is one year.
(g) Basis of determining the exercise price	—	The exercise price must be at least the highest of (i) the closing price of the shares of the Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a business day; (ii) the average of the closing prices of the shares of the Company on the Stock Exchange as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share.
(h) Remaining life of the New Scheme	—	The New Scheme remains in force until 29 June 2014 unless otherwise terminated in accordance with the terms stipulated therein.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

On 2 June 2005, the Company granted share options under the New Scheme to its directors, certain consultants and employees to subscribe for a total of 167,000,000 ordinary shares in the Company at the exercise price of HK$1.08 per share. Of these, 45,683,116 ordinary shares to each of Mr. Kwok Peter Viem and Mr. Ma Ting Hung were granted subject to approval by shareholders of the Company in the special general meeting held on 26 July 2005 (the "SGM") in accordance with the Listing Rules and the Rules of the New Scheme. Furthermore, all share options were granted on the basis that certain terms attached thereto required the approval of shareholders of the Company in the SGM as they constituted a change to the terms of the New Scheme. The closing price of the shares immediately before the date of grant was HK$1.07 per share.

On 28 December 2005, the Company granted additional share options under the New Scheme to its directors to subscribe for a total of 10,000,000 ordinary shares in the Company at the exercise price of HK$1.06 per share. The closing price of the shares immediately before the date of grant was HK$1.05 per share.

The 1,300,000 share options exercised during the year resulted in the issue of 1,300,000 ordinary shares of the Company and new share capital of HK$65,000 and share premium of HK$1,625,000 (before issue expenses), as further detailed in note 36 to the financial statements.

Movements in the share options during the year end options outstanding under the New Scheme as at the balance sheet date are set out below:

	Number of share options						Price per share		
Participants	At 1 January 2006	Exercised during the year	At 31 December 2006	Date of grant*	Exercise period	Exercise price HK$	At date of grant** HK$	Immediately before the exercise date HK$	At exercise date HK$
Directors									
Kwok Peter Viem	50,000,000	—	50,000,000	02-06-2005	02-06-2007 to 01-06-2010	1.08	1.07	N/A	N/A
Ma Ting Hung	50,000,000	—	50,000,000	02-06-2005	02-06-2007 to 01-06-2010	1.08	1.07	N/A	N/A
Shou Xuancheng	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Sun Xinguo	5,000,000	—	5,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	5,000,000	—	5,000,000	28-12-2005	28-12-2006 to 27-12-2010	1.06	1.05	N/A	N/A
	10,000,000	—	10,000,000						
Li So Mui	5,000,000	—	5,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Mi Zengxin	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Qiu Yiyong	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
Zeng Chen	5,000,000	—	5,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	5,000,000	—	5,000,000	28-12-2005	28-12-2006 to 27-12-2010	1.06	1.05	N/A	N/A
	10,000,000	—	10,000,000						
Zhang Jijing	10,000,000	—	10,000,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	N/A	N/A
	165,000,000	—	165,000,000						
Eligible participants									
In aggregate	12,000,000	(1,300,000)	10,700,000	02-06-2005	02-06-2006 to 01-06-2010	1.08	1.07	1.46 – 1.84	1.42 – 1.88
	177,000,000	(1,300,000)	175,700,000						

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The share price at date of grant is the closing price as quoted on the Stock Exchange on the trading day immediately prior to the date of grant of the share options.

No other feature of the options granted was incorporated into the measurement of fair value.

At the balance sheet date, the Company had 175,700,000 share options outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 175,700,000 additional ordinary shares of the Company, additional share capital of HK$8,785,000 and share premium of HK$180,771,000 (before issue expenses).

On 7 March 2007, the Company issued options under the New Scheme in respect of 20,000,000 shares at the exercise price of HK$3.072 per share. The closing price of the shares immediately before the grant was HK$3.07 per share.

At the date of approval of these financial statements, the Company had 190,200,000 share options outstanding under the Scheme, which represented approximately 3.8% of the Company's shares in issue as at that date.

The following share options of CATL were outstanding under the Pre-Scheme during the year:

	Number of share option					Price per share	
Participants	**At 1 January 2006 Restated**	**Grant/ (exercised) during the year**	**At 31 December 2006**	**Exercise period**	**Exercise price A$**	**Immediately before the exercise date HK$**	**At exercise date HK$**
Directors of the Company							
Zeng Chen	166,668	—	166,668	19 June 2005 to 18 June 2007	0.350	N/A	N/A
Zhang Jijing	200,000	(200,000)	—	19 June 2005 to 18 June 2007	0.350	0.525	0.520
	366,668	(200,000)	166,668				
Directors of CATL:	366,668	(186,668)	180,000	19 June 2005 to 18 June 2007	0.350	0.730	0.755
	140,000	—	140,000	19 June 2005 to 18 June 2007	0.350	N/A	N/A
	506,668	(186,668)	320,000				
Eligible participants	216,666	—	216,666	19 June 2003 to 18 June 2007	0.200	N/A	N/A
	399,999	(66,667)	333,332	19 June 2004 to 18 June 2007	0.250	0.730	0.755
	400,002	—	400,002	19 June 2004 to 18 June 2007	0.300	N/A	N/A
	1,016,667	(66,667)	950,000				
	1,890,003	(453,335)	1,436,668				

38. RESERVES

(a) Group

Movements in the Group's reserves for the current and prior years are presented in the consolidated statement of changes in equity on pages 44 and 45 of the financial statements.

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

HK$'000

(b) Company

	Share premium account	Contributed surplus	Share option reserve	Accumulated losses	Total
As at 1 January 2005	2,561,962	172,934	—	(360,584)	2,374,312
Equity-settled share options arrangements (note 37)	—	—	12,662	—	12,662
Net profit for the year	—	—	—	17,079	17,079
At 31 December 2005 and 1 January 2006	2,561,962	172,934	12,662	(343,505)	2,404,053
Issue of new shares upon exercise of share options (note 37)	1,625	—	(286)	—	1,339
Equity-settled share options arrangements (note 37)	—	—	26,158	—	26,158
Net loss for the year	—	—	—	(152,093)	(152,093)
At 31 December 2006	2,563,587	172,934	38,534	(495,598)	2,279,457

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

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share based payments transactions in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised or be transferred to retained profit should the related options expire or be forfeited.

39. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Acquisitions of subsidiaries

On 28 February 2006, the Group acquired a 48% indirect interest (with effective control via a 80% owned subsidiary) in the Manganese Company. The Manganese Company is engaged in the operation of manganese mining and sale of refined manganese products in the PRC. The purchase consideration was in form of cash, consideration amount of RMB300,000,000 (HK$288,500,000) (note 21) and the cost directly attributable to the acquisition of HK$17,170,000 had been paid in 2005 and recorded as a long term prepayment.

HK$'000

The fair values of the identifiable assets and liabilities of the Manganese Company and its subsidiaries as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition	Carrying amount
Net assets acquired:			
Property, plant and equipment	13	315,881	315,881
Prepaid land lease premiums	14	60,564	60,564
Other intangible assets	15	139,904	104,013
Cash and bank balances		148,230	148,230
Inventories		16,801	16,801
Accounts receivable		12,624	12,624
Prepayments, deposits and other receivables		6,755	6,755
Accounts payable		(19,188)	(19,188)
Accrued liabilities and other payables		(139,279)	(139,279)
Tax payable		(823)	(823)
Deferred tax liabilities	35	(11,253)	(3,465)
Bank and other loans		(11,114)	(11,114)
Minority interests		(213,432)	(202,191)
		305,670	288,808
Satisfied by deposits paid in 2005		305,670	

An analysis of the net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2006	2005
Cash consideration paid	—	—
Cash and bank balances acquired	148,230	—
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	148,230	—

Since its acquisition, the Manganese Company and its subsidiaries contributed HK$538,006,000 to the Group's turnover and HK$65,759,000 to the consolidated profit for the year ended 31 December 2006.

Had the combination taken place at the beginning of the year, the revenue of the Group and the profit of the Group for the year would have been HK$7,529,736,000 and HK$252,978,000, respectively.

The purchase price allocation set out above is still preliminary, pending the finalisation of the valuation of certain property, plant and equipment and intangible assets and the determination of the tax basis of the assets and liabilities acquired.

(b) Acquisition of participating interest in a joint venture

On 22 November 2006, the Group acquired a 51% participating interest in the Seram PSC (see details in note 18(e)). The purchase consideration for the acquisition was in form of cash, with HK$757,723,000 paid at the acquisition date and directly attributable costs of HK$117,229,000 taken up as accrued liabilities and other payables.

HK$'000

The fair values of the identifiable assets and liabilities of the 51% participating interest in the Seram PSC as at the date of acquisition and the carrying amounts immediately before the acquisition were as follows:

	Notes	Fair value recognised on acquisition	Carrying amount
Net assets acquired:			
Oil and gas properties	13	846,530	639,920
Furniture and fixtures	13	2,067	2,067
Deferred tax assets		—	243,549
Inventories		75,611	75,611
Prepayments, deposits and other receivables		99,415	99,415
Accounts payable		(8,121)	(8,121)
Accrued liabilities and other payables		(26,335)	(26,335)
Tax payable		(8,135)	(8,135)
Provisions	34	(24,682)	(24,682)
Long term other payables		(81,398)	(81,398)
		874,952	911,891
Satisfied by:			
Cash		757,723	—
Accrued liabilities and other payables		117,229	—
		874,952	—

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of the 51% participating interest in the Seram PSC is as follows:

	2006	2005
Cash consideration paid	757,723	—
Cash and bank balances acquired	—	—
Net outflow of cash and cash equivalents in respect of the acquisition of participating interest in a joint venture	757,723	—

The purchase price allocation set out above is still preliminary, pending the finalisation of the valuation relating to the oil and gas reserves and the determination of the tax basis of the assets and liabilities acquired.

(c) Disposal of a participating interest in a joint venture

On 18 February 2006, the Group converted the Dagang Participating Interest into Ivanhoe Shares and Ivanhoe Loan. More details of the transaction are given in note 28 to the financial statements. Net assets disposed of on 18 February 2006 had immaterial changes compared to that of 31 December 2005.

(d) Major non-cash transactions

On 15 December 2005, the Group disposed of part of its participating interest in Bowen Basin Joint Venture in consideration of certain ordinary shares of Macarthur. On the same date, the Group also restructured the remaining participating interest in the Bowen Basin Joint Venture into seven separate jointly-controlled assets.

During the year ended 31 December 2006, the Group converted the Dagang Participating Interest into Ivanhoe shares and Ivanhoe Loan. More details of the transaction are given in note 28 to the financial statements.

During the year ended 31 December 2006, Mount Gibson Iron Limited ("Mount Gibson"), a third party, acquired Aztec Resources Limited, an available-for-sale equity investment of the Group, through the issuance of new shares of Mount Gibson to a subsidiary of the Group. Such non-cash share swap transaction resulted in a gain on disposal of available-for-sale equity investments of HK$17,502,000 (note 5).

During the year ended 31 December 2006, the Group has incurred professional fees in connection with the Group's potential investment projects which had been accrued and remained unsettled as at 31 December 2006 in aggregate of HK$50,939,000.

40. LITIGATION

(a) In January 1999, Dongguan Xinlian, a wholly-owned subsidiary of the Company held through Wing Lam, received a writ of summons (the "Claim") from China Foreign Trade Development Company (the "Plaintiff") claiming 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 31 December 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; and accordingly, no provision is considered necessary.

(b) The Group has a 7% participating interest in the unified unincorporated co-operative Coppabella and Moorvale coal mine 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 Contractor as follows:

(i) Related to the 2004 financial year

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 nine 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.

(ii) Related to the 2005 financial year

In February 2005, the arbitrator determined that seven of the nine 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 defense 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 the superintendent's 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.

(iii) Related to the 2006 financial year

In January 2006, the Contractor lodged a further notice of claim in relation to alleged additional costs resulting from the superintendent's 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. In October 2006, the Manager lodged its defense to the consolidated claim.

The total value of the three claims noted above for financial years 2004, 2005 and 2006 is in the order of A$100 million (HK$617 million) out of which the Group's share amounted to A$7 million (HK$43 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 third claim.

The Manager disputes the above claims and 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. However, there is no set date for hearing of the consolidated 2006 financial year claim.

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

HK$'000

41. OPERATING LEASE ARRANGEMENTS

At 31 December 2006, the Group had total future minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	Group	
	2006	**2005**
Within one year	12,883	9,348
In the second to fifth years, inclusive	16,803	14,827
Beyond five years	9,848	2,423
	39,534	26,598

42. COMMITMENTS

In addition to the operating lease commitments detailed in note 41 above, the Group had the following capital expenditure commitments:

	Group	
	2006	**2005**
Contracted, but not provided for:		
Infrastructure, plant and equipment, share of the jointly-controlled entities	27,445	8,911

At 31 December 2006, the Group had authorised but not contracted for commitments in relation to the acquisition of the Potential Assets in Kazakhstan as set out in note 1.

Save as aforesaid, at the balance sheet date, neither the Company nor the Group had other significant commitments (2005: Nil).

43. RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

In addition to matters disclosed elsewhere in the financial statements, during the year, the Group had the following transactions with its related parties:

(a) During the year ended 31 December 2006, the Group made sales in aggregate of HK$1,378,446,000 (2005: HK$1,025,037,000) to a fellow subsidiary, CITIC Metal Company Limited. The sales were made on normal commercial terms and conditions offered to the major customers of the Group.

As at 31 December 2006, the Group had an amount due from the fellow subsidiary of HK$235,785,000 (2005: HK$18,313,000) which has been included in the accounts receivable balance.

(b) Proposed very substantial acquisition regarding the acquisition of Potential Assets located in Kazakhstan

On 27 October 2006, a MOU was entered into by CITIC Group and the Company. Pursuant to the MOU, the Company has been granted a Purchase Right, which is exercisable by the Company during the period of one year (from the date which CITIC Group completed its acquisition of certain potential assets), to acquire the Potential Assets. The Potential Assets principally comprise a 94.6% interest in Karazhanbasmunai JSC, a joint stock company formed under the laws of Kazakhstan, which holds 100% of the mineral rights until 2020 to develop the Karazhanbas Oil and Gas Field in Mangistau Oblast, Kazakhstan. On 29 December 2006, CITIC Group completed the acquisition of the Potential Assets from CCPL. The Company paid US$200,000,000 (HK$1,560,000,000) (note 21) on 31 October 2006 to CITIC Group as the earnest money for the proposed acquisition.

If the Company elects to exercise the Purchase Right, completion of the sale and purchase of the Potential Assets between CITIC Group and the Company will constitute a very substantial acquisition and connected transaction of the Company under the Listing Rules and such transaction will require the approval of the independent shareholders of the Company and the approval of the relevant government and regulatory authorities in Kazakhstan. As at 31 December 2006, the Purchase Right had not been exercised by the Company. Further details are set out in the announcement of the Company dated 1 November 2006.

(c) Warranty income resulting from the conversion of the Dagang Participating Interest into Ivanhoe Shares

On 31 October 2006, an acknowledgement from CITIC Group was received by the Group in respect of a warranty settlement agreement dated 10 October 2006 between the Group and CITIC Group, pursuant to which CITIC Group agreed to compensate the Company for HK$34,320,000 in respect of loss of HK$19,412,000 suffered by the Company in respect of the conversion of the Dagang Participating Interest in Richfirst into Ivanhoe Shares. A loss to the reduction in the number of Ivanhoe Shares converted due to the appreciation of Ivanhoe Shares prices during the delayed conversion period.

As at 31 December 2006, the Group had an outstanding amount due from the ultimate holding company of HK$34,320,000 due to the above (note 23). The outstanding amount was settled subsequent to the balance sheet date.

(d) During the year, the Group has paid rental charges of HK$2,814,000 (2005: HK$2,679,000) to 99 King Street Property Management Pty. Ltd., a subsidiary of CITIC Group.

(e) Outstanding balances with related parties:

(i) As disclosed in the consolidated balance sheet, the Group had outstanding advances payable to its minority shareholder of HK$38,174,000 (2005: nil). Details of the advances are included in note 32 to the financial statements.

(ii) Details of the Group's receivables from its fellow subsidiaries, related companies and ultimate holding company of HK$2,066,000 (2005: HK$301,000), HK$51,486,000 (2005: nil) and HK$34,320,000 (2005: nil) respectively, as at the balance sheet date. Details of the receivables are included in notes 21 and 23 to the financial statements.

(iii) Details of the Group's loans from the Company's former minority shareholders, a minority shareholder and the ultimate holding company are included in note 33 to the financial statements.

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, finance leases, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swap, forward currency and commodity contracts. The purpose is to manage the interest rate, currency and commodity price risks arising from the Group's operations and its sources of finance.

It is, and has been, throughout the year under review, the Group's policy that trading in financial instruments shall be undertaken only with due care.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, foreign currency risk, credit risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this mix in a cost-effective manner, the Group enters into interest rate swap, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swap are designated to hedge the underlying debt obligations. At 31 December 2006, after taking into account the effect of the interest rate swap, approximately 50% (2005: 41%) of the Group's interest-bearing borrowings bore interest at fixed rates.

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency. The Group requires all its operating units to use forward currency contracts to eliminate the foreign currency exposures, for which payment is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. The forward currency contracts must be in the same currency as the hedged item. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the head of credit control.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

Since the Group trades only with recognised and creditworthy third parties, collateral is usually not required.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans.

45. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group entered into the following significant transactions:

(a) On 9 February 2007, the Company entered into the placing and subscription agreement (the "Placing and Subscription Agreement") with United Star International Inc. ("USI") as subscriber, Citigroup Global Markets Asia Limited and UBS AG as underwriters, pursuant to which the Company agreed to allot and issue, and USI agreed to subscribe for 570,000,000 new ordinary shares of the Company of HK$0.05 each at a price of HK$2.46 per new share.

The 570,000,000 new shares represent 13.2% of the issued share capital of the Company as at 8 February 2007, being the last trading day before the signing of the Placing and Subscription Agreement (the "Last Trading Day"). The placing price of HK$2.46 represents (i) a discount of 5.02% to the closing price of HK$2.59 per share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the five trading days immediately prior to and including the Last Trading Day; and (iii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the ten trading days immediately prior to and including the Last Trading Day.

The transaction, completed on 28 February 2007, constituted a discloseable transaction under the Listing Rules. Further details of the transaction are set out in the announcement of the Company dated 9 February 2007.

(b) On 9 February 2007, the Company entered into the subscription agreement (the "Subscription Agreement") with Keentech Group Limited ("Keentech"), a major shareholder of the Company, pursuant to which the Company conditionally agreed to allot and issue, and Keentech agreed to subscribe for 130,000,000 new ordinary shares of the Company of HK$0.05 each (the "Subscription Shares") at a price of HK$2.46 (the "Subscription Price") per subscription share.

The Subscription Shares represent 2.66% of the issued share capital of the Company as at 2 March 2007, being the latest practicable date prior to the printing of the circular of the Company dated 5 March 2007 (the "Latest Practicable Date") or 2.59% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares.

The Subscription Price represents (i) a discount of 5.02% to the closing price of HK$2.59 per share as quoted on the Stock Exchange on the Last Trading Day; (ii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the five trading days immediately prior to and including the Last Trading Day; and (iii) a premium of 2.93% to the average closing price of HK$2.39 per share as quoted on the Stock Exchange for the ten trading days immediately prior to and including the Last Trading Day.

The transaction, completed 19 April 2007, constituted a connected transaction under the Listing Rules. The total consideration of the Subscription Shares amounted to HK$319,800,000 and was paid in cash on the completion date. Further details of the transaction are set out in the circular of the Company dated 5 March 2007.

(c) On 20 March 2007, an ordinary resolution was passed at the special general meeting of the Company whereby the authorised share capital of the Company of HK$300,000,000 divided into 6,000,000,000 ordinary shares of HK$0.05 each be increased to HK$500,000,000 divided into 10,000,000,000 ordinary shares of HK$0.05 each by the creation of an additional 4,000,000,000 ordinary shares of HK$0.05 each, which such shares shall on their issue rank pari passu in all respects with existing issued shares.

(d) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law (the "New Tax Law") was approved and will become effective on 1 January 2008. The New Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Tax Law to the Group cannot be reasonably estimated at this stage.

46. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

47. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 20 April 2007.

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

CONSOLIDATED FINANCIAL INFORMATION ON RENOWNED NATION LIMITED

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

12 June 2007

The Board of Directors
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report regarding the financial information on Renowned Nation Limited ("**Renowned Nation**") and its subsidiaries (collectively referred to as the "**Renowned Nation Group**") as at 31 December 2005 and 31 December 2006 proposed to be acquired as to 100% by CITIC Resources Holdings Limited (the "**Company**") from CITIC Group, the Company's ultimate holding company, pursuant to a conditional sale and purchase agreement (the "**Agreement**") dated 30 April 2007 entered into between CITIC Group and the Company. The financial information has been prepared on the basis as set out in section 1 below, for inclusion in the circular dated 12 June 2007 (the "**Circular**") issued by the Company in connection with the proposed acquisition of Renowned Nation (the "**Proposed Acquisition**").

Renowned Nation is a limited liability company incorporated on 26 July 2005 under the laws of the British Virgin Islands as an international business corporation. Renowned Nation has an authorised share capital of US$50,000 divided into 50,000 shares of US$1 par value each, of which one share of US$1 par value has been issued to and is beneficially owned by CITIC Group. The principal activity of Renowned Nation is investment holding.

On 29 December 2006, Renowned Nation acquired through CITIC Canada Energy Limited ("**CCEL**") 100% of Nations Energy Company Ltd. (now renamed as "**CITIC Canada Petroleum Limited**" ("**CCPL**")), which holds a 94.6% interest in JSC Karazhanbasmunai, and a 100% interest in Argymak TransService LLP and Tulpar Munai Service LLP (collectively referred to as the "**CCPL Group**"). The principal activities of the CCPL Group are the exploration, development and production of oil from the Karazhanbas field in Western Kazakhstan.

On 29 December 2006, CCEL also granted an option, effective on the same date, to JSC National Company KazMunaiGaz ("**KMG**"), a state-owned energy company in the Republic of Kazakhstan ("**Kazakhstan**"), to acquire a 50% interest in CCPL. CITIC Netherlands Energy Coöperatief U.A., a wholly-owned subsidiary of Renowned Nation, proposed to enter into a sale and purchase agreement with State Alliance Holdings Limited ("**State Alliance**"), a wholly-owned subsidiary of CITIC Group, to dispose of its 50% interest in CCEL. As such, the Renowned Nation Group will only retain a 50% interest in CCEL thereafter. The original option granted to KMG to acquire a 50% interest in CCPL will also be amended to become an option granted by State Alliance to KMG.

As at the date of this report, Renowned Nation had direct or indirect interests in the following subsidiaries and jointly-controlled entities, details of which are set out below:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to Renowned Nation Direct	Indirect	Principal activities
Subsidiaries					
KBM Energy Limited ("**KEL**")	British Virgin Islands/ Hong Kong	US$1	100	—	Investment holding
CITIC Netherlands Energy Coöperatief U.A. ("**CITIC Netherlands**")	Netherlands/ Hong Kong	EUR100	—	100	Investment holding
CITIC Canada Energy Limited ("**CCEL**")	Canada	US$1	—	100	Investment holding
Jointly-controlled entities					
CITIC Canada Petroleum Limited (formerly Nations Energy Company Ltd.) ("**CCPL**")	Canada	US$95,721,088	—	50*	Investment Holding
JSC Karazhanbasmunai ("**KBM**")	Kazakhstan	Ordinary share: 2,045,035,000 Tenge	—	47.3*	Exploration, development and production of oil
		Preference share: 116,077,000 Tenge			
Tulpar Munai Service LLP ("**TMS**")	Kazakhstan	100,000 Tenge	—	50*	Oil well drilling, construction and workover services
Argymak TransService LLP ("**ATS**")	Kazakhstan	200,000 Tenge	—	50*	Transportation services and other oilfield related logistics services

* 50% interest in these entities have been classified as interests in jointly-controlled entities held for sale as at 31 December 2006.

No audited financial statements have been prepared for KEL, CITIC Netherlands and CCEL since their respective dates of incorporation and for CCPL, TMS and ATS as at 31 December 2006 as there are no statutory requirements for these entities to prepare audited financial statements.

The financial statements of KBM for the year ended 31 December 2006 were audited by Ernst & Young Kazakhstan. They have been prepared in accordance with International Financial Reporting Standards.

No consolidated income statement, cash flow statement and statement of changes in equity of Renowned Nation have been presented for the two years ended 31 December 2006 as Renowned Nation only completed, through its wholly-owned subsidiaries, the acquisition of the CCPL Group on 29 December 2006 and all the other wholly-owned subsidiaries are pure investment vehicles with no business activities prior to the completion of the acquisition.

The financial information which includes the consolidated balance sheets of the Renowned Nation Group and the balance sheets of Renowned Nation as at 31 December 2005 and 2006 together with the notes thereto set out in this report (the "**Financial Information**"), have been prepared from the management accounts or audited financial statements of the companies now comprising the Renowned Nation Group, after making such adjustments as considered appropriate and are presented on the basis set out in section 1 below.

The directors of the Company are responsible for the content of the Circular, including the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

For the purpose of this report, we have carried out independent audit procedures on the Financial Information in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA.

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of Renowned Nation and the Renowned Nation Group as at 31 December 2005 and 2006.

1. BASIS OF PRESENTATION

The Financial Information has been prepared on a going concern basis under the historical cost convention. All Hong Kong Financial Reporting Standards ("**HKFRSs**") effective for the accounting periods commencing from 1 January 2005 and 2006, together with the relevant transitional provision, have been early adopted by the Renowned Nation Group in the preparation of the Financial Information throughout the year ended 31 December 2005 and 2006.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform with HKFRSs.

2. PRINCIPAL ACCOUNTING POLICIES

The Renowned Nation Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2–Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

The Renowned Nation Group has commenced its assessment of the impact of these pronouncements but it is not yet in a position to state whether these standards and interpretations would have a material impact on its results of operations and financial position.

Basis of consolidation

The Financial Information includes the financial statements of Renowned Nation and its subsidiaries for the year ended 31 December 2006. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Renowned Nation Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Renowned Nation Group are eliminated on consolidation.

The acquisition of subsidiaries and jointly-controlled entities during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent interests of outside shareholders not held by the Renowned Nation Group in the results and net assets of Renowned Nation's subsidiaries.

Subsidiaries

A subsidiary is an entity whose financial and operating policies of Renowned Nation controls, directly and indirectly, so as to obtain benefits from its activities.

Renowned Nation's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Renowned Nation Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Renowned Nation Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

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

(d) an equity investment accounted for in accordance with HKAS 39, if the Renowned Nation Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

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

The Renowned Nation Group's interests in its jointly-controlled entities are accounted for using proportionate consolidation, which involves recognising its share of the jointly-controlled entities' assets, liabilities, income and expenses with similar items in the Financial Information on a line-by-line basis.

When an investment or interest held in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Goodwill

Goodwill arising on the acquisition of jointly-controlled entities represents the excess of the cost of the business combination over the Renowned Nation Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Renowned Nation Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Renowned Nation Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Renowned Nation Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Renowned Nation Group's primary or secondary reporting format determined in accordance with HKAS 14 *Segment Reporting*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and non-current assets/a disposal group classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/ amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated income statement in the period in which it arises.

Related parties

A party is considered to be related to the Renowned Nation Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Renowned Nation Group; (ii) has an interest in the Renowned Nation Group that gives it significant influence over the Renowned Nation Group; or (iii) has joint control over the Renowned Nation Group;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Renowned Nation Group or its holding company;

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d).

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and oil properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings and structures	20 years
Machinery and equipment	1-13 years
Motor vehicles	5-14 years
Office equipment	3-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Oil properties

For oil properties, the successful effort method of accounting is adopted. The Renowned Nation Group capitalises initial acquisition costs of oil properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterments which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

Productive oil properties and other tangible and intangible costs of the production properties are amortised using the unit-of-production method on a property-by-property basis under which the ratio of produced oil to the estimated remaining proved developed reserves is used to determine the depreciation, depletion and amortisation provision. Common facilities that are built specifically to service production directly attributed to designated oil properties are amortised based on the proved developed reserves of the respective oil properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil properties are depreciated using the straight-line method over their estimated useful lives of one to twelve years. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

The Renowned Nation Group estimates future dismantlement costs for oil properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement required in accordance with the current legislation and industry practices. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free rate in effect when the liability is initially recognised. No market-risk premium has been included in the calculation of asset retirement obligation balances since no reliable estimate can be made.

Construction in progress
Construction in progress represents capital projects not yet completed. When these assets begin to be used in production, they are transferred to the appropriate asset class. Since construction in progress is not used in production, these assets are not subject to depreciation.

Intangible assets

Intangible assets represent expenditure on acquired software which are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. The Renowned Nation Group does not have capitalised internally generated intangible assets.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Renowned Nation Group considers whether a contract contains an embedded derivative when the Renowned Nation Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Renowned Nation Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Renowned Nation Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The Renowned Nation Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial asset is impaired.

Assets carried at amortised cost
If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the consolidated income statement.

The Renowned Nation Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the consolidated income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts receivable, a provision for impairment is made when there is objective evidence (such as probability of insolvency or significant financial difficulties of the debtor) that the Renowned Nation Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Renowned Nation Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Renowned Nation Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Renowned Nation Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Renowned Nation Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Renowned Nation Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Renowned Nation Group’s continuing involvement is the amount of the transferred asset that the Renowned Nation Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Renowned Nation Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including accounts and other payables, amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the consolidated income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the consolidated income statement.

Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of crude oil is determined using the first-in, first-out basis, while the cost of materials and supplies inventory is determined using the weighted average basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Crude oil inventory consists primarily of oil in pipelines and tanks.

Cash and cash equivalents

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

Interests in jointly-controlled entities held for sale

Interests in jointly-controlled entities held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

Provisions

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

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

Provisions for dismantlement are made based on the present values of the future costs expected to be incurred, on a property-by-property basis, in respect of the Renowned Nation Group's expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement or in equity if it relates to items that are recognised in the same or different periods directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sale of crude oil, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Renowned Nation Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Renowned Nation Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Renowned Nation Group's operations. Employees (including directors) of the Renowned Nation Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (the "**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CCPL, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "**vesting date**"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Renowned Nation Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the consolidated income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expenses not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Retirement benefits schemes

The Renowned Nation Group pays certain post retirement insurance, which represents its contribution to the post retirement benefits of its employees.

The Renowned Nation Group, with operations domiciled in Kazakhstan, is required to participate in a post retirement benefits scheme operated by local government authorities. The Renowned Nation Group is required to contribute 25.5% of its domestic employees' salaries to the state pension fund. The contributions are charged to the consolidated income statement as they become payable in accordance with the rules of the post retirement benefits scheme.

In accordance with the Law of Kazakhstan "Pension provisioning in the Republic of Kazakhstan" effective from 1 January 1998 and replacing the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulation accounts with accumulating pension funds provided by the compulsory pension contributions of 10% from employees' income with a maximum statutory limit on these contributions.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the Renowned Nation Group that are outstanding during the period, other than the borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised incurred during a period should not exceed the amount of borrowing costs incurred during that period.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including the amortisation of discounts or premiums relating to the borrowing, and the amortisation of ancillary costs incurred in connection with arranging the borrowing.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Hong Kong dollars ("**HK$**") which is the presentation currency of Renowned Nation. Each entity in the Renowned Nation Group maintains its books and records in its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency the transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries and a jointly-controlled entity are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and impairment of property, plant and equipment

The Renowned Nation Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

An impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is calculated as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is based on the best information available to reflect the amount obtainable at the balance sheet date from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the Renowned Nation Group's management estimates future cash flows from the cash generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Oil and gas reserves

Oil and gas reserves are a material factor in the Renowned Nation Group's computation of depreciation and amortisation. The Renowned Nation Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under SPE methodology, the Renowned Nation Group uses constant prices. Management believes that constant price assumptions provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data. It is possible that any changes in reserve estimates year on year could significantly affect prospective charges for depreciation and amortisation.

Asset retirement obligations
Under the terms of certain contracts, legislation and regulations, the Renowned Nation Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the Renowned Nation Group's obligation relates to the ongoing closure of all wells. The extent of the Renowned Nation Group's obligations to finance the final closure costs depends on the terms of the respective contract and current legislation. Where neither contract nor legislation include an unambiguous obligation to undertake or finance such final closure costs at the end of the license term because this liability appears at the end of field economical life only, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the government or in the local industry practice.

Since the license terms cannot be extended at the discretion of the Renowned Nation Group, the settlement date of the final asset retirement obligations has been assumed to be the end of the license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all closure costs.

The amount of the asset retirement obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The Renowned Nation Group reviews the site restoration provision at each balance sheet date, and adjusts it to reflect the current best estimate.

Income tax
The Renowned Nation Group is subject to income taxes in Kazakhstan. Because various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the officials of the Ministry of Finance in Kazahkstan, objective estimate and judgment based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences are realised.

HK$'000

3. CONSOLIDATED BALANCE SHEET

	Notes	31 December 2005	31 December 2006
NON-CURRENT ASSETS			
Property, plant and equipment	(a)	—	18,088,593
Intangible assets	(b)	—	4,563
Other assets	(c)	—	46,050
		—	18,139,206
CURRENT ASSETS			
Inventories	(e)	—	210,194
Accounts receivable	(f)	—	233,317
Prepayments, deposits and other receivables	(g)	—	214,659
Tax recoverable		—	54,371
Cash and cash equivalents	(h)	—	1,769,040
		—	2,481,581
Interests in jointly-controlled entities held for sale	(i)	—	6,810,976
		—	9,292,557
CURRENT LIABILITIES			
Accounts payable	(j)	—	100,036
Tax payable		—	380,676
Accrued liabilities and other payables	(k)	—	986,785
Due to the ultimate holding company	(l)	—	14,616,929
Interest-bearing bank and other borrowings	(m)	—	1,580,113
		—	17,664,539
NET CURRENT LIABILITIES		—	(8,371,982)
TOTAL ASSETS LESS CURRENT LIABILITIES		—	9,767,224
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	(m)	—	506,879
Deferred tax liabilities	(n)	—	9,109,278
Provision for dismantlement	(o)	—	91,289
		—	9,707,446
Net Assets		—	59,778
EQUITY			
Issued capital	(p)	—	—
Reserves		—	4,165
		—	4,165
Minority interests		—	55,613
		—	59,778

HK$'000

3. BALANCE SHEET OF RENOWNED NATION

	Notes	31 December 2005	31 December 2006
NON-CURRENT ASSETS			
Interests in subsidiaries	(d)	—	1,773,635
CURRENT LIABILITIES			
Accrued liabilities and other payables	(k)	—	777,910
Due to the ultimate holding company	(l)	—	995,725
		—	1,773,635
NET CURRENT LIABILITIES		—	(1,773,635)
Net Assets		—	—
EQUITY			
Issued capital	(p)	—	—

Notes:

(a) Property, plant and equipment

Renowned Nation Group 31 December 2006	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost:							
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—	—	—	—	—	—	—
Acquisition of jointly-controlled entities	17,833,100	35,406	58,080	9,570	14,774	137,663	18,088,593
At 31 December 2006	17,833,100	35,406	58,080	9,570	14,774	137,663	18,088,593
Accumulated depreciation, depletion and amortisation:							
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—	—	—	—	—	—	—
Provided during the year	—	—	—	—	—	—	—
At 31 December 2006	—	—	—	—	—	—	—
Net book value:							
At 31 December 2006	17,833,100	35,406	58,080	9,570	14,774	137,663	18,088,593
At 31 December 2005	—	—	—	—	—	—	—

As at 31 December 2006, certain of the property, plant and equipment of the Renowned Nation Group with a net book value of HK$606 million (2005: Nil) were pledged to secure certain bank loans of the Renowned Nation Group (note (m)).

HK$'000

(b) Intangible assets

	Renowned Nation Group 2006
Cost:	
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Acquisition of jointly-controlled entities	4,563
At 31 December 2006	4,563
Accumulated amortisation:	
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Amortisation provided during the year	—
At 31 December 2006	—
Net book value:	
At 31 December 2006	4,563
At 31 December 2005	—

(c) Other assets

Other assets represent advances to suppliers and contractors for construction projects related to oil properties. The carrying value of other assets approximates to its fair value.

(d) Interests in subsidiaries

	Renowned Nation 2005	Renowned Nation 2006
Unlisted shares, at cost	—	1,773,635

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

(e) Inventories

	Renowned Nation Group 2005	Renowned Nation Group 2006
Spare parts and materials	—	203,222
Crude oil	—	10,953
	—	214,175
Less: Provision for obsolete inventories	—	(3,981)
	—	210,194

HK$'000

(f) Accounts receivable

The Renowned Nation Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days. Each customer has a maximum credit limit. The Renowned Nation Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The carrying value of the accounts receivable approximates to its fair value.

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

	Renowned Nation Group	
	2005	**2006**
Within one month	—	233,317

(g) Prepayments, deposits and other receivables

	Renowned Nation Group	
	2005	**2006**
Advances to suppliers	—	81,893
Prepaid expenses	—	14,641
Value-added tax receivables	—	95,565
Employee receivables	—	37,379
Others	—	1,872
	—	231,350
Less: Provision for impairment	—	(16,691)
	—	214,659

(h) Cash and cash equivalents

	2005	**2006**
Cash and bank balances	—	1,769,040

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between two months and one year depending on the immediate cash requirements of the Renowned Nation Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

HK$'000

(i) Interests in jointly-controlled entities held for sale

On 29 December 2006, the Renowned Nation Group acquired a 100% interest in CCPL from an independent third party. CCPL is an investment holding company which holds a 94.6% interest in KBM, a 100% interest in ATS and a 100% interest in TMS.

The fair values of the identifiable assets and liabilities of CCPL as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition	Carrying amount
Property, plant and equipment	18,088,593	2,783,025
Intangible assets	4,563	4,563
Other assets	46,050	46,050
Inventories	210,194	210,194
Accounts receivable	233,317	233,317
Prepayments, deposits and other receivables	214,021	214,021
Tax recoverable	54,371	54,371
Due from the intermediate holding company	2,199,657	2,199,657
Cash and cash equivalents	155,997	155,997
Accounts payable	(100,036)	(100,036)
Tax payable	(380,676)	(380,676)
Accrued liabilities and other payables	(208,886)	(181,658)
Interest-bearing bank and other borrowing	(2,086,992)	(1,309,082)
Deferred tax liabilities	(9,109,278)	(913,913)
Provision for dismantlement	(91,289)	(91,289)
Minority interests	(55,613)	(55,613)
	9,173,993	2,868,928
Interests in jointly-controlled entities held for sale	6,810,976	—
	15,984,969	2,868,928
Satisfied by:		
Cash		14,211,334
Due to the ultimate holding company		995,725
Other payables		777,910
		15,984,969

On 29 December 2006, CCEL granted an option to KMG to acquire a 50% equity interest in CCPL. Hence, an amount of HK$6,810,976,000 has been reclassified as interests in jointly-controlled entities held for sale.

HK$'000

(j) Accounts payable

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

	Renowned Nation Group	
	2005	2006
Within one month	—	99,479
Two to three months	—	2
Over three months	—	555
	—	100,036

The accounts payable are non-interest-bearing and are normally settled on 90-day terms.

(k) Accrued liabilities and other payables

	Renowned Nation Group		Renowned Nation	
	2005	2006	2005	2006
Accrued payroll	—	33,549	—	—
Accrued penalty for early repayment of bank borrowings	—	32,284	—	—
Interest payable	—	71,936	—	—
Royalties payable	—	10,870	—	—
Other taxes payable	—	22,245	—	—
Payable for the acquisition of jointly-controlled entities	—	777,910	—	777,910
Other payables	—	37,991	—	—
	—	986,785	—	777,910

Accrued liabilities and other payables are non-interest-bearing and are normally settled on 30-day terms.

(l) Due to the ultimate holding company

	Renowned Nation Group		Renowned Nation	
	2005	2006	2005	2006
Due to the ultimate holding company	—	14,616,929	—	995,725

The amount due to the ultimate holding company represents debt repayment notes of HK$14,617 million (2005: Nil) and HK$996 million (2005: Nil) issued by the Renowned Nation Group to CITIC Group in respect of the acquisition of the CCPL Group by Renowned Nation according to the Arrangement Agreement entered into by CITIC Group on 29 December 2006. The amounts are unsecured, interest-free and have no fixed terms of repayment.

The carrying value of the amount due to the ultimate holding company approximates to its fair value.

HK$'000

(m) Interest-bearing bank and other borrowings

	2005			2006		
	Effective interest rate p.a.(%)	**Maturity**	**HK$'000**	**Effective interest rate p.a.(%)**	**Maturity**	**HK$'000**
Current						
Current portion of long term bank loans—secured	—	—	—	11.8	2007	24,308
Bank loans—secured	—	—	—	LIBOR+4	2007	1,555,805
Total current			—			1,580,113
Non-current						
Bank loans—secured	—	—	—	11.8	2008-2011	170,160
Bonds	—	—	—	9.9	2008	336,719
Total non-current			—			506,879
			—			2,086,992

	Renowned Nation Group 2005	2006
Analyzed into:		
Bank loans and overdrafts repayable:		
Within one year	—	1,580,113
In the second year	—	48,617
In the third to fifth years, inclusive	—	121,543
	—	1,750,273
Bonds repayable in the second year		336,719
	—	2,086,992

(i) The Renowned Nation Group's credit facilities amounted to HK$2,139 million as at 31 December 2006, of which HK$1,945 million had been utilised as at 31 December 2006.

The banking facilities of the Renowned Nation Group are secured by:

(a) Certain of the property, plant and equipment of the Renowned Nation Group with a net book value of HK$606 million were pledged to secure certain bank loans of the Renowned Nation Group (note (a))

(b) Sales proceeds from crude oil sales under 60-month contracts, with the aggregate shipment of 600,000 barrels of oil per month in total from June 2004 until May 2009.

(c) Future cash receipt from crude oil sales amounting to HK$311 million.

(ii) In December 2003, the Renowned Nation Group issued and registered 11,100,000 non-callable coupon bonds in the aggregate amount of 11.1 billion Tenge with the Kazakh Stock Exchange with a five-year maturity. The bonds bear interest at a rate of 8% per annum during the first six months at the bond nominal value and then a floating rate depending on the inflation index, as reported by the Kazakstani Agency of Statistics starting on the seventh month, payable semi-annually. The maximum floating rate is capped at 14%.

(iii) Except for the floating rate bond which is denominated in Tenge, all other borrowings are in United States dollars.

HK$'000

Other interest rate information:

	Renowned Nation Group 2005		2006	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**
Bank loans—secured	—	—	194,468	1,555,805
Bonds	—	—	—	336,719
	—	—	194,468	1,892,524

The carrying amounts of the Renowned Nation Group's current and non-current borrowings approximate to their fair values.

(n) Deferred tax liabilities

The movements in deferred tax liabilities are as follows:

	Renowned Nation Group
Depreciation allowance in excess of related depreciation	
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Acquisition of jointly-controlled entities	9,109,278
At 31 December 2006	9,109,278

At 31 December 2005 and 2006, there were no significant unrecognised deferred tax assets.

(o) Provision for dismantlement

The Renowned Nation Group is legally required to restore its oil fields to their original condition. Estimated future site restoration is based on engineering estimates of the anticipated method and extent of site restoration, in accordance with the current legislation, industry practices and costs. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised with the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

	Renowned Nation Group
At 26 July 2005 (date of incorporation), 31 December 2005 and 1 January 2006	—
Acquisition of jointly-controlled entities	91,289
At 31 December 2006	91,289

(p) Share capital

	Renowned Nation 2005		2006	
Authorised:				
500,000 ordinary shares of US$1 each	US$50,000	HK$389,000	US$50,000	HK$389,000
Issued and fully paid:				
1 ordinary share of US$1	US$ 1	HK$ 7.8	US$ 1	HK$ 7.8

On incorporation, Renowned Nation issued 1 ordinary share of US$1 at a price of US$1 per share to its shareholder.

(q) Contingent liabilities

Taxation

In 2005, the taxation authority of Kazakhstan conducted a tax audit on the accounting records of KBM for the three years ended 31 December 2004. In December 2005, as a result of the tax audit, KBM received a claim from the Tax Committee of the Ministry of Finance of Kazakhstan to pay additional taxes in the amount of HK$409,551,000 (6,686,552,000 Tenge) as well as penalties and fines of HK$303,156,000 (4,949,490,000 Tenge) (the "**Tax Claim**").

On 10 July 2006, KBM received a favorable decision from the Astana city court. On 6 September 2006, KBM also received a favorable decision from the Collegiums of Judges of Astana city. The taxation authority could appeal against the court's and Collegiums' decision within twelve months after the announcement of the decision.

KBM's management believes that KBM is in compliance with the tax legislation and KBM will be successful in the appeal process. Therefore, KBM has not recorded any provision for the amounts of the Tax Claim as at 31 December 2006.

de Shazo litigation

On 20 September 2005, Thomas de Shazo ("**de Shazo**") filed a summons and complaint (the "**Complaint**") in the Southern District of Texas in the United States District Court (US federal court) against CCPL, Ecolo Investments Limited, Aequitas Energy, Ltd., Novomundo Trading Ltd., Hashim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The US federal court dismissed de Shazo's claim on 26 March 2007 and de Shazo appealed on 25 April 2007. The Complaint is claiming an amount of US$200 million which includes damages, additional punitive and exemplary damages, the award of treble damages, the costs of the action and a jury trial.

On 29 September 2006, CCPL obtained a Certificate of Foreign Judgment against de Shazo in Idaho, United States, to collect US$0.1 million in outstanding costs arising out of the dismissal of de Shazo's action in Alberta, Canada, by the Alberta Court of Appeal on 18 August 2005. In response, de Shazo has filed a defense to set aside the Certificate of Foreign Judgment and a counterclaim in which he has incorporated by reference the counterclaim being litigated in Texas for US$200 million. In the Idaho counterclaim, de Shazo has requested the court to stay the action in Idaho pending the outcome of the action in Texas. CCPL believes that there are no grounds for such claim to succeed and as such, no provision has been made in these financial statements as at 31 December 2006.

Savicic litigation

On 20 April 2006, the plaintiffs, Mr. Savicic and GZF Poly Oil Holding Ltd. ("**GZF**") brought an action against CCPL, KBM, Canadian Triton International Ltd. and Vladimir Katic in the Specialised Inter-Regional Economic Court in Mangistau Oblast, in Kazakhstan. The Plaintiffs sought 50% of the KBM shares.

On 19 July 2006, the Kazakhstan court awarded a judgment in favor of the plaintiffs in part and ordered CCPL to transfer 17.9% of the shares of KBM to GZF. CCPL appealed the decision on 3 August 2006. On 29 August 2006, the Mangistau Region Court heard the appeal and set aside the judgment of the court of first instance and dismissed the case. The plaintiffs have the right to file a supervisory appeal with the Supreme Court of Kazakhstan within one year from the resolution made by Mangistau Region Court.

CCPL believes that if the plaintiffs file a supervisory appeal with the Supreme Court of Kazakhstan, there are no ground for such claim to succeed and as such, no provision has been made in the Financial Information as at 31 December 2006. On 4 May 2007, Ecolo Investments Limited entered into a settlement agreement for itself and for the benefit of CCPL and KBM pursuant to which Mr. Savicic and GZF released, discharged and cancelled all their respective claim against CCPL and KBM.

(r) Commitments

Commitments under the license

In accordance with the license for hydrocarbon exploration and production, KBM has to perform a minimal work program for 2007. This minimal work program was agreed with the Governmental Agency ZAPKAZNEDRA. In accordance with this minimal work program, KBM has a capital commitment obligation for US$128.4 million, to drill 150 wells and produce 2,335,000 tons of crude oil.

Governmental influence, pricing and transportation issues

The current political and economic situation in Kazakhstan is such that the government, from time to time, attempts to influence oil producers to supply production to domestic refineries at prices that are substantially lower than the prices for export sales. Prices for domestic sales have approximated 40% of the world market prices for the year ended 31 December 2006.

Management considers such volumes sold locally are reasonable in terms of Kazakhstan's current economic situation. However, management is unable to predict what future actions may be taken by the government to influence its future commercial operations and/or export sales.

KBM's oil production must be transported through pipelines owned by the state oil transportation company, KazTransOil ("**KTO**"). KTO has a monopoly on the transport market and as such, is able to have a direct impact on transportation costs incurred by KBM as well as volumes of crude oil that KBM is able to export. As such, there is no assurance that KBM will be able to export all, or significant portions, of its production.

(s) Financial risk management and policies

The Renowned Nation Group's principal financial instruments include cash and cash equivalents, accounts receivable, all current liabilities and long term debts. The carrying values of cash, accounts receivable and current liabilities approximate to their fair values because of the short term nature of these instruments. The carrying value of the long term debts also approximates to its fair value as virtually all debts have been obtained under market conditions, which were still applicable at year end. The main purpose of these financial instruments is to raise finance for the Renowned Nation Group's operations.

The nature of the Renowned Nation Group's operations exposes it to fluctuations in foreign currency exchange rates, interest rates and credit risk.

Foreign currency exchange rate risk

The Renowned Nation Group's revenues from the sale of crude oil are denominated in United States dollars and substantial portions of the operating costs are denominated in Tenge. The Renowned Nation Group manages this exposure by operating in a manner that minimises the need to convert between these currencies.

Interest rate risk
The Renowned Nation Group manages its interest rate risk through utilising fixed and floating rate debts to finance its operations. The floating rate debt exposes the Renowned Nation Group to fluctuations in interest payments due to changes in interest rate.

Credit risk
The carrying amount of cash and cash equivalents, accounts receivable and other receivables represents the Renowned Nation Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Renowned Nation Group's accounts receivable are related to the sale of crude oil to third party customers. The Renowned Nation Group performs ongoing credit evaluations of the customers' financial conditions and generally does not require collateral on accounts receivable. The Renowned Nation Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

The CCPL Group receives a significant share of its revenue from two customers. As a result, it has substantial credit concentration risk. The CCPL Group performs ongoing credit evaluation of the customers financial conditions to minimise such risk.

Fair values
The fair values of financial instruments, consisting of cash, receivables, payables and obligations under debt instruments, are considered to be equal to their carrying values. Adequate provisions are made in respect of the accounts receivable.

Business risk
The Renowned Nation Group's business activities are within Kazakhstan. Laws and regulations affecting businesses operating in Kazakhstan are subject to rapid changes and the Renowned Nation Group is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environment, influence of the national authorities over price setting and competition in the industry.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

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

COMBINED FINANCIAL INFORMATION ON THE CCPL GROUP

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

12 June 2007

The Board of Directors
CITIC Resources Holdings Limited

Dear Sirs,

We set out below our report on the combined financial information on the Kazakhstan oil exploration, development and production business of CITIC Canada Petroleum Limited (formerly known as Nations Energy Company Ltd.) ("**CCPL**") and its subsidiaries, JSC Karazhanbasmunai ("**KBM**"), Argymak TransService LLP ("**ATS**") and Tulpar Munai Service LLP ("**TMS**") (collectively referred to as the "**CCPL Group**") for the three years ended 31 December 2004, 2005 and 2006 (the "**Relevant Periods**").

The financial information has been prepared on the basis as set out in Section 1 below, for inclusion in the circular (the "**Circular**") dated 12 June 2007 issued by CITIC Resources Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") in connection with the proposed acquisition (the "**Proposed Acquisition**") of the CCPL Group from CITIC Group by the Company, pursuant to a conditional sale and purchase agreement (the "**Agreement**") dated 30 April 2007 entered into between CITIC Group and the Company.

CCPL was incorporated in Canada on 19 April 1996 under the Business Corporations Act of Alberta, Canada, and holds a 94.6% interest in KBM, a 100% interest in ATS and a 100% interest in TMS during the Relevant Periods. CCPL is principally engaged in the identification, evaluation and negotiation of oil development projects and investment holding.

KBM is a joint stock company formed under the laws of the Republic of Kazakhstan ("**Kazakhstan**") on 23 April 1993. KBM is engaged in the exploration, development and production of oil from the Karazhanbas field in Western Kazakhstan. Pursuant to a subsoil use contract entered into between KBM and the Government of Kazakhstan on 23 May 1997, a license for the development, exploration and production of hydrocarbons in the Karazhanbas field was granted to KBM. The license is valid until 7 June 2020.

ATS is a limited liability partnership formed under the laws of Kazakhstan. ATS is principally engaged in the provision of transportation services and other oilfield related logistics services to KBM in Kazakhstan.

TMS is a limited liability partnership formed under the laws of Kazakhstan. TMS is principally engaged in the provision of oil-well drilling, construction and work over services to KBM.

The financial statements of CCPL for the years ended 31 December 2004 and 2005 were audited by Ernst & Young Kazakhstan and Deloitte & Touche LLP, respectively. They have been prepared in accordance with generally accepted accounting principles in Canada.

The financial statements of KBM for the years ended 31 December 2004, 2005 and 2006 were audited by Ernst & Young Kazakhstan, Deloitte & Touche LLP and Ernst & Young Kazakhstan, respectively. They have been prepared in accordance with International Financial Reporting Standards.

No statutory financial statements have been prepared for ATS and TMS as the entities are not subject to any statutory financial reporting requirements under their jurisdiction of incorporation.

The financial information includes the combined balance sheets of the CCPL Group as at 31 December 2004, 2005 and 2006, and the combined income statements, combined statements of changes in equity and combined cashflow statements of the CCPL Group for the years then ended together with the notes thereto set out in this report (the "**Financial Information**"). The Financial Information for the Relevant Periods has been prepared on a carve out basis reflecting the combined results of operations and financial positions of CCPL (on a stand-alone basis and after excluding the non-Kazakh business) and its 94.6% interest in KBM, 100% interest in TMS and 100% interest in ATS and, where considered appropriate after adjustments and/or additional disclosures as considered necessary. Further details of the basis of presentation are included in Section 1 below.

The directors of the Company are responsible for the content of the Circular, including the preparation of the Financial Information. In preparing the Financial Information which gives a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgments and estimates are made which are prudent and reasonable. It is our responsibility to form an independent opinion on the Financial Information and to report our opinion to you.

Procedures performed in respect of the Relevant Periods

For the purpose of this report, we have carried out independent audit procedures on the Financial Information in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and have examined the Financial Information and carried out such additional procedures as are necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA.

Opinion in respect of the Relevant Periods

In our opinion, for the purpose of this report, the Financial Information, on the basis of presentation set out in Section 1 below, gives a true and fair view of the combined results and cash flows of the CCPL Group for each of the Relevant Periods and of the state of affairs of the CCPL Group as at 31 December 2004, 2005 and 2006.

1. BASIS OF PRESENTATION

On 30 April 2007, the Company entered into an agreement with its ultimate holding company, CITIC Group, subject to the approval of its independent shareholders, to acquire a 100% interest in Renowned Nation Limited ("**Renowned Nation**"), which indirectly holds a 50% interest in CCPL. CCPL is a private investment holding company incorporated in Canada, which holds a 94.6% interest in KBM, a 100% interest in TMS and a 100% interest in ATS. The principal activities of the CCPL Group are the exploration, development and production of oil from the Karazhanbas field in Western Kazakhstan.

CITIC Group acquired 100% of CCPL through Renowned Nation and its subsidiaries (the "**Renowned Nation Group**") on 29 December 2006. On 29 December 2006, CITIC Canada Energy Limited ("**CCEL**"), the immediate holding company of CCPL, also granted an option, effective on the same date, to JSC National Company KazMunaiGaz ("**KMG**"), a state-owned energy company in Kazakhstan, to acquire a 50% interest in CCPL. CITIC Netherlands Energy Coöperatief U.A., a wholly-owned subsidiary of the Renowned Nation, proposed to enter into a sale and purchase agreement with State Alliance Holdings Limited ("**State Alliance**"), a wholly-owned subsidiary of CITIC Group, to dispose of its 50% interest in CCEL. As such, the Renowned Nation Group will only retain a 50% interest in CCPL thereafter. The original option granted to KMG to acquire a 50% interest in CCPL will also be amended to become an option granted by State Alliance to KMG.

Prior to the acquisition of CCPL by CITIC Group, CCPL disposed of certain assets primarily consisting of equity investments in certain entities not operating in Kazakhstan, and liabilities not relating to the CCPL Group (the "**Non-Kazakh Business**"). For the purpose of this report, the Financial Information for the Relevant Periods has been prepared on a carve out basis reflecting the combined results of operations and financial positions of CCPL (on a stand-alone basis and after excluding the Non-Kazakh Business) and its 94.6% interest in KBM, 100% interest in TMS and 100% interest in ATS as if the disposal of the Non-Kazakh Business had occurred retrospectively. All significant intercompany transactions and balances, including any unrealised profits arising from intercompany transactions, have been eliminated on combination.

The directors of the Company believe that 1) all historical revenues and costs of operations relating to the CCPL Group have been reflected in the Financial Information; and 2) income and expenses that were specifically related to the Non-Kazakh Business are excluded from the Financial Information.

2. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared on a going concern basis under the historical cost convention. All Hong Kong Financial Reporting Standards ("**HKFRSs**") effective for the accounting periods commencing from 1 January 2005 and 2006, together with the relevant transitional provision, have been early adopted by the CCPL Group in the preparation of the Financial Information throughout the Relevant Periods.

The Financial Information has been prepared in accordance with the accounting policies set out below which conform with HKFRSs.

The CCPL Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the Financial Information.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) - Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC) - Int 8	Scope of HKFRS 2
HK(IFRIC) - Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) - Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) - Int 11	HKFRS 2–Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements

The CCPL Group has commenced its assessment of the impact of pronouncements but it is not yet in a position to state whether these standards and interpretations would have a material impact on its results of operations and financial position.

Subsidiaries

A subsidiary is an entity whose financial and operating policies CCPL controls, directly and indirectly, so as to obtain benefits from its activities.

Minority interests represent the interests of outside shareholders not held by CCPL in the results and net assets of its subsidiaries. KBM is a 94.6% owned subsidiary of CCPL with the remaining 5.4% interest in KBM being owned by the holders of KBM's preferred shares. These preferred shares are non-voting and have a priority over the owners of the common shares of KBM to receive dividends annually in the predetermined, guaranteed amount of 20% of the par value of the preferred shares which belong to such shareholders. These preferred shareholders are also entitled to obtain a part of KBM's assets in the event of liquidation.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the combined income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the combined income statement in the period in which it arises.

Related parties

A party is considered to be related if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the CCPL Group; (ii) has an interest in the CCPL Group that gives it significant influence over the CCPL Group; or (iii) has joint control over the CCPL Group;

(b) the party is a member of the key management personnel of the CCPL Group or its holding company;

(c) the party is a close member of the family of any individual referred to in (a) or (b); or

(d) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c).

Property, plant and equipment and depreciation

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress and oil properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the combined income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Buildings and structures	20 years
Machinery and equipment	1-13 years
Motor vehicles	5-14 years
Office equipment and others	3-10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the combined income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Oil properties

For oil properties, the successful effort method of accounting is adopted. The CCPL Group capitalises initial acquisition costs of oil properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells are all classified as development costs, including those renewals and betterments which extend the economic lives of the assets. The costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised, and are reviewed periodically for impairment.

Productive oil properties and other tangible and intangible costs of the production properties are amortised using the unit-of-production method on a property-by-property basis under which the ratio of produced oil to the estimated remaining proved developed reserves is used to determine the depreciation and amortisation provision.

Common facilities that are built specifically to service production directly attributed to designated oil properties are amortised based on the proved developed reserves of the respective oil properties on a pro rata basis. Common facilities that are not built specifically to service identified oil properties are depreciated using the straight-line method over their estimated useful life of one to twelve years. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

The CCPL Group estimates future dismantlement costs for oil properties with reference to the estimates provided from either internal and external engineers after taking into consideration the anticipated method of dismantlement required in accordance with current legislation and industry practices. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free rate in effect when the liability is initially recognised. No market-risk premium has been included in the calculation of asset retirement obligation balances since no reliable estimate can be made.

Construction in progress

Construction in progress represents capital projects not yet completed. When these assets begin to be used in production, they are transferred to the appropriate class of assets. Since construction in progress is not used in production, it is not subject to depreciation.

Intangible assets

Intangible assets represent expenditure on acquired software and are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date. The CCPL Group does not have capitalised internally-generated intangible assets.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The CCPL Group considers whether a contract contains an embedded derivative when the CCPL Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The CCPL Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the CCPL Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the combined income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Impairment of financial assets

The CCPL Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carried amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the combined income statement.

The CCPL Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the combined income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to accounts receivable, a provision for impairment is made when there is objective evidence (such as probability of insolvency of significant financial difficulties of the debtor) that the CCPL Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the CCPL Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the CCPL Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the CCPL Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the CCPL Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the CCPL Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the CCPL Group's continuing involvement is the amount of the transferred asset that the CCPL Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the CCPL Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities, including accounts and other payables and interest-bearing loans and borrowings, are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the combined income statement when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the combined income statement.

Derivative financial instruments and hedging

The CCPL Group uses commodity contracts to hedge its risks associated with commodity price fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the combined income statement.

The fair value of commodity contracts is calculated by reference to the current commodity prices for contracts with similar maturity profiles.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability; or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges
Changes in the fair value of a hedging derivative are recognised in the combined income statement. Changes in the fair value of the hedged item attributable to the risk hedged are recorded as a part of the carrying amount of the hedged item and are also recognised in the combined income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the combined income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the combined income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the combined income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the combined income statement. Changes in the fair value of the hedging instrument are also recognised in the combined income statement.

Cash flow hedges
The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in the combined income statement.

Amounts taken to equity are transferred to the combined income statement when the hedged transaction affects the combined income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the combined income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised immediately in equity remain in equity until the forecast transaction or firm commitment occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of crude oil is determined using the first-in, first-out basis, while the costs of materials and supplies inventory is determined using the weighted average basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Crude oil inventory consists primarily of oil in pipelines and tanks.

Cash and cash equivalents

For the purpose of the combined cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the CCPL Group's cash management.

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

Provisions

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

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

Provisions for dismantlement are made based on the present values of the future costs expected to be incurred, on a property-by-property basis, in respect of the CCPL Group's expected dismantlement and abandonment costs at the end of the related oil exploration and recovery activities.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the combined income statement or in equity if it relates to items that are recognised in the same or different periods directly in equity.

Current tax assets and liabilities for the Relevant Periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

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

(a) from the sale of crude oil, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the CCPL Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

CCPL operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the CCPL Group's operations. Employees (including directors) of the CCPL Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments (the "**equity-settled transactions**").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using the Black-Scholes model, further details of which are given in note 4(o) to the Financial Information. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of CCPL, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "**vesting date**"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the CCPL Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the combined income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expenses not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Retirement benefits schemes

The CCPL Group pays certain post-retirement insurance, which represents its contributions to the post-retirement benefits of its employees.

CCPL operates a defined contribution pension plan for its full-time employees. Contributions are made based on a percentage of the employee's basic salaries and are charged to the combined income statement as they become payable in accordance with the pension plan.

The CCPL Group, with operations domiciled in Kazakhstan, is required to participate in a post-retirement benefits scheme operated by local government authorities. The CCPL Group is required to contribute 25.5% of its domestic employees' salaries to the state pension fund. The contributions are charged to the combined income statement as they become payable in accordance with the rules of the post-retirement benefits scheme.

In accordance with the Law of Kazakhstan "Pension provisioning in the Republic of Kazakhstan" effective from 1 January 1998 and replacing the state mandated pension system, all employees have the right to receive pension payments from the individual pension accumulation accounts with accumulating pension funds provided by the compulsory pension contributions of 10% from employees' income with a maximum statutory limit on these contributions.

Dividends

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization is determined by applying a capitalization rate to the expenditures on that asset. The capitalization rate is the weighted average of the borrowing costs applicable to the borrowings of the CCPL Group that are outstanding during the period, other than the borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised incurred during a period should not exceed the amount of borrowing costs incurred during that period.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to the borrowing, and amortisation of ancillary costs incurred in connection with arranging the borrowing.

All other borrowing costs are recognised in the combined income statement in the period in which they are incurred.

Foreign currencies

The Financial Information is presented in Hong Kong dollars ("**HK$**"). Each entity in the CCPL Group maintains its books and records in its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the combined income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency at the exchange rates ruling at the balance sheet date, and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the cumulative translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the combined income statement.

For the purpose of the combined cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Useful lives and impairment of property, plant and equipment

The CCPL Group's management determines the estimated useful lives of its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, and will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

An impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount is calculated as the higher of its fair value less costs to sell and value in use. Fair value less costs to sell is based on the best information available to reflect the amount obtainable at the balance sheet date from the disposal of the asset in an arm's length transaction between knowledgeable and willing parties, after deducting the costs of disposal. For the estimation of value in use, the CCPL Group's management estimates future cash flows from the cash generating units and chooses a suitable discount rate in order to calculate the present value of those cash flows.

Oil and gas reserves

Oil and gas reserves are a material factor in the CCPL Group's computation of depreciation and amortisation. The CCPL Group estimates its reserves of oil and gas in accordance with the methodology of the Society of Petroleum Engineers (SPE). In estimating its reserves under the SPE methodology, the CCPL Group uses constant prices. Management believes that constant price assumptions provide the most appropriate basis for estimating oil and gas reserves. All reserve estimates involve some degree of uncertainty. The uncertainty depends chiefly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data.

It is possible that any changes in reserve estimates could significantly affect prospective charges for depreciation and amortisation.

Asset retirement obligations

Under the terms of certain contracts, legislation and regulations, the CCPL Group has legal obligations to dismantle and remove tangible assets and restore the land at each production site. Specifically, the CCPL Group's obligation relates to the ongoing closure of all wells. The extent of the CCPL Group's obligations to finance the final closure costs depends on the terms of the respective contract and current legislation. Where neither contract nor legislation include an unambiguous obligation to undertake or finance such final closure costs at the end of the license term because this liability appears at the end of field economical life only, no liability has been recognised. There is some uncertainty and significant judgment involved in making such a determination. Management's assessment of the presence or absence of such obligations could change with shifts in policies and practices of the Government or in the local industry practice.

HK$'000

Since the license terms cannot be extended at the discretion of the CCPL Group, the settlement date of the final asset retirement obligations has been assumed to be the end of the license period. If the asset retirement obligations were to be settled at the end of the economic life of the properties, the recorded obligation would increase significantly due to the inclusion of all closure costs.

The amount of the asset retirement obligation is the present value of the estimated expenditures expected to be required to settle the obligation adjusted for expected inflation and discounted using average long-term risk-free interest rates for emerging market sovereign debt adjusted for risks specific to the Kazakhstan market. The CCPL Group reviews the site restoration provision at each balance sheet date, and adjusts it to reflect the current best estimate.

Income tax

The CCPL Group is subject to income taxes in Kazakhstan. Because various legislation and regulations are not always clearly written and their interpretation is subject to the opinions of the local tax inspectors and the officials of the Ministry of Finance in Kazahkstan, objective estimate and judgment based on currently enacted tax laws, regulations and other related policies are required in determining the provision of income taxes to be made. Where the final tax outcomes of these matters are different from the amounts originally recorded, the differences will impact the income tax and tax provisions in the period in which the differences are realised.

3. COMBINED INCOME STATEMENTS

		Year ended 31 December		
	Notes	**2004**	**2005**	**2006**
REVENUE	(a)	3,293,107	5,107,472	6,377,844
Cost of sales	(b)	(896,339)	(1,126,544)	(1,643,879)
Gross profit		2,396,768	3,980,928	4,733,965
Other income	(a)	3,733	8,090	18,684
Selling and distribution costs		(517,189)	(482,332)	(446,746)
Administrative expenses		(469,095)	(415,960)	(621,191)
Other operating expenses, net		(76,283)	(92,372)	(109,816)
Finance costs	(e)	(150,932)	(181,497)	(265,747)
PROFIT BEFORE TAX	(b)	1,187,002	2,816,857	3,309,149
Tax	(f)	(1,140,465)	(1,620,787)	(1,901,437)
PROFIT FOR THE YEAR		46,537	1,196,070	1,407,712
ATTRIBUTABLE TO:				
Equity holders of the holding company		33,719	1,125,068	1,313,172
Minority interests		12,818	71,002	94,540
		46,537	1,196,070	1,407,712
Dividends	(g)	163,512	514,026	560,558

HK$'000

Notes:

(a) Revenue and other income

Revenue, which is also the CCPL Group's turnover, represents revenue from the sale of crude oil. All significant intra-group transactions have been eliminated on combination.

	Year ended 31 December		
Revenue	**2004**	**2005**	**2006**
Sale of crude oil, net*	3,402,327	5,263,030	6,579,492
Less: Royalties	(109,220)	(155,558)	(201,648)
	3,293,107	5,107,472	6,377,844
Other income			
Interest income	1,527	6,528	15,975
Others	2,206	1,562	2,709
	3,733	8,090	18,684

* In April 2004, KBM entered into an oil price hedge agreement for a series of costless collars covering 600,000 barrels per month from April to December 2004 with an average ceiling price of HK$254 and an average floor price of HK$231. Upon settlement of the hedge contract in 2004, KBM recorded a hedge loss of HK$349,355,000 and the amount was included in revenue from the sale of crude oil for the year ended 31 December 2004. All hedge contracts were settled as at 31 December 2004 and no hedge arrangements were made in 2005 and 2006.

(b) Profit before tax

The CCPL Group's profit before tax is arrived at after charging/(crediting):

		Year ended 31 December		
	Notes	**2004**	**2005**	**2006**
Cost of inventories sold*		896,339	1,126,544	1,643,879
Depreciation and amortisation		310,829	365,719	531,179
Auditors' remuneration		1,457	1,700	4,875
Employee benefits expense (including directors' remuneration)	(c)			
Wages, salaries and allowances		323,688	366,045	589,651
Equity-settled share option expenses	4(o)	58,749	43,307	66,039
Pension scheme contributions		35,641	38,594	45,182
		418,078	447,946	700,872
Loss on disposal of items of property, plant and equipment		2,642	14,198	17,320
Foreign exchange differences, net**		(3,650)	10,242	4,203
Repairs and maintenance		165,519	163,468	306,093
Withholding tax**		80,592	68,482	86,591
Provision for/write off obsolete inventories		—	35,988	63,256
Provision for impairment of other receivables		1,829	—	31,571

HK$'000

* Depreciation and amortisation of HK$303,068,000, HK$361,863,000 and HK$523,470,000 are included in cost of inventories sold for the year ended 31 December 2004, 2005 and 2006, respectively.

** These amounts are included in "Other operating expenses, net" on the face of the combined income statements.

(c) Directors' and senior executives' remuneration

CCPL Group

	Year ended 31 December		
	2004	**2005**	**2006**
Fees	1,713	1,869	2,134
Other emoluments:			
Salaries, allowances and benefits in kind	5,001	5,406	6,561
Performance related bonuses*	1,319	2,256	6,745
Share option benefits**	3,077	2,477	4,569
Pension scheme contributions	11	12	13
	9,408	10,151	17,888
	11,121	12,020	20,022

* During the Relevant Periods, certain directors of the CCPL Group are entitled to bonus payments which are determined as a percentage of the profit after tax of the CCPL Group.

** During the Relevant Periods, certain directors were granted share options, in respect of their services to the CCPL Group, under the share option scheme of CCPL, further details of which are set out in note 4(o) to the Financial Information. The fair value of such options which has been recognised to the combined income statement over the vesting period, was determined as at the date of grant and the amount included in the Financial Information for the Relevant Periods is included in the above directors' remuneration disclosures.

(d) Five highest paid employees

The five highest paid employees for the year ended 31 December 2004, 2005 and 2006 included nil, one and two directors, respectively. Details of whose remuneration are set out in note (c) above. Details of the remuneration of the remaining five, four and three non-director, highest paid employees for the Relevant Periods are as follows:

CCPL Group

	Year ended 31 December		
	2004	**2005**	**2006**
Salaries, allowances and benefits in kind	16,679	15,614	14,851
Bonuses	4,165	3,407	7,018
Share option benefits*	12,375	7,044	6,556
Pension scheme contributions	96	165	207
	33,315	26,230	28,632

HK$'000

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

	Number of employees		
	2004	2005	2006
HK$5,500,001 to HK$6,000,000	2	—	—
HK$6,000,001 to HK$6,500,000	—	2	—
HK$6,500,001 to HK$7,000,000	—	1	—
HK$7,000,001 to HK$7,500,000	2	1	—
HK$8,000,001 to HK$8,500,000	1	—	—
HK$9,000,001 to HK$9,500,000	—	—	2
HK$10,000,001 to HK$10,500,000	—	—	1
	5	4	3

* During the Relevant Periods, share options were granted to the non-director, highest paid employees in respect of their services to the CCPL Group, further details of which are included in the disclosures in note 4(o) to the Financial Information. The fair value of such options, which has been recognised to the combined income statement over the vesting period, was determined as at the date of grant and the amounts included in the Financial Information for the Relevant Periods is included in the above non-director, highest paid employees' remuneration disclosures.

(e) Finance costs

CCPL Group

	Year ended 31 December		
	2004	2005	2006
Interest expense on bank loan repayable within five years	67,826	120,232	202,326
Interest on other loans (including bonds)	58,479	57,768	61,191
Increase in discounted amounts of borrowings arising from the passage of time	22,192	6,672	11,775
Total interest	148,497	184,672	275,292
Less: Interest capitalised in property, plant and equipment (note 4(a))	(5,684)	(12,841)	(21,528)
	142,813	171,831	253,764
Other finance charges: Increase in discounted amounts of provision arising from the passage of time (note 4(n))	8,119	9,666	11,983
	150,932	181,497	265,747

The interest rates used for interest capitalization represented the cost of capital arising from the related borrowings at the rates of 7.6%, 8.9% and 9.7% per annum for the years ended 31 December 2004, 2005 and 2006, respectively.

HK$'000

(f) Tax

CCPL Group

	Note	2004	2005	2006
Kazakhstan:				
Current		487,231	1,447,386	1,928,475
Deferred	4(m)	653,234	173,401	(27,038)
Total tax charge for the year		1,140,465	1,620,787	1,901,437

CCPL and its subsidiaries are required to file tax returns in the respective jurisdictions in which they are registered. The primary operating jurisdiction is Kazakhstan and substantially all of the CCPL Group's income is earned in Kazakhstan. KBM, TMS and ATS are separate taxpayers under the Kazakhstan tax legislation.

In accordance with the subsoil use contract, KBM shall pay excess profit tax (the "**EPT**") on its profit after corporate income tax, pursuant to the Tax Code of Kazakhstan. The excess profit tax shall be paid by KBM for each calendar year on a basis of the cumulative real internal rate of return (the "**IRR**") exceeding 20%. The IRR is calculated based on the after tax cash flows (the "**ATCF**") and by further discounting with the published oil machinery and equipment index. The ATCF shall be calculated as the cumulative gross income of KBM for a calendar year less all expenses of KBM relating to petroleum operations in that year, including transporting expenses, operating costs, capital expenditures and all taxes. KBM shall pay the EPT at the progressive rates from 4% to 30% of the profit after corporate income tax, as shown in the table below:

IRR	**EPT rate**	**Effective EPT rate**
20%-22%	4%	2.8%
22%-24%	8%	5.6%
24%-26%	12%	8.4%
26%-28%	18%	12.6%
28%-30%	24%	16.8%
More than 30%	30%	21.0%

With effect from 2005, the IRR of KBM exceeded 30% and KBM is subject to 30% EPT. After taking into account the corporate income tax effect, the effective EPT rates of KBM are nil, 21% and 21% for the years ended 31 December 2004, 2005 and 2006, respectively.

2004

	Canada	**%**	**Kazakhstan**	**%**	**Total**	**%**
Profit before tax	607,794		1,405,475		1,187,002*	
Tax at the statutory tax rate	205,860	33.9	421,643	30.0	627,503	52.9
Effect on change of tax rate	—	—	672,727	47.9	672,727	56.7
Income not subject to corporate income tax	(282,093)	(46.4)	—	—	(282,093)*	(23.8)
Expenses not deductible for tax	76,233	12.5	46,095	3.2	122,328	10.3
Tax charge at the CCPL Group's effective rate	—	—	1,140,465	81.1	1,140,465	96.1

HK$'000

2005

	Canada	%	Kazakhstan	%	Total	%
Profit before tax	878,894		3,030,980		2,816,857*	
Tax at the statutory tax rate	295,484	33.6	909,294	30.0	1,204,778	42.8
Income not subject to corporate income tax	(378,009)	(43.0)	—	—	(378,009)*	(13.4)
Expenses not deductible for tax	82,525	9.4	61,056	2.0	143,581	5.1
EPT	—	—	561,565	18.5	561,565	19.9
Deferred EPT	—	—	88,872	2.9	88,872	3.2
Tax charge at the CCPL Group's effective rate	—	—	1,620,787	53.4	1,620,787	57.6

2006

	Canada	%	Kazakhstan	%	Total	%
Profit before tax	1,446,772		3,762,037		3,309,149*	
Tax at the statutory tax rate	470,056	32.5	1,128,611	30.0	1,598,667	48.3
Income not subject to corporate income tax	(620,721)	(42.9)	—	—	(620,721)*	(18.7)
Expenses not deductible for tax	150,665	10.4	15,822	0.4	166,487	5.0
EPT	—	—	745,996	19.8	745,996	22.5
Deferred EPT	—	—	11,008	0.3	11,008	0.3
Tax charge at the CCPL Group's effective rate	—	—	1,901,437	50.5	1,901,437	57.4

* The balances had eliminated the dividend income of CCPL received from KBM amounted to HK$826,267,000, HK$1,093,017,000 and HK$1,899,660,000 for the year ended 31 December 2004, 2005 and 2006, respectively, and such dividend income is not subject to income tax in the jurisdictions in which CCPL operates.

(g) Dividends

The Board of Directors of CCPL declared and paid dividends to the then shareholders in the amount of HK$163,512,000 (HK$0.58 per ordinary share), HK$514,026,000 (HK$1.82 per ordinary share) and HK$560,558,000 (HK$1.98 per ordinary share) in respect of the years ended 31 December 2004, 2005 and 2006, respectively.

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4. COMBINED BALANCE SHEETS

	Notes	31 December 2004	2005	2006
NON-CURRENT ASSETS				
Property, plant and equipment	(a)	4,432,091	4,771,763	5,566,049
Intangible assets	(b)	10,287	10,285	9,125
Other assets	(c)	101,099	60,140	92,099
		4,543,477	4,842,188	5,667,273
CURRENT ASSETS				
Inventories	(d)	213,532	290,871	420,387
Accounts receivable	(e)	360,777	437,193	466,633
Prepayments, deposits and other receivables	(f)	267,451	290,287	428,042
Tax recoverable		46,808	91,373	108,741
Due from the intermediate holding company	(g)	—	—	2,199,657
Due from related parties	(h)	12,822	25,357	—
Due from ex-shareholders	(h)	19,627	—	—
Cash and cash equivalents	(i)	274,195	634,087	311,993
		1,195,212	1,769,168	3,935,453
CURRENT LIABILITIES				
Accounts payable	(j)	112,191	133,181	200,072
Tax payable		—	556,097	761,351
Accrued liabilities and other payables	(k)	198,960	230,328	363,312
Due to ex-shareholders	(h)	8,084	83,485	—
Interest-bearing bank and other borrowings	(l)	77,779	266,520	1,604,406
		397,014	1,269,611	2,929,141
NET CURRENT ASSETS		798,198	499,557	1,006,312
TOTAL ASSETS LESS CURRENT LIABILITIES		5,341,675	5,341,745	6,673,585
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	(l)	1,843,983	1,909,256	1,013,758
Deferred tax liabilities	(m)	1,678,449	1,797,801	1,827,825
Provision for dismantlement	(n)	107,366	116,841	182,578
		3,629,798	3,823,898	3,024,161
Minority interests		103,339	110,566	111,225
OWNERS' EQUITY	(6)	1,608,538	1,407,281	3,538,199

HK$'000

Notes:

(a) Property, plant and equipment

CCPL Group

31 December 2004	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost:							
At beginning of year (i)	3,328,117	21,758	5,955	81,485	20,123	190,781	3,648,219
Additions	79,885	869	6,060	19,366	8,807	568,121	683,108
Disposals	(9,237)	—	(2,396)	(302)	(2,175)	—	(14,110)
Transfers	530,869	1,704	81	3	(61)	(532,596)	—
Exchange realignment	413,477	7,180	990	10,557	1,019	18,941	452,164
At 31 December 2004	4,343,111	31,511	10,690	111,109	27,713	245,247	4,769,381
Accumulated depreciation and amortisation:							
At beginning of year (i)	—	—	—	54	2,225	—	2,279
Provided during the year	282,891	1,288	3,601	16,186	4,385	—	308,351
Disposals	(1,115)	—	(1,730)	(195)	(820)	—	(3,860)
Exchange realignment	29,686	176	521	64	73	—	30,520
At 31 December 2004	311,462	1,464	2,392	16,109	5,863	—	337,290
Net book value:							
At 31 December 2004	4,031,649	30,047	8,298	95,000	21,850	245,247	4,432,091

31 December 2005	Oil properties	Buildings and structures	Machinery and equipment	Motor vehicles	Office equipment and others	Construction in progress	Total
Cost:							
At beginning of year	4,343,111	31,511	10,690	111,109	27,713	245,247	4,769,381
Additions	26,309	—	40	364	1,969	843,745	872,427
Disposals	(23,828)	(890)	(58)	(3,044)	(2,351)	—	(30,171)
Transfers	842,836	3,804	7,842	15,990	7,275	(877,747)	—
Exchange realignment	(143,921)	(1,012)	(376)	(3,597)	(741)	(7,334)	(156,981)
At 31 December 2005	5,044,507	33,413	18,138	120,822	33,865	203,911	5,454,656
Accumulated depreciation and amortisation:							
At beginning of year	311,462	1,464	2,392	16,109	5,863	—	337,290
Provided during the year	339,245	1,244	3,085	16,776	2,851	—	363,201
Disposals	(2,667)	(35)	(14)	(692)	(368)	—	(3,776)
Exchange realignment	(12,977)	(58)	(47)	(654)	(86)	—	(13,822)
At 31 December 2005	635,063	2,615	5,416	31,539	8,260	—	682,893
Net book value:							
At 31 December 2005	4,409,444	30,798	12,722	89,283	25,605	203,911	4,771,763

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31 December 2006	**Oil properties**	**Buildings and structures**	**Machinery and equipment**	**Motor vehicles**	**Office equipment and others**	**Construction in progress**	**Total**
Cost:							
At beginning of year	5,044,507	33,413	18,138	120,822	33,865	203,911	5,454,656
Additions	42,460	—	31	19	7,556	1,030,216	1,080,282
Disposals	(28,780)	(220)	(534)	(1,525)	(728)	—	(31,787)
Transfers	903,456	(40)	5,767	22,890	9,017	(941,090)	—
Exchange realignment	280,982	1,898	999	6,733	1,450	11,054	303,116
At 31 December 2006	6,242,625	35,051	24,401	148,939	51,160	304,091	6,806,267
Accumulated depreciation and amortisation:							
At beginning of year	635,063	2,615	5,416	31,539	8,260	—	682,893
Provided during the year	499,205	1,575	3,561	18,571	5,332	—	528,244
Disposals	(5,317)	(53)	(327)	(607)	(154)	—	(6,458)
Transfers	24	—	—	22	(46)	—	—
Exchange realignment	33,162	140	289	1,685	263	—	35,539
At 31 December 2006	1,162,137	4,277	8,939	51,210	13,655	—	1,240,218
Net book value:							
At 31 December 2006	5,080,488	30,774	15,462	97,729	37,505	304,091	5,566,049

Notes:

(i) KBM prepared its financial statements in accordance with Kazakhstani Accounting Standards ("**KAS**s") before 1 January 2004. In accordance with Kazakhstan's legislation, all joint stock companies are required to adopt International Financial Reporting Standards ("**IFRS**s") from 1 January 2005. KBM elected 1 January 2004 to be its date of transition to IFRSs and prepared financial statements for the year ended 31 December 2004. Under IFRS 1, "First-time Adoption of International Financial Reporting Standards", KBM elected to measure its property, plant and equipment at the date of transition to IFRSs at their fair value and use such fair value as the deemed cost on that date.

(ii) Included in the additions for the years ended 31 December 2004, 2005 and 2006 were amounts of HK$6 million, HK$13 million and HK$22 million, respectively, in respect of interest capitalised in property, plant and equipment (note 3(e)).

(iii) As at 31 December 2004, 2005 and 2006, certain of the property, plant and equipment of the CCPL Group with total net book values of HK$665 million, HK$661 million and HK$606 million, respectively, were pledged to secure certain bank loans of the CCPL Group (note (l)).

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(b) Intangible assets

CCPL Group

	2004	2005	2006
Cost:			
At beginning of year	11,885	15,363	17,695
Additions	2,064	2,839	1,182
Exchange realignment	1,414	(507)	998
At end of year	15,363	17,695	19,875
Accumulated amortisation:			
At beginning of year	2,238	5,076	7,410
Amortisation provided during the year	2,478	2,518	2,935
Exchange realignment	360	(184)	405
At end of year	5,076	7,410	10,750
Net book value:			
At end of year	10,287	10,285	9,125

(c) Other assets

Other assets represent advances to suppliers and contractors for construction projects related to oil properties. The carrying value of other assets approximates to its fair value.

(d) Inventories

CCPL Group

	2004	2005	2006
Spare parts and materials	195,604	299,997	406,445
Crude oil	17,928	26,511	21,905
Less: Provision for obsolete inventories	—	(35,637)	(7,963)
	213,532	290,871	420,387

(e) Accounts receivable

The CCPL Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days. Each customer has a maximum credit limit. The CCPL Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The carrying value of the accounts receivable approximates to its fair value.

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An aged analysis of the CCPL Group's accounts receivable as at the balance sheet dates, based on the invoice date, is as follows:

	2004	**2005**	**2006**
Within one month	360,777	437,193	466,633

(f) Prepayments, deposits and other receivables

CCPL Group

	2004	**2005**	**2006**
Advances to suppliers	90,613	86,928	163,786
Prepaid expenses	7,805	13,792	29,282
Value-added tax receivables	154,896	132,873	191,131
Employee receivables	16,435	57,390	74,759
Others	2,224	2,185	2,466
	271,973	293,168	461,424
Less: Provision for impairment	(4,522)	(2,881)	(33,382)
	267,451	290,287	428,042

(g) Due from the intermediate holding company

The amount due from the intermediate holding company represents a promissory note, with the principal sum of HK$3,770 million, issued by CCEL to CCPL on 29 December 2006, which is unsecured, interest-free and has no fixed terms of repayment. The amounts included a debt repayment note of HK$324 million, an option repayment note of HK$882 million issued by CCPL to CCEL on 29 December 2006 and loan advances of HK$364 million. The amount is unsecured, interest-free and has no fixed terms of repayment.

The carrying value of the balance with the intermediate holding company of CCPL approximates to its fair value.

(h) Due from/(to) related parties and ex-shareholders

The amounts due from/(to) related parties and ex-shareholders of CCPL are unsecured, interest-free and have no fixed terms of repayment. The carrying values of the balances with related parties and ex-shareholders of CCPL approximate to their fair values.

(i) Cash and cash equivalents

	2004	**2005**	**2006**
Cash and bank balances	274,195	401,123	311,993
Time deposits	—	232,964	—
	274,195	634,087	311,993

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Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between two months and one year depending on the immediate cash requirements of the CCPL Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

(j) Accounts payable

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

CCPL Group

	2004	2005	2006
Within one month	109,337	132,602	198,958
One to two months	2	16	—
Two to three months	184	—	3
Over three months	2,668	563	1,111
	112,191	133,181	200,072

The accounts payable are non-interest-bearing and are normally settled on 90-day terms.

(k) Accrued liabilities and other payables

CCPL Group

	2004	2005	2006
Accrued payroll	40,830	63,003	67,098
Accrued penalties for early settlement of bank borrowings	—	—	64,567
Interest payable	56,604	64,966	89,420
Royalties payable	14,002	18,732	21,739
Other tax payables	79,632	52,457	44,491
Other payables and accruals	7,892	31,170	75,997
	198,960	230,328	363,312

Accrued liabilities and other payables are non-interest-bearing and are normally settled on 30-day terms.

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(l) Interest-bearing bank and other borrowings

CCPL Group

	2004 Effective interest rate p.a. (%)	2004 Maturity	2004 HK$'000	2005 Effective interest rate p.a. (%)	2005 Maturity	2005 HK$'000	2006 Effective interest rate p.a. (%)	2006 Maturity	2006 HK$'000
Current									
Current portion of long term bank loans— secured	10	2005	77,779	10	2006	266,520	11.8	2007	48,617
Bank loans—secured	—	—	—	—	—	—	LIBOR+4	2007	1,555,789
Total current			77,779			266,520			1,604,406
Non-current									
Bank loans—secured	10	2006	38,890	10	2007-2010	121,146	11.8	2008-2011	340,320
	LIBOR+4	2009	1,152,753	LIBOR+4	2010	1,153,592	—	—	—
			1,191,643			1,274,738			340,320
Bonds	8.85	2008	652,340	9.35	2008	634,518	9.9	2008	673,438
Total non-current			1,843,983			1,909,256			1,013,758
			1,921,762			2,175,776			2,618,164

	2004	2005	2006
Analysed into:			
Bank loans and overdrafts repayable:			
Within one year	77,779	266,520	1,604,406
In the second year	196,182	165,167	97,234
In the third to fifth years, inclusive	995,461	1,109,571	243,086
	1,269,422	1,541,258	1,944,726
Bonds repayable:			
In the second year	—	—	673,438
In the third to fifth years, inclusive	652,340	634,518	—
	652,340	634,518	673,438
	1,921,762	2,175,776	2,618,164

Notes:

(i) The CCPL Group's credit facilities amounted to HK$1,517 million, HK$1,551 million and HK$2,139 million as at 31 December 2004, 2005 and 2006, of which HK$1,269 million, HK$1,541 million and HK$1,945 million had been utilised as at each balance sheet date, respectively.

The banking facilities of the CCPL Group are secured by:

(a) Certain of the property, plant and equipment of the CCPL Group with net book values of HK$665 million, HK$661 million and HK$606 million, as at 31 December 2004, 2005 and 2006 respectively.
(b) Sales proceeds from crude oil sales under 60-month contracts, with the aggregate shipment of 600,000 barrels of oil per month in total from June 2004 until May 2009.
(c) Future cash receipt from crude oil sales amounting to HK$311 million.

HK$'000

(ii) In December 2003, the CCPL Group issued and registered 11,100,000 non-callable coupon bonds in the aggregate amount of 11.1 billion Tenge with the Kazakh Stock Exchange with a five-year maturity. The bonds bear interest at a rate of 8% per annum during the first six months at the bond nominal value and then a floating rate depending on the inflation index, as reported by the Kazakstani Agency of Statistics starting on the seventh month, payable semi-annually. The maximum floating rate is capped at 14%.

(iii) Except for the floating bond which is denominated in Tenge, all other borrowings are in United States dollars.

Other interest rate information:

	2004		2005		2006	
	Fixed rate	**Floating rate**	**Fixed rate**	**Floating rate**	**Fixed rate**	**Floating rate**
Bank loans—secured	116,669	1,152,753	387,666	1,153,592	388,937	1,555,789
Bonds	—	652,340	—	634,518	—	673,438
	116,669	1,805,093	387,666	1,788,110	388,937	2,229,227

The carrying amounts of the CCPL Group's current and non-current borrowings approximate to their fair values.

(m) Deferred tax liabilities

The movements in deferred tax liabilities during the Relevant Periods are as follows:

CCPL Group

	Depreciation allowance in excess of related depreciation		
	2004	**2005**	**2006**
At beginning of year	896,205	1,678,449	1,797,801
Deferred tax charged/(credited) to the combined income statement during the year (note 3(f))	653,234	173,401	(27,038)
Effect on change in tax base	—	—	(45,408)
Exchange differences	129,010	(54,049)	102,470
At end of year	1,678,449	1,797,801	1,827,825

At 31 December 2004, 2005 and 2006, there were no significant unrecognised deferred tax assets.

(n) Provision for dismantlement

The CCPL Group is legally required to restore its oil fields to their original condition. Estimated future site restoration is based on engineering estimates of the anticipated method and extent of site restoration, in accordance with the current legislation, industry practices and costs. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised with the credit-adjusted risk-free interest rate in effect when the liability is initially recognised. The combined income statement charge for each of the Relevant Periods represents the amortisation charge on the dismantlement liabilities capitalised in accordance with HKAS 37 and is included in the accumulated depreciation and amortisation in note 3(b) to the Financial Information.

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	Notes	2004	2005	2006
At beginning of year		82,332	107,366	116,841
Additions during the year and capitalised in oil properties		7,073	3,291	47,469
Increase in a discounted amount of provision arising from the passage of time*	3(e)	8,119	9,666	11,983
Exchange realignment		9,842	(3,482)	6,285
At end of year		107,366	116,841	182,578

* The discount rate used for calculating the amount of provision arising from the passage of time is 10% for the years ended 2004, 2005 and 2006, respectively.

(o) Share option scheme

CCPL introduced an Incentive Stock Option Plan (the "**Plan**") in 2001. Pursuant to the Plan, CCPL granted to the CCPL Group's employees and directors stock options which have an exercise period of ten years or nine years and eleven months from the grant date. Options vest over three years from the date of grant. The exercise prices for options granted in 2001, 2002, 2003, 2004 and 2006 are US$0.85, US$1.93, US$2.86, US$3.32 and US$3.91 per share, respectively. The exercise price is equal to the fair market value of CCPL's shares at the date the stock option was granted. CCPL undertakes an independent annual valuation of the fair market value of its shares to set the exercise price for the option granted, subject to the Board of Directors' approval, and until such time as the CCPL's shares are publicly traded.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant, using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for each plan introduced:

	2006	2004
Dividend yield (%)	4.78	1.09
Risk-free interest rate (%)	4.06	4.42
Expected life of option (year)	10	10

The expected life of the options is based on the historical data over the past three years and is not necessarily indicative of the exercise patterns that may occur.

No other feature of the options granted was incorporated into the measurement of fair value.

The following share options were outstanding under the Plan of the CCPL Group as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2004	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2004	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share HK$
Directors								
Djojohadikusumo, Hashim	—	380,000	—	—	380,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
Wilson, David	150,000	—	—	—	150,000	01-01-2001	01-01-2001 to 01-01-2011	6.63
	300,000	—	—	—	300,000	01-01-2002	01-01-2002 to 01-01-2012	15.05
	320,000	—	—	—	320,000	01-01-2003	01-01-2003 to 01-01-2013	22.27
	—	300,000	—	—	300,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
	770,000	300,000	—	—	1,070,000			
Other employees								
In aggregate	2,727,236	—	(54,233)	—	2,673,003	01-01-2001	01-01-2001 to 01-01-2011	6.63
	5,243,669	—	—	(82,334)	5,161,335	01-01-2002	01-01-2002 to 01-01-2012	15.05
	8,043,000	—	—	(178,001)	7,864,999	01-01-2003	01-01-2003 to 01-01-2013	22.27
	—	9,814,000	—	—	9,814,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
	16,013,905	9,814,000	(54,233)	(260,335)	25,513,337			
	16,783,905	10,494,000	(54,233)	(260,335)	26,963,337			

The following share options were outstanding under the Plan of the CCPL Group as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2005	Granted during the year	Exercised during the year	Lapsed during the year	At 31 December 2005	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share HK$
Directors								
Djojohadikusumo, Hashim	380,000	—	—	—	380,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
Wilson, David	150,000	—	—	—	150,000	01-01-2001	01-01-2001 to 01-01-2011	6.63
	300,000	—	—	—	300,000	01-01-2002	01-01-2002 to 01-01-2012	15.05
	320,000	—	—	—	320,000	01-01-2003	01-01-2003 to 01-01-2013	22.27
	300,000	—	—	—	300,000	01-01-2004	01-01-2004 to 01-01-2014	25.86
	1,070,000	—	—	—	1,070,000			
Other employees								
In aggregate	2,673,003	—	(361,665)	—	2,311,338	01-01-2001	01-01-2001 to 01-01-2011	6.63
	5,161,335	—	(883,334)	—	4,278,001	01-01-2002	01-01-2002 to 01-01-2012	15.05
	7,864,999	—	(836,666)	(65,002)	6,963,331	01-01-2003	01-01-2003 to 01-01-2013	22.27
	9,814,000	—	(271,666)	(233,667)	9,308,667	01-01-2004	01-01-2004 to 01-01-2014	25.86
	25,513,337	—	(2,353,331)	(298,669)	22,861,337			
	26,963,337	—	(2,353,331)	(298,669)	24,311,337			

The following share options were outstanding under the Plan of the CCPL Group as at the balance sheet date:

Name or category of participant	Number of share options: At 1 January 2006	Granted during the year	Exercised during the year	Cancelled during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options per share HK$
Directors								
Djojohadikusumo, Hashim	380,000	—	(380,000)	—	—	01-01-2004	01-01-2004 to 01-01-2014	25.86
	—	380,000	(380,000)	—	—	21-08-2006	21-08-2006 to 01-01-2015	30.37
	380,000	380,000	(760,000)	—	—			
Wilson, David	150,000	—	(150,000)	—	—	01-01-2001	01-01-2001 to 01-01-2011	6.63
	300,000	—	(300,000)	—	—	01-01-2002	01-01-2002 to 01-01-2012	15.05
	320,000	—	(320,000)	—	—	01-01-2003	01-01-2003 to 01-01-2013	22.27
	300,000	—	(300,000)	—	—	01-01-2004	01-01-2004 to 01-01-2014	25.86
	—	310,000	(310,000)	—	—	21-08-2006	21-08-2006 to 01-01-2015	30.37
	1,070,000	310,000	(1,380,000)	—	—			
Other employees								
In aggregate	2,311,338	—	(2,272,005)	(39,333)	—	01-01-2001	01-01-2001 to 01-01-2011	6.63
	4,278,001	—	(4,254,668)	(23,333)	—	01-01-2002	01-01-2002 to 01-01-2012	15.05
	6,963,331	—	(6,963,331)	—	—	01-01-2003	01-01-2003 to 01-01-2013	22.27
	9,308,667	—	(9,273,667)	(35,000)	—	01-01-2004	01-01-2004 to 01-01-2014	25.86
	—	11,034,000	(11,034,000)	—	—	21-08-2006	21-08-2006 to 01-01-2015	30.37
	22,861,337	11,034,000	(33,797,671)	(97,666)	—			
	24,311,337	11,724,000	(35,937,671)	(97,666)	—			

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

(p) Contingent liabilities

Taxation

In 2005, the taxation authority of Kazakhstan conducted a tax audit on the accounting records of KBM for the three years ended 31 December 2004. In December 2005, as a result of the tax audit, KBM received a claim from the Tax Committee of the Ministry of Finance of Kazakhstan to pay additional taxes in the amount of HK$409,551,000 (6,686,552,000 Tenge) as well as penalties and fines of HK$303,156,000 (4,949,490,000 Tenge) (the "**Tax Claim**").

On 10 July 2006, KBM received a favorable decision from the Astana city court. On 6 September 2006, KBM also received a favorable decision from the Collegiums of Judges of Astana city. The taxation authority could appeal against the court's and Collegiums' decision within twelve months after the announcement of the decision.

KBM's management believes that KBM is in compliance with the tax legislation and KBM will be successful in the appeal process. Therefore, KBM has not recorded any provision for the amounts of the Tax Claim as at 31 December 2006.

de Shazo litigation

On 20 September 2005, Thomas de Shazo ("**de Shazo**") filed a summons and complaint (the "**Complaint**") in the Southern District of Texas in the United States District Court against CCPL, Ecolo Investments Limited, Aequitas Energy, Ltd., Novomundo Trading Ltd., Hashim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The US federal court dismissed de Shazo's claim on 26 March 2007 and de Shazo appealed on 25 April 2007. The Complaint is claiming an amount of US$200 million which include damages, additional punitive and exemplary damages, the award of treble damages, the costs of the action and a jury trial.

On 29 September 2006, CCPL obtained a Certificate of Foreign Judgment against de Shazo in Idaho, United States, to collect US$0.1 million in outstanding costs arising out of the dismissal of de Shazo's action in Alberta, Canada, by the Alberta Court of Appeal on 18 August 2005. In response, de Shazo has filed a defense to set aside the Certificate of Foreign Judgment and a counterclaim in which he has incorporated by reference the counterclaim being litigated in Texas for US$200 million. In the Idaho counterclaim, de Shazo has requested the court to stay the action in Idaho pending the outcome of the action in Texas. CCPL believes that there are no grounds for such claim to succeed and as such, no provision has been made in the Financial Information as at 31 December 2006.

Savicic litigation

On 20 April 2006, the plaintiffs, Mr. Savicic and GZF Poly Oil Holding Ltd. ("**GZF**") brought an action against CCPL, KBM, Canadian Triton International Ltd. and Vladimir Katic in the Specialised Inter-Regional Economic Court in Mangistau oblast, in Kazakhstan. The plaintiffs sought 50% of the KBM shares.

On 19 July 2006, the Kazakhstan court awarded a judgment in favor of the plaintiffs in part and ordered CCPL to transfer 17.9% of the shares of KBM to GZF. CCPL appealed the decision on 3 August 2006. On 29 August 2006, the Mangistau Region Court heard the appeal and set aside the judgment of the court of first instance and dismissed the case. The plaintiffs have the right to file a supervisory appeal with the Supreme Court of Kazakhstan within one year from the resolution made by Mangistan Region Court.

CCPL believes that if the plaintiffs file a supervisory appeal with the Supreme Court of Kazakhstan, there are no ground for such claim to succeed and as such, no provision has been made in the Financial Information as at 31 December 2006. On 4 May 2007, Ecolo Investments Limited entered into a settlement agreement for itself and for the benefit of CCPL and KBM pursuant to which Mr. Savicic and GZF released, discharged and cancelled all their respective claim against CCPL and KBM.

(q) Commitments

Capital Commitments

In accordance with the license for hydrocarbon exploration and production, KBM has to perform a minimal work program for 2007. This minimal work program was agreed with the Governmental Agency ZAPKAZNEDRA. In accordance with this minimal work program, KBM has a capital commitment obligation for US$128.4 million to drill 150 wells and produce 2,335,000 tons of crude oil.

Governmental influence, pricing and transportation issues

The current political and economic situation in Kazakhstan is such that the government, from time to time, attempts to influence oil producers to supply production to domestic refineries at prices that are substantially lower than the prices for export sales. Prices for domestic sales have approximated 40% of the world market prices for the year ended 31 December 2006.

Management considers such volumes sold locally are reasonable in terms of Kazakhstan's current economic situation. However, management is unable to predict what future actions may be taken by the government to influence its future commercial operations and/or export sales.

KBM's oil production must be transported through pipelines owned by the state oil transportation company, KazTransOil ("**KTO**"). KTO has a monopoly on the transport market and as such, is able to have direct impact on transportation costs incurred by KBM as well as volumes of crude oil that KBM is able to export. As such, there is no assurance that KBM will be able to export all, or significant portions, of its production.

(r) Financial risk management

The CCPL Group's principal financial instruments include cash and cash equivalents, accounts receivable, all current liabilities and long term debts. The carrying values of cash, accounts receivable and current liabilities approximate to their fair values because of the short term nature of these instruments. The carrying value of the long term debts also approximates to its fair value as virtually all debts have been obtained under market conditions, which were still applicable at year end. The main purpose of these financial instruments is to raise finance for the CCPL Group's operations.

The nature of the CCPL Group's operations exposes it to fluctuation in foreign currency exchange rates, interest rates and credit risk.

Foreign currency exchange rate risk

The CCPL Group's revenues from the sale of crude oil are denominated in United States dollars and substantial portions of operating costs are denominated in Tenge. The CCPL Group manages this exposure by operating in a manner that minimises the need to convert between these currencies.

Interest rate risk

The CCPL Group manages its interest rate risk through utilising fixed and floating rate debts to finance its operations. The floating rate debt exposes the CCPL Group to fluctuations in interest payments due to changes in interest rate.

Credit risk

The carrying amount of cash and cash equivalents, accounts receivable and other receivables and the amount due from the intermediate holding company represents the CCPL Group's maximum exposure to credit risk in relation to financial assets.

The majority of the CCPL Group's accounts receivable are related to the sales of crude oil to third party customers. The CCPL Group performs ongoing credit evaluations of the customers' financial conditions and generally does not require collateral on accounts receivable. The CCPL Group maintains a provision for doubtful accounts and actual losses have been within management's expectation.

No other financial assets carry a significant exposure to credit risk.

The CCPL Group receives a significant share of its revenue from two customers. As a result, it has substantial credit concentration risk. The CCPL Group performs ongoing credit evaluation of the customers' financial conditions to minimise such risk.

Fair values

The fair values of financial instruments, consisting of cash, receivables, payables and obligations under debt instruments, are considered to be equal to their carrying values. Adequate provisions are made in respect of the accounts receivable.

Business risk

The CCPL Group's business activities are within Kazakhstan. Laws and regulations affecting businesses operating in Kazakhstan are subject to rapid changes. The CCPL Group is subject to special considerations and significant risks not typically associated with investments in equity securities of the United States of America and Western European companies. These include risks associated with, among others, the oil and gas industry, the political, economic and legal environment, influence of the national authorities over price setting and competition in the industry.

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5. SEGMENT INFORMATION

Segment information is presented by way of the CCPL Group's secondary reporting basis, by geographical segment.

No primary segment, by business segment, is presented as over 90% of the CCPL Group's revenue and assets were derived from the exploration, development and production of oil for sale to industrial and commercial customers.

The following tables present revenue and certain assets and expenditure information for the CCPL Group's geographical segments for the years ended 31 December 2004, 2005 and 2006.

	Kazakhstan	European Union	Others	Combined
Year ended 31 December 2004				
Segment revenue:				
Sales to external customers	141,896	3,151,211	—	3,293,107
Other segment information:				
Segment assets	5,191,567	360,777	186,345	5,738,689
Capital expenditure	684,916	—	256	685,172
Year ended 31 December 2005				
Segment revenue:				
Sales to external customers	275,006	4,832,466	—	5,107,472
Other segment information:				
Segment assets	6,029,553	434,772	147,031	6,611,356
Capital expenditure	874,556	—	710	875,266
Year ended 31 December 2006				
Segment revenue:				
Sales to external customers	301,510	6,076,334	—	6,377,844
Other segment information:				
Segment assets	6,844,416	465,736	2,292,574	9,602,726
Capital expenditure	1,081,169	—	295	1,081,464

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6. COMBINED STATEMENT OF CHANGES IN EQUITY

The movements in the owners' equity of the CCPL Group for the Relevant Periods prepared on the basis set out in Section 1 above, are as follows:

At 1 January 2004	2,057,587
Profit for the year attributable to equity holders of the holding company	33,719
Exercise of share options	359
Equity-settled share option arrangements	58,749
Dividend declared	(163,512)
Net distribution to equity owners	(462,660)
Return of share capital	(174,412)
Translation differences arising on combination	258,708
At 31 December 2004 and 1 January 2005	1,608,538
Profit for the year attributable to equity holders of the holding company	1,125,068
Exercise of share options	41,277
Equity-settled share option arrangements	43,307
Dividend declared	(514,026)
Net distribution to equity owners	(838,800)
Translation differences arising on combination	(58,083)
At 31 December 2005 and 1 January 2006	1,407,281
Profit for the year attributable to equity holders of the holding company	1,313,172
Exercise of share options	132,999
Equity-settled share option arrangements	66,039
Dividend declared	(560,558)
Net contribution from equity owners	1,063,480
Translation differences arising on combination	115,786
At 31 December 2006	3,538,199

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7. COMBINED CASH FLOW STATEMENTS

	Notes	Year ended 31 December 2004	2005	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		1,187,002	2,816,857	3,309,149
Adjustments for:				
Finance costs	3(e)	150,932	181,497	265,747
Interest income	3(a)	(1,527)	(6,528)	(15,975)
Depreciation and amortisation	3(b)	310,829	365,719	531,179
Loss on disposal of items of property, plant and equipment	3(b)	2,642	14,198	17,320
Equity-settled share option expenses	3(b)	58,749	43,307	66,039
Provision for/write off obsolete inventories	3(b)	—	35,988	63,256
Provision for impairment of other receivables	3(b)	1,829	—	31,571
		1,710,456	3,451,038	4,268,286
Increase in inventories		(34,024)	(120,001)	(176,261)
Increase in accounts receivable		(162,650)	(87,692)	(4,623)
Increase in prepayments, deposits and other receivables		(153,713)	(31,195)	(152,848)
(Increase)/decrease in amounts due from related parties		(11,875)	(12,936)	26,796
Increase in accounts payable		47,371	24,497	59,331
Increase in accrued liabilities and other payables		77,641	37,587	119,910
Cash generated from operations		1,473,206	3,261,298	4,140,591
Overseas tax paid		(600,629)	(937,317)	(1,785,997)
Net cash inflow from operating activities		872,577	2,323,981	2,354,594
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		1,527	6,528	15,975
Purchases of items of property, plant and equipment	7(a)	(670,351)	(856,295)	(1,011,285)
Proceeds from disposal of items of property, plant and equipment		7,608	12,197	8,009
Additions to intangible assets		(2,064)	(2,839)	(1,182)
(Increase)/decrease in other assets		(49,451)	38,171	(28,545)
Increase in the amount due from the intermediate holding company		—	—	(2,199,657)
Net cash outflow from investing activities		(712,731)	(802,238)	(3,216,685)

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	Year ended 31 December 2004	2005	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	359	41,277	132,999
New bank loans	2,242,000	448,984	933,773
Repayment of bank loans	(1,137,219)	(145,109)	(590,277)
Interest paid	(148,497)	(184,672)	(275,292)
Dividend paid	(163,512)	(514,026)	(560,558)
Dividends paid to minority shareholders	(46,879)	(60,442)	(100,193)
Net contribution from/(distribution to) equity owners	(637,072)	(838,800)	1,063,480
Increase in balances with ex-shareholders	(11,543)	94,667	(88,224)
Net cash inflow/(outflow) from financing activities	97,637	(1,158,121)	515,708
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	257,483	363,622	(346,383)
Cash and cash equivalents at beginning of year	16,417	274,195	634,087
Effect of foreign exchange rate changes, net	295	(3,730)	24,289
CASH AND CASH EQUIVALENTS AT END OF YEAR	274,195	634,087	311,993
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	274,195	634,087	311,993

(a) Major non-cash transactions

During the Relevant Periods, the CCPL Group capitalised interest expenses of HK$5,684,000, HK$12,841,000 and HK$21,528,000 for the years ended 31 December 2004, 2005 and 2006 in property, plant and equipment, respectively (note 3(e)).

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

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

The following unaudited pro forma financial information on the Enlarged Group (the "**Unaudited Pro Forma Financial Information**") was prepared by the directors of CITIC Resources Holdings Limited (the "**Company**").

The Unaudited Pro Forma Financial Information has been prepared to illustrate the effect of the Company's proposed acquisition (the "**Proposed Acquisition**") of Renowned Nation Limited and its subsidiaries (collectively referred to as the "**Renowned Nation Group**") and the issuance of 570,000,000 and 130,000,000 new shares of the Company at a price of HK$2.46 per share on 28 February 2007 and 19 April 2007, respectively (the "**Share Offering**").

Renowned Nation Limited through CITIC Canada Energy Limited ("**CCEL**") holds a 100% interest in CITIC Canada Petroleum Limited ("**CCPL**", formerly known as Nations Energy Company Ltd.), which holds a 94.6% interest in JSC Karazhanbasmunai ("**KBM**") as well as 100% interests in both Argymak TransService LLP ("**ATS**") and Tulpar Munai Service LLP ("**TMS**"). The results of operations and cash flows of the Renowned Nation Group were principally derived from CCPL, together with KBM, ATS and TMS (collectively referred to as the "**CCPL Group**").

The Unaudited Pro Forma Financial Information is based upon the historical financial statements of CITIC Resources Holdings Limited and its subsidiaries (collectively referred to as the "**Group**") after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Proposed Acquisition and the Share Offering that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, is summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties, and currently available information. As a result of these assumptions, estimates and uncertainties, the Unaudited Pro Forma Financial Information does not purport to describe the financial position or the results of operations or cash flows that would have been presented had the Proposed Acquisition and the Share Offering been completed. Further, the Unaudited Pro Forma Financial Information does not purport to predict the Group's future financial position, the results of operations or cash flows.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information on the Group as set out in Appendix I to the circular of the Company dated 12 June 2007 (the "**Circular**"), the financial information on the Renowned Nation Group as set out in Appendix II to the Circular, the financial information on the CCPL Group as set out in Appendix III to the Circular, and other financial information included elsewhere in the Circular.

1. UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP UPON COMPLETION OF THE TRANSACTION

Set out below is an unaudited pro forma combined balance sheet of the Enlarged Group as at 31 December 2006 which has been prepared for the purpose of illustration as if the Proposed Acquisition and the Share Offering had taken place on 31 December 2006.

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

(1) the audited consolidated balance sheet of the Group as at 31 December 2006 as set out in Appendix I to the Circular; and

(2) the audited consolidated balance sheet of the Renowned Nation Group as at 31 December 2006 as set out in Appendix II to the Circular.

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	Group: as at 31 December 2006 (Note 1)	Renowned Nation Group: as at 31 December 2006 (Note 2)	Group: pro forma adjustments —disposal of a 50% equity interest in CCEL (Note 3)	Group: pro forma adjustments —repayment of Bank Loans by CCEL (Note 4)	Share Offering (Note 5)	Bond issuance (Note 6)	Pro forma Enlarged Group: as at 31 December 2006
NON-CURRENT ASSETS							
Property, plant and equipment	2,391,501	18,088,593					20,480,094
Prepaid land lease premiums	58,353	—					58,353
Other intangible assets	135,701	4,563					140,264
Other assets	555,983	—					555,983
Goodwill	341,512	—					341,512
Available-for-sale equity investments	845,936	—					845,936
Prepayments, deposits and other receivables	16,346	—					16,346
Loan receivable	21,615	—					21,615
Deferred tax assets	6,754	—					6,754
Other assets	—	46,050					46,050
Total non-current assets	4,373,701	18,139,206					22,512,907
CURRENT ASSETS							
Inventories	1,112,150	210,194					1,322,344
Accounts receivable	939,938	233,317					1,173,255
Prepayments, deposits and other receivables	1,867,396	214,659	—	—	—	(1,555,820)	526,235
Tax recoverable	—	54,371					54,371
Loan receivable	17,327	—					17,327
Equity investments at fair value through profit or loss	1,974	—					1,974
Derivative financial instruments	16,380	—					16,380
Other assets	62,945	—					62,945
Cash and cash equivalents	850,744	1,769,040	—	(1,610,274)	1,722,000	1,342,269	4,073,779
Due from related companies	51,486	—					51,486
Due from the ultimate holding company	34,320	—					34,320
	4,954,660	2,481,581					7,334,416
Interests in jointly-controlled entities held for sale	—	6,810,976	(6,810,976)	—	—	—	—
Total current assets	4,954,660	9,292,557					7,334,416

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	Group: as at 31 December 2006 (Note 1)	Renowned Nation Group: as at 31 December 2006 (Note 2)	Group: pro forma adjustments —disposal of a 50% equity interest in CCEL (Note 3)	Group: pro forma adjustments —repayment of Bank Loans by CCEL (Note 4)	Share Offering (Note 5)	Bond issuance (Note 6)	Pro forma Enlarged Group: as at 31 December 2006
CURRENT LIABILITIES							
Accounts payable	533,788	100,036					633,824
Tax payable	47,108	380,676					427,784
Accrued liabilities and other payables	306,789	986,785	—	(54,454)	—	—	1,239,120
Derivative financial instruments	286,920	—					286,920
Due to a minority shareholder	38,174	—					38,174
Interest-bearing bank and other borrowings	1,588,022	1,580,113	—	(1,555,820)	—	—	1,612,315
Provisions	53,738	—					53,738
Due to the ultimate holding company	—	14,616,929	(6,810,976)	—	—	(7,805,953)	—
Total current liabilities	2,854,539	17,664,539					4,291,875
NET CURRENT ASSETS/ (LIABILITIES)	2,100,121	(8,371,982)					3,042,541
TOTAL ASSETS LESS CURRENT LIABILITIES	6,473,822	9,767,224					25,555,448
NON-CURRENT LIABILITIES							
Interest-bearing bank and other borrowings	2,214,540	506,879	—	—	—	7,592,402	10,313,821
Deferred tax liabilities	519,933	9,109,278					9,629,211
Derivative financial instruments	41,063	—					41,063
Provisions	117,549	91,289					208,838
Other payables	75,648	—					75,648
Total non-current liabilities	2,968,733	9,707,446					20,268,581
Net assets	3,505,089	59,778					5,286,867
EQUITY							
Issued capital	215,909	—	—	—	35,000	—	250,909
Reserves	3,009,434	4,165	—	—	1,687,000	—	4,700,599
	3,225,343	4,165					4,951,508
Minority interests	279,746	55,613					335,359
Total equity	3,505,089	59,778					5,286,867

Notes:

1. The balances are extracted from the audited consolidated financial statements of the Group as set out in Appendix I to the Circular.

2. The balances are extracted from the audited consolidated financial statements of the Renowned Nation Group as set out in Appendix II to the Circular.

3. The pro forma adjustments relate to the proposed disposal by Renowned Nation Limited of its 50% equity interest in CCEL to State Alliance Holdings Limited ("**State Alliance**") at its carrying value. For the purpose of the Unaudited Pro Forma Financial Information, these amounts are calculated based on the consolidated financial position of CCEL as at 31 December 2006.

4. The pro forma adjustments relate to the repayment of bank loans of the Renowned Nation Group (the "**Bank Loans**") and the related accrued interest expenses amounting to HK$1,555,820,000 (US$200,000,000) and HK$54,453,700 (US$7,000,000), respectively, as at 31 December 2006 by CCEL pursuant to the original sale and purchase agreement entered into by CITIC Group.

5. On 28 February 2007, the Company issued 570,000,000 new shares at a price of HK$2.46 per share. On 19 April 2007, the Company issued 130,000,000 new shares at a price of HK$2.46 per share. The pro forma consolidation adjustment reflects the net proceeds from the aforesaid share issuances, without assuming any interest or other income that may be generated from such net proceeds.

6. On 17 May 2007, the Company issued US$1,000,000,000 6.75% senior notes due 2014 (the "**Notes**"). The net proceeds from the offering of the Notes amounted to HK$7,592,402,000 are used to finance the Proposed Acquisition.

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2. UNAUDITED PRO FORMA COMBINED INCOME STATEMENT OF THE ENLARGED GROUP UPON COMPLETION OF THE TRANSACTION

Set out below is an unaudited pro forma combined income statement of the Enlarged Group for the year ended 31 December 2006 which has been prepared for the purpose of illustration as if the Proposed Acquisition had taken place on 1 January 2006.

	Group: for the year ended 31 December 2006 (Note 1)	CCPL Group: combined for the year ended 31 December 2006 (Note 2)	Group: pro forma adjustments —disposal of a 50% equity interest in CCEL (Note 3)	Group: pro forma adjustments —other adjustments (Note 4)	Interest (Note 5)	Pro forma Enlarged Group: for the year ended 31 December 2006
REVENUE	7,503,428	6,377,844	(3,188,922)	—	—	10,692,350
Cost of sales	(6,974,598)	(1,643,879)	821,940	(480,933) (i)	—	(8,277,470)
Gross profit	528,830	4,733,965				2,414,880
Other income and gains	283,245	18,684	(9,342)	—	—	292,587
Selling and distribution costs	(68,302)	(446,746)	223,373	—	—	(291,675)
Administrative expenses	(214,910)	(621,191)	310,595	—	—	(525,506)
Other operating expenses, net	(62,319)	(109,816)	54,908	—	—	(117,227)
Finance costs	(150,355)	(265,747)	132,873	76,069 (iii)	(552,674)	(759,834)
PROFIT BEFORE TAX	316,189	3,309,149				1,013,225
Tax	(70,152)	(1,901,437)	950,719	257,516 (ii)	—	(763,354)
PROFIT FOR THE YEAR	246,037	1,407,712				249,871
Attributable to:						
Shareholders of the Company	200,815	1,313,172	(656,586)	(139,391)	(552,674)	165,336
Minority interests	45,222	94,540	(47,270)	(7,957)	—	84,535
	246,037	1,407,712				249,871

Notes:

1. The amounts are extracted from the audited consolidated financial statements of the Group as set out in Appendix I to the Circular.

2. The amounts are extracted from the audited combined financial information on the CCPL Group as set out in Appendix III to the Circular.

3. The pro forma adjustments relate to the proposed disposal by the Renowned Nation Group of its 50% equity interest in CCEL to State Alliance. For the purpose of the Unaudited Pro Forma Financial Information, the disposal of its 50% equity interest in CCEL is assumed to take place on 1 January 2006 and these amounts are calculated based on the combined financial position of the CCPL Group for the year ended 31 December 2006.

4. The other pro forma adjustments reflect the following:

   (i) the additional depreciation arising from the preliminary fair value adjustments of the assets and liabilities of both the Renowned Nation Group and the CCPL Group;

   (ii) the deferred tax adjustments related to the additional depreciation as stated in (i) above; and

   (iii) the reduction in interest expenses on Bank Loans.

5. The finance cost incurred from the offering of the Notes amounted to HK$552,674,000.

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

Set out below is an unaudited pro forma combined cash flow statement of the Enlarged Group for the year ended 31 December 2006 which has been prepared for the purpose of illustration as if the Proposed Acquisition and the Share Offering had taken place on 1 January 2006.

	Group: for the year ended 31 December 2006 (Note 1)	CCPL Group combined: for the year ended 31 December 2006 (Note 2)	Group: pro forma adjustments –disposal of a 50% equity interest in CCEL (Note 3)	Group: pro forma adjustments –repayment of Bank Loans and interest expenses (Note 4)	Group: pro forma adjustments –payment of a cash consideration (Note 5 (i))	Group: –payment of interest (Note 5 (ii))	Bond issuance (Note 5 (iii))	Additional depreciation (Note 5(iv))	Share Offering (Note 6)	Pro forma Enlarged Group: for the year ended 31 December 2006
CASH FLOWS FROM OPERATING ACTIVITIES										
Profit before tax	316,189	3,309,149	(1,654,575)	—	—	76,069	(552,674)	(480,933)	—	1,013,225
Adjustments for:										
Finance costs	150,355	265,747	(132,873)	—	—	(76,069)	552,674	—	—	759,834
Interest income	(144,810)	(15,975)	7,988							(152,797)
Dividend income from listed investments	(55,115)	—	—							(55,115)
Equity-settled share option expenses	26,158	66,039	(33,020)							59,177
Depreciation	92,560	528,244	(264,122)	—	—	—	—	480,933	—	837,615
Amortisation	68,113	2,935	(1,467)							69,581
Loss on disposal/write-off of items of property, plant and equipment	4,568	17,320	(8,660)							13,228
Provision for long service and leave payments	6,715	—	—							6,715
Provision for rehabilitation cost	8,554	—	—							8,554
Provision for abandonment cost	112	—	—							112
Write-back of provision for impairment of items of property, plant and equipment	(4,893)	—	—							(4,893)
Provision for impairment of accounts receivable	1,816	—	—							1,816
Provision against inventories	1,515	63,256	(31,628)							33,143
Provision for impairment of other receivables	—	31,571	(15,786)							15,785
Gain on conversion of available-for-sale equity investments	(17,502)	—	—							(17,502)
Warranty income, net	(14,908)	—	—							(14,908)
Unrealised losses on embedded derivatives	111,667	—	—							111,667
Unrealised foreign exchange losses	25,777	—	—							25,777
Gain on disposal of available-for-sale equity investments	(5,235)	—	—							(5,235)
	571,636	4,268,286								2,705,779
Increase in inventories	(302,729)	(176,261)	88,131							(390,859)
Increase in prepayments, deposits and other receivables	(59,723)	(152,848)	76,424	—	1,555,820	—	—	—	—	1,419,673
Increase in accounts receivable	(502,396)	(4,623)	2,312							(504,707)
(Increase)/decrease in amounts due from related companies	(51,486)	26,796	(13,398)							(38,088)

HK$'000

	Group: for the year ended 31 December 2006 (Note 1)	CCPL Group combined: for the year ended 31 December 2006 (Note 2)	Group: pro forma adjustments –disposal of a 50% equity interest in CCEL (Note 3)	Group: pro forma adjustments –repayment of Bank Loans and interest expenses (Note 4)	Group: pro forma adjustments –payment of a cash consideration (Note 5 (i))	Group: –payment of interest (Note 5 (ii))	Bond issuance (Note 5 (iii))	Additional depreciation (Note 5(iv))	Share Offering (Note 6)	Pro forma Enlarged Group: for the year ended 31 December 2006
(Decrease)/increase in accrued liabilities and other payables	(116,872)	119,910	(59,955)							(56,917)
Increase in accounts payable	313,906	59,331	(29,666)							343,571
Increase in an amount due to a minority shareholder	38,174	—								38,174
Cash (used in)/generated from operations	(109,490)	4,140,591								3,516,626
Income tax paid	(145,458)	(1,785,997)	892,998							(1,038,457)
Net cash inflow/(outflow) from operating activities	(254,948)	2,354,594								2,478,169
CASH FLOWS FROM INVESTING ACTIVITIES										
Interest received	142,403	15,975	(7,988)							150,390
Dividends received from listed investments	55,115	—								55,115
Purchases of items of property, plant and equipment	(173,368)	(1,011,285)	505,643							(679,010)
Purchase of other intangible assets	(32)	(1,182)	591							(623)
Proceeds from disposal of items of property, plant and equipment	21,632	8,009	(4,004)							25,637
Increase in other assets	—	(28,545)	14,272							(14,273)
Increase in the amount due from the intermediate holding company	—	(2,199,657)	1,099,828							(1,099,829)
Proceeds from disposal of available-for-sale equity investment	31,221	—								31,221
Net cash inflow from acquisition of subsidiaries	148,230	—								148,230
Repayment of loan receivable	15,990	—								15,990
Net cash outflow from acquisition of participating interest in Seram Island Non-Bula Block, Indonesia	(757,723)	—								(757,723)
Deposits paid for potential investment projects	(1,560,000)	—								(1,560,000)
Payments of interest, legal and professional fees and other charges incurred in relation to potential investment projects	(35,177)	—								(35,177)
Payment to the ultimate holding company for the Proposed Acquisition	—	—	—	—	(8,583,863)	—	—	—	—	(8,583,863)
Net cash outflow from investing activities	(2,111,709)	(3,216,685)								(12,303,915)

HK$'000

	Group: for the year ended 31 December 2006 (Note 1)	CCPL Group combined: for the year ended 31 December 2006 (Note 2)	Group: pro forma adjustments –disposal of a 50% equity interest in CCEL (Note 3)	Group: pro forma adjustments –repayment of Bank Loans and interest expenses (Note 4)	Group: pro forma adjustments –payment of a cash consideration (Note 5 (i))	Group: –payment of interest (Note 5 (ii))	Bond issuance (Note 5 (iii))	Additional depreciation (Note 5(iv))	Share Offering (Note 6)	Pro forma Enlarged Group: for the year ended 31 December 2006
CASH FLOWS FROM FINANCING ACTIVITIES										
Proceeds from issue of share capital	1,404	132,999	(66,500)	—	—	—	—	—	1,722,000	1,789,903
Dividend paid	—	(560,558)	280,279							(280,279)
Dividends paid to minority shareholders	(6,558)	(100,193)	50,097							(56,654)
New bank and other loans	6,019,860	933,773	(466,887)	—	—	—	7,592,402	—	—	14,079,148
Repayment of bank and other loans	(4,183,162)	(590,277)	295,139	(1,555,820)	—	—	—	—	—	(6,034,120)
Interest paid	(140,677)	(275,292)	137,646	(54,454)	—	76,069	(526,500)	—	—	(783,208)
Increase in the amount due to ex-shareholders	—	(88,224)	44,112							(44,112)
Net capital contribution from equity owners	—	1,063,480	(531,740)							531,740
Increase in the amount due to the ultimate holding company	—	—	—	1,610,274	—	—	—	—	—	1,610,274
Net cash inflow from financing activities	1,690,867	515,708								10,812,692
NET INCREASE/ (DECREASE) IN CASH AND CASH EQUIVALENTS	(675,790)	(346,383)								986,946
Cash and cash equivalents at beginning of year	1,519,595	634,087	(317,044)							1,836,638
Effect of foreign exchange rate changes, net	6,939	24,289	(12,144)							19,084
CASH AND CASH EQUIVALENTS AT END OF YEAR	850,744	311,993								2,842,668
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS										
Cash and bank balances	310,258	311,993	(155,997)	—	(7,028,043)	76,069	7,065,902	—	1,722,000	2,302,182
Non-pledged time deposits with original maturity of less than three months when acquired	540,486	—								540,486
	850,744	311,993								2,842,668

Notes:

1. The amounts are extracted from the audited consolidated financial statements of the Group as set out in Appendix I to the Circular.

2. The amounts are extracted from the audited combined financial information on the CCPL Group as set out in Appendix III to the Circular.

3. The pro forma adjustments relate to the proposed disposal by Renowned Nation Group of its 50% equity interest in CCEL to State Alliance. For the purpose of the Unaudited Pro Forma Financial Information, the disposal of its 50% equity interest in CCEL is assumed to take place on 1 January 2006 and these amounts are calculated based on the combined financial position of the CCPL Group for the year ended 31 December 2006.

4. The pro forma adjustments related to the repayment of Bank Loans and the related accrued interest expenses of the Renowned Nation Group amounting to HK$1,555,820,000 (US$200,000,000) and HK$54,453,700 (US$7,000,000), respectively, as at 31 December 2006 by CCEL pursuant to the original sale and purchase agreement entered into by CITIC Group.

5. The pro forma consolidation adjustments reflect the following:

   (i) the payment of cash consideration of HK$6,250,133,000 (HK$7,805,953,000 net of deposit of HK$1,555,820,000) by the Group to CITIC Group to acquire 50% equity interest in Renowned Nation Limited and the payment of HK$777,910,000 (US$100,000,000) by the Group to CITIC Group for services provided by CITIC Group;

   (ii) the interest savings on repayment of Bank Loans;

   (iii) the net proceeds from the offering of the Notes of HK$7,592,402,000 and the related interest expense of HK$526,500,000; and

   (iv) the additional depreciation arising from the preliminary fair value adjustments of the assets and liabilities of both the Renowned Nation Group and the CCPL Group.

6. On 28 February 2007, the Company issued 570,000,000 new shares at a price of HK$2.46 per share. On 19 April 2007, the Company issued 130,000,000 new shares at a price of HK$2.46 per share. The pro forma consolidation adjustment reflects the net proceeds from the aforesaid share issuances, without assuming any interest or other income that may be generated from such net proceeds.

4. LETTER FROM THE REPORTING ACCOUNTANTS

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

ERNST & YOUNG

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

12 June 2007

The Board of Directors
CITIC Resources Holdings Limited

Dear Sirs,

We report on the unaudited pro forma financial information on the Enlarged Group (as defined below) set out on pages IV-1 to IV-9 in Appendix IV to the circular dated 12 June 2007 of CITIC Resources Holdings Limited (the "**Company**", and together with its existing subsidiaries referred to as the "**Group**") in connection with the proposed acquisition of Renowned Nation Limited and its subsidiaries (collectively the "**Renowned Nation Group**", and together with the Group referred to as the "**Enlarged Group**") (the "**Unaudited Pro Forma Financial Information**"). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company, solely for illustrative purposes, to provide information about how the proposed acquisition of the Renowned Nation Group resulting in the formation of the Enlarged Group might have affected the income statement and cash flow statement of the Group for the year ended 31 December 2006 and the balance sheet of the Group as of 31 December 2006.

The historical financial information is derived from the audited historical financial information on the Group, where applicable, the audited historical financial information on the Renowned Nation Group and CITIC Canada Petroleum Limited, together with JSC Karazhanbasmunai, Argymak TransService LLP and Tulpar Munai Service LLP, appearing elsewhere herein. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the accompanying introduction and notes to the Unaudited Pro Forma Financial Information.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

It is our responsibility to form an opinion, as required by rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position, results or cash flows of:

- the Enlarged Group, had the transaction actually occurred as at the date indicated therein; or

- the Enlarged Group, at any future dates or for any future periods.

Opinion

In our opinion:

(a) the accompanying Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

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

(c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to rule 4.29(1) of the Listing Rules.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

(B) INDEBTEDNESS

Borrowings

As at 31 March 2007, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of the Circular, the Enlarged Group had the following outstanding borrowings:

	Notes	31 March 2007 HK$'000
Bank loans:		
Secured	(a)	1,369,545
Unsecured	(b)	2,513,874
		3,883,419
Other loans, unsecured		453,022
Bonds, unsecured		694,487
Total borrowings		5,030,928

Notes:

(a) The Enlarged Group's secured bank loans as at 31 March 2007 were secured by the following:

(i) a pledge of the 22.5% participating interest in Portland Aluminium Smelter joint venture;

(ii) certain of the Enlarged Group's property, plant and equipment with net book value of HK$633,760,000, prepaid land lease premiums of HK$1,276,000, mining rights of HK$119,093,000 and a guarantee provided by a minority shareholder; and

(iii) future cash receipt from crude oil sales amounting to HK$312,000,000.

(b) Certain of the Enlarged Group's unsecured bank loans as at 31 March 2007 were guaranteed by a corporate guarantee executed by CITIC Resources Australia Pty Limited.

Contingent liabilities

At the close of business on 31 March 2007, the Enlarged Group had the following contingent liabilities:

1. Taxation

In 2005, the taxation authority of Kazahkstan conducted a tax audit on the accounting records of KBM for the three years ended 31 December 2004. In December 2005, as a result of the tax audit, KBM received a claim from the Tax Committee of the Ministry of Finance of the Republic of Kazakhstan to pay additional taxes in the amount of HK$409,551,000 (6,686,552,000 Tenge) as well as penalties and fines of HK$303,156,000 (4,949,490,000 Tenge) (the "**Tax Claim**").

On 10 July 2006, KBM received a favorable decision from the Astana city court. On 6 September 2006, KBM also received a favorable decision from the Collegiums of Judges of Astana city. The taxation authority could appeal against the court's and Collegiums' decision within twelve months after the announcement of the decision.

KBM's management believes that KBM is in compliance with the tax legislation and KBM will be successful in the appeal process. Therefore, KBM has not recorded any provision for the amounts of the Tax Claim as at 31 March 2007.

2. de Shazo litigation

On 20 September 2005, Thomas de Shazo ("**de Shazo**") filed a summons and complaint (the "**Complaint**") in the Southern District of Texas in the United States District Court (US federal court) against CCPL, Ecolo Investments Limited, Aequitas Energy, Ltd., Novomundo Trading Ltd., Hashim Djojohadikusumo, Philip Hirschler and Patrick O'Mara. The US federal court dismissed de Shazo's claim on 26 March 2007 and de Shazo appealed on 25 April 2007. The Complaint is claiming an amount of US$200 million which includes damages, additional punitive and exemplary damages, the award of treble damages, the costs of the action and a jury trial.

On 29 September 2006, CCPL obtained a Certificate of Foreign Judgment against de Shazo in Idaho, United States, to collect US$0.1 million in outstanding costs arising out of the dismissal of de Shazo's action in Alberta, Canada, by the Alberta Court of Appeal on 18 August 2005. In response, de Shazo has filed a defense to set aside the Certificate of Foreign Judgment and a counterclaim in which he has incorporated by reference the counterclaim being litigated in Texas for US$200 million. In the Idaho counterclaim, de Shazo has requested the court to stay the action in Idaho pending the outcome of the action in Texas. CCPL believes that there are no grounds for such claim to succeed and as such, no provision has been made by the CCPL Group as at 31 March 2007.

3. Savicic litigation

On 20 April 2006, the plaintiffs, Mr. Savicic and GZF Poly Oil Holding Ltd. ("**GZF**") brought an action against CCPL, KBM, Canadian Triton International Ltd. and Vladimir Katic in the Specialized Inter-Regional Economic Court in Mangistau Oblast, in Kazakhstan. The plaintiffs sought 50% of the KBM shares.

On 19 July 2006, the Kazakhstan court awarded a judgment in favor of the plaintiffs in part and ordered CCPL to transfer 17.9% of the shares of KBM to GZF. CCPL appealed the decision on 3 August 2006. On 29 August 2006, the Mangistau Region Court heard the appeal and set aside the judgment of the court of first instance and dismissed the case. The plaintiffs have the right to file a supervisory appeal with the Supreme Court of Kazakhstan within one year from the resolution made by Mangistau Region Court.

CCPL believes that if the plaintiffs file a supervisory appeal with the Supreme Court of Kazakhstan, there are no ground for such claim to succeed and as such, no provision had been made by CCPL as at 31 March 2007. On 4 May 2007, Ecolo Investments Limited entered into a settlement agreement for itself and for the benefit of CCPL and KBM pursuant to which Mr. Savicic and GZF released, discharged and cancelled all their respective claim against CCPL and KBM.

Disclaimer

Save as aforesaid or as otherwise mentioned herein and the litigation as detailed in the section headed "Litigation" in Appendix V to the Circular, and apart from intra-group liabilities, none of the companies in the Enlarged Group had, at the close of business on 31 March 2007, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other contingent liabilities.

On 17 May 2007, the Company issued a US$1,000,000,000 6.75% senior notes due 2014 (the "**Notes**"). The obligations of the issuer under the Notes are irrevocably and unconditionally guaranteed by the Company.

Save as aforesaid, the directors of the Company have confirmed that there have been no other material changes in the indebtedness and contingent liabilities of the Enlarged Group since 31 March 2007.

Foreign currency transactions

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the applicable rate of exchange ruling at the close of business on 31 March 2007.

(C) WORKING CAPITAL

The Directors are of the opinion that after taking into account the existing financing available to the Enlarged Group, the working capital requirements and the expected cash flows of the Enlarged Group, the Enlarged Group will, following the completion of the Proposed Acquisition, have sufficient working capital for its present requirements for the next 12 months from the date of the Circular in the absence of unforeseen material circumstances.

(D) MANAGEMENTS DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS OF THE ENLARGED GROUP

1. BUSINESS REVIEW

(for the year ended 31 December 2004)

During the year, the Group took the first steps in expanding its business focus and diversifying from its previous narrow base in the plywood industry. The Directors adopted a business strategy to diversify the Group's activities and position the Group as an integrated provider of key energy resources and commodities of which the People's Republic of China (the "**PRC**") is a net importer, involved in upstream operations to mid-stream processing and downstream distribution.

The Company acquired the entire issued share capital of CITIC Resources Australia Pty Limited ("**CRA**") in consideration of the allotment and issue of 750,413,793 new shares in the capital of the Company. CRA and its subsidiaries (collectively referred to as the "**CRA Group**"), reported a turnover and net operating profit of HK$3,574.9 million and HK$146.0 million respectively for the nine months ended 31 December 2004.

The Company acquired the entire issued share capital of Richfirst Holdings Limited ("**Richfirst**") which gave the Group a 40% participating interest in the development and production of petroleum in the Kongnan Block within the Dagang Oilfield in the PRC. The performance was taken into the Group's financial results and Richfirst reported a turnover and net operating profit of HK$24.4 million and HK$7.7 million respectively for the six months ended 31 December 2004.

The Directors expect the PRC's rapid industrialisation to continue to generate significant demand for energy and hard commodities. Despite the normal fluctuations of economic cycles, the PRC's economic growth is likely to remain high in comparison to the steadier but lower rates typical of more mature economies.

During the year, the principal activities of the CCPL Group remained as the development and production of oil with the right to explore, develop and produce oil in the Karazhanbas oilfield in the Republic of Kazakhstan until 2020. The total volume of oil produced and exported of the CCPL Group was 15.5 million barrels. The revenue after payment of royalties and settlement of hedge loss was HK$3,293.1 million and the net profit attributable to shareholders was HK$46.5 million.

(for the year ended 31 December 2005)

During the year, the principal activities of the Group continued to be an integrated provider of key natural resources and commodities. Global demand for natural resources and commodities remained high in 2005. The performance of the aluminium smelting, coal mining and import and export of commodities businesses and interests, were together the principal contributors and formed the basis for the positive performance in 2005. The respective business lines have benefited from increasing sales volumes and higher prices.

The increase in turnover of the CRA Group from HK$3,574.9 million in 2004 to HK$5,708.5 million in 2005 was principally driven by the strong performance of the import and export of commodities and its full year's contribution in 2005 rather than 9 months' in 2004. The increase in revenue reflects higher market prices of alumina and steel products, as well as increased sales volume of iron ore exports. The increase in net operating profit of the CRA Group from HK$146.0 million in 2004 to HK$433.8 million in 2005 was principally attributable to an increase in the market price of alumina in 2005.

During the year, Richfirst reported a turnover and net operating loss of HK$77.4 million and HK$6.6 million respectively. In the fourth quarter of the year, drilling was temporarily suspended to allow for detailed evaluation of well productivity and production decline performance. As at the end of the year, the independent engineering evaluators had revised downward their estimate of the proved reserves. Since depletion was provided on the substantial capitalised development costs incurred during the year, Richfirst made a loss as a result.

During the year, there was no change to the principal activities of the CCPL Group. Revenue after payment of royalties increased from HK$3,293.1 million in 2004 to HK$5,107.5 million in 2005. The net operating profit increased from HK$46.5 million in 2004 to HK$1,196.1 million in 2005. This increase was primarily due to increases in international oil prices, as evidenced by the increase in the average benchmark end-market quote for Urals Mediterranean of US$34.5 and Dated Brent of US$38.3 per barrel in 2004 to US$50.9 for Urals Mediterranean and US$54.5 for Dated Brent per barrel in 2005. However, the increase in revenue was offset in part by a decrease in sales volume of oil produced in the Karazhanbas oilfield from 15.5 million barrels in 2004 to 14.8 million barrels in 2005, which was mainly attributable to the fact that the temperature in the winter of 2005 reached unusually low levels, which affected production.

(for the year ended 31 December 2006)

The principal activities of the Group remained as an integrated provider of key natural resources and there were a number of encouraging initiatives and developments during the year. The Group achieved a satisfactory financial performance for the year. The businesses and interests in Australia continue to be the principal contributors and formed the basis for the satisfactory results of the Group in 2006. The manganese business made a positive contribution to the profits of the Group since the second quarter of the year when the Group completed the acquisition of such business.

The CRA Group reported a turnover of HK$6,951.8 million in 2006. The increase in revenue was driven by higher selling prices and the appreciation of the Australian dollars. The decrease in net operating profit from HK$433.8 million in 2005 to HK$296.1 million in 2006 was mainly caused by the loss arising from the revaluation of the embedded derivatives and the hedge loss.

During the year, the formation of a sino-foreign equity joint venture to undertake the business of manganese mining and processing was completed. The newly established joint venture company, namely, CITIC Dameng Mining Industries Limited (the "**Manganese Company**"), became a non-wholly-owned subsidiary of the Group. As the Company has a controlling interest in the Manganese Company, the financial results of the Manganese Company were consolidated into the accounts of the Group as from the second quarter of the year.

The Manganese Company recorded a turnover of HK$538.0 million and net operating profit of HK$65.8 million in 2006. The PRC's economic growth has increased significantly the domestic demand for virtually all raw materials creating significant opportunities in the broader commodities and energy sector. The Manganese Company has made a positive contribution to overall profit of the Group.

During the year, the Group exercised its option to convert its 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC into common shares in the share capital of Ivanhoe Energy Inc., ("**Ivanhoe**") and a loan repayable by Ivanhoe.

During the year, CITIC Seram Energy Limited ("**CITIC Seram**"), an indirect wholly-owned subsidiary of the Group, concluded the acquisition of a 51% participating interest in the production sharing contract relating to the Seram Island Non-Bula Block, Indonesia (the "**Seram Block**"). CITIC Seram also became the operator responsible for managing and operating exploration and development at the Seram Block which marks a change in the Group's strategy for oil investments from passive holdings to an involvement. In 2006, the average production of oil from the principal field, the Oseil Field, at Seram Block was above 4,700 barrels per day. From the completion date of the acquisition to the end of the year, no sales were recorded.

During the year, there was no change to the principal activities of the CCPL Group. Revenue after payment of royalties increased from HK$5,107.5 million in 2005 to HK$6,377.8 million in 2006. The net operating profit was HK$1,407.7 million, an increase of 17.7% over 2005. This increase was primarily due to increases in international oil prices, as evidenced by the increase in the average benchmark end-market quote for Urals Mediterranean of US$50.9 and Dated Brent of US$54.5 per barrel in 2005 to US$61.4 for Urals Mediterranean and US$65.1 for Dated Brent per barrel in 2006. This increase was also attributable to the increase in the sales volume of oil produced in the Karazhanbas oilfield from 14.8 million barrels in 2005 to 15.6 million barrels in 2006. The increase in sales volume was mainly a result of the increase in the number of wells drilled in the Karazhanbas oilfield in 2006 and the fact that the temperature in the winter of 2006 did not reach the same extremely low levels that it had in 2005, which had affected production in 2005.

2. PROSPECTS

The Company's strategy is to position the Enlarged Group as an integrated provider of key energy and natural resources and commodities and to establish a unified business platform ranging from production to delivery of commodities and resources of which the PRC is a net importer – from upstream operations to mid-stream processing to distribution of the final products. Currently, the Group has interests in aluminum smelting, coal mining, import and export of commodities, manganese mining and processing and oil. The Group plans to increase its oil production capacity through development of existing interests and through acquisitions.

The Transaction will enable the Enlarged Group to become one of the largest PRC controlled listed oil producers active in overseas oil production.

In the coming two years, the Transaction will begin to improve the net cash flows of the Enlarged Group.

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

1. RESPONSIBILITY STATEMENT

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

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular 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. FURTHER INFORMATION ABOUT THE COMPANY

The Company was incorporated in Bermuda on 18 July 1997. Its registered office is situated at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business is at Suites 3001-3006, 30/F, One Pacific Place, 88 Queensway, Hong Kong.

Share Capital:

The authorised and issued share capital of the Company as at the Latest Practicable Date were as follows:

Authorised Share Capital:

HK$500,000,000 divided into 10,000,000,000 Shares

Share Capital issued as fully paid:

HK$251,434,219.05 divided into 5,028,684,381 Shares as at the Latest Practicable Date.

Note: All of the existing issued Shares rank pari passu in all respects including as to, amongst other things, dividends, voting and interests in capital.

3. DISCLOSURE OF INTERESTS

(a) Disclosure of interests of Directors

As at the Latest Practicable Date, the interests 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)]	—	11.39
Mr. Kwok Peter Viem	Directly beneficially owned	—	50,000,000	0.99
Mr. Ma Ting Hung	Corporate	572,966,000[(1)]	—	11.39
Mr. Ma Ting Hung	Directly beneficially owned	—	50,000,000	0.99
Mr. Shou Xuancheng	Directly beneficially owned	—	10,000,000	0.20
Mr. Sun Xinguo	Directly beneficially owned	—	10,000,000	0.20
Ms. Li So Mui	Directly beneficially owned	—	5,000,000	0.10
Mr. Mi Zengxin	Directly beneficially owned	—	10,000,000	0.20
Mr. Qiu Yiyong	Directly beneficially owned	5,000,000	5,000,000	0.20
Mr. Zeng Chen	Directly beneficially owned	—	10,000,000	0.20
Mr. Zhang Jijing	Family	28,000[(2)]	—	—
Mr. Zhang Jijing	Directly beneficially owned	—	10,000,000	0.20

Notes:

(1) The Shares disclosed above are held by USI, 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 an associated corporation 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	Percentage of the total issued share capital of the associated corporation
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	385,402[(1)]	Family	0.46

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 385,402 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 respective associates was materially interested in any subsisting contract or arrangement which is significant in relation to the business of the Group taken as a whole; and

(iv) none of the Directors or their respective associates had any interest in a business apart from the businesses of the Group which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

(b) Disclosure of interests of substantial Shareholders and other persons' interests in the Shares and underlying Shares

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

Name of Shareholder	Nature of interest	Number of Shares held	Interests in underlying Shares pursuant to share options	Percentage of the total issued share capital of the Company
CITIC Group	Corporate	2,740,594,381(1)	—	54.50
CITIC Projects Management (HK) Limited	Corporate	1,990,180,588(2)	—	39.58
Keentech	Corporate	1,990,180,588(3)	—	39.58
CA	Corporate	750,413,793(4)	—	14.92
USI	Corporate	572,966,000(5)	—	11.39
Mr. Kwok Peter Viem	Corporate	572,966,000(5)	50,000,000(7)	12.39
Mr. Ma Ting Hung	Corporate	572,966,000(5)	50,000,000(7)	12.39
Temasek Holdings (Private) Limited	Corporate	348,108,000(6)	—	6.92
Temasek Capital (Private) Limited	Corporate	348,108,000(6)	—	6.92
Seletar Investments Pte Ltd	Corporate	348,108,000(6)	—	6.92
Baytree Investments (Mauritius) Pte Ltd	Corporate	348,108,000(6)	—	6.92

Notes:

(1) The figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited ("**CITIC Projects**") and CA.

(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 USI. 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 figure represents an attributable interest of Temasek Holdings (Private) Limited through its interest in Temasek Capital (Private) Limited, Seletar Investments Pte Ltd and Baytree Investments (Mauritius) Pte Ltd.

(7) 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 the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

4. 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 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 31 December 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 Contractor.

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 the superintendent's 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. In October 2006, the Manager lodged its defence to the consolidated claim.

In January 2006, the Contractor lodged a further notice of claim in relation to alleged additional costs resulting from the superintendent's 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$100 million (HK$617 million) out of which the Group's share amounted to A$7 million (HK$43 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 third claim.

The Manager disputes the above claims and 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. However, there is no set date for hearing of the consolidated 2006 financial year claim.

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 the Coppabella and Moorvale coal mines joint venture.

5. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up.

6. 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.

7. MATERIAL CONTRACTS

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

(i) the joint venture contract dated 2 August 2005 between Guangxi Dameng Manganese Industrial Co. Ltd. and CITIC Dameng Investments Limited relating to the establishment of CITIC Dameng Mining Industries Limited;

(ii) the conversion agreement dated 18 February 2006 between Ivanhoe Energy Inc., Pan-China Resources Ltd., Sunwing Energy Ltd. and Richfirst Holdings Limited relating to the conversion of 40% participating interest in the Kongnan Block within the Dagang Oilfield in the PRC into common shares in the share capital of Ivanhoe Energy Inc. and a loan repayable by Ivanhoe Energy Inc.;

(iii) the sale and purchase agreement dated 11 July 2006 between KUFPEC (Indonesia) Limited and CITIC Seram Energy Limited relating to the sale and purchase of the 51% participating interest in the Seram Island Non-Bula Block production sharing contract;

(iv) the placing and subscription agreement dated 9 February 2007 among USI, the Company, Citigroup Global Markets Asia Limited and UBS AG in respect of the placing of 570,000,000 Shares by USI and the conditional top-up subscription by USI for 570,000,000 Shares;

(v) the subscription agreement dated 9 February 2007 between Keentech and the Company in respect of the subscription by Keentech for 130,000,000 Shares;

(vi) the Acquisition Agreement;

(vii) the KEL Debt Purchase Agreement;

(viii) an option agreement dated 1 May 2007 between Far Great Investments Limited, CITIC Haiyue Energy Limited and certain shareholders of Far Great Investments Limited pursuant to which CITIC Haiyue Energy Limited has the right to acquire 90% of the issued shares of Tincy Group Energy Resources Limited;

(ix) a loan agreement dated 1 May 2007 between CITIC Haiyue Energy Limited, Far Great Investments Limited and Tincy Group Energy Resources Limited;

(x) an on-loan agreement dated 1 May 2007 between Far Great Investments Limited, Tincy Group Energy Resources Limited and CITIC Haiyue Energy Limited;

(xi) a pledge and further security dated 1 May 2007 between Far Great Investments Limited and CITIC Haiyue Energy Limited;

(xii) a debenture dated 1 May 2007 between Far Great Investments Limited, Tincy Group Energy Resources Limited and CITIC Haiyue Energy Limited;

(xiii) a charge over account dated 21 May 2007 between Far Great Investments Limited and CITIC Haiyue Energy Limited;

(xiv) a charge over account dated 21 May 2007 between Tincy Group Energy Resources Limited and CITIC Haiyue Energy Limited;

(xv) a guarantee dated 26 May 2007 by Lu Shi Tao in favour of CITIC Haiyue Energy Limited;

(xvi) a purchase agreement dated 14 May 2007 between CITIC Resources Finance (2007) Limited, Bear, Stearns & Co. Inc., Morgan Stanley & Co. International plc and the Company relating to the issue of US$1,000,000,000 6.75% senior notes due 2014;

(xvii) an escrow agreement dated 17 May 2007 between CITIC Resources Finance (2007) Limited, the Company and Citibank, N.A., London Branch relating to the issue of US$1,000,000,000 6.75% senior notes due 2014; and

(xviii) an indenture dated 17 May 2007 between CITIC Resources Finance (2007) Limited, the Company and Citibank, N.A., London Branch relating to the issue of US$1,000,000,000 6.75% senior notes due 2014.

8. EXPERTS

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

Name	Qualification
Ernst & Young	certified public accountants
Independent Financial Adviser	a licensed corporation under the SFO to carry out types 1, 4, 6 and 9 regulated activities

Each of Ernst & Young and the Independent Financial Adviser 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.

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

9. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors, Ernst & Young or the Independent Financial Adviser had any interest, direct or indirect, in any asset which has been since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

10. 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 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 29 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 16 years' experience in the accounting field.

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

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

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office of Messrs. Jones Day at 29/F, Edinburgh Tower, The Landmark, 15 Queen's Road Central, Hong Kong for the period of 14 days from the date of this circular:

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

(b) the report prepared by Ernst & Young in connection with the financial information on the RNL Group, the text of which is set out in Appendix II to this circular;

(c) the report prepared by Ernst & Young in connection with the financial information on the CCPL Group, the text of which is set out in Appendix III to this circular;

(d) the report prepared by Ernst & Young in connection with the pro forma financial information on the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(e) the annual reports of the Company for the years ended 31 December 2005 and 2006;

(f) the consent letter of Ernst & Young referred to under the section headed "Experts" above;

(g) the consent letter of the Independent Financial Adviser referred to under the section headed "Experts" above;

(h) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;

(i) the letter of advice of the Independent Financial Adviser, the text of which is set out on pages 17 to 33 of this circular;

(j) the material contracts referred to under the section headed "Material Contracts" above; and

(k) a shareholders' circular of the Company dated 7 May 2007.