
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 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.

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CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

CONTINUING CONNECTED TRANSACTIONS RELATING TO CITIC DAMENG JV

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



First Shanghai Capital Limited

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

A letter from the Independent Financial Adviser (as defined in this circular) containing its opinion and advice to the Independent Board Committee and Shareholders is set out on pages 16 to 24 of this circular.

1 February 2008

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DEFINITIONS

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

“Annual Caps”	the annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2010 as set out in the “Letter from the Board” in this circular and, where the context admits, all of such Annual Caps
“associates”	has the meaning given to it in the Listing Rules
“Board”	the board of Directors
“CA”	CITIC Australia Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability and a direct wholly-owned subsidiary of CITIC Group
“CITIC Dameng JV”	CITIC Dameng Mining Industries Limited (中信大錳礦業有限公司), a sino-foreign equity joint venture established in Chongzuo City, Guangxi Zhuang Autonomous Region, the PRC
“CITIC Group”	CITIC Group, a state-owned enterprise incorporated in, and under the direct supervision of the State Council of, the PRC
“Company”	CITIC Resources Holdings Limited
“connected person”	has the meaning given to it in the Listing Rules
“Continuing Connected Transactions”	the continuing connected transactions between CITIC Dameng JV and (1) Daxin Guinan pursuant to the Daxin Guinan Contracts, (2) Guangxi Dameng pursuant to the Guangxi Dameng Contract, (3) Guangxi Guilin pursuant to the Guangxi Guilin Contract, (4) Guangxi Liuzhou pursuant to the Guangxi Liuzhou Contract and (5) Nanning Battery Plant pursuant to the Nanning Battery Plant Contract
“Daxin Guinan”	大新桂南化工有限責任公司(Daxin Guinan Chemical Industrial Limited), a company incorporated in the PRC and an associate of Guangxi Dameng

DEFINITIONS

“Daxin Guinan Contracts”	two framework contracts dated 10 January 2008 respectively and made between CITIC Dameng JV and Daxin Guinan
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Guangxi Dameng”	廣西大錳錳業有限公司 (Guangxi Dameng Manganese Industry Co., Ltd.), a PRC state-owned limited liability company and a substantial shareholder of CITIC Dameng JV
“Guangxi Dameng Associates”	Daxin Guinan, Guangxi Guilin, Guangxi Liuzhou and Nanning Battery Plant
“Guangxi Dameng Contract”	the framework contract dated 10 January 2008 and made between CITIC Dameng JV and Guangxi Dameng
“Guangxi Guilin”	廣西桂林大錳錳業投資有限責任公司(Guangxi Guilin Dameng Manganese Investment Co., Ltd.), a company incorporated in the PRC and an associate of Guangxi Dameng
“Guangxi Guilin Contract”	the framework contract dated 10 January 2008 and made between CITIC Dameng JV and Guangxi Guilin
“Guangxi Liuzhou”	廣西柳州大錳機電設備製造有限公司(Guangxi Liuzhou Dameng Machinery & Electronic Equipment Manufacturer Co., Ltd.), a company incorporated in the PRC and an associate of Guangxi Dameng
“Guangxi Liuzhou Contract”	the framework contract dated 10 January 2008 and made between CITIC Dameng JV and Guangxi Liuzhou
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a committee of the Board comprising all of the independent non-executive Directors

DEFINITIONS

“Independent Financial Adviser”	First Shanghai Capital Limited, a corporation licensed under the SFO to carry out type 6 regulated activities, and the independent financial adviser appointed by the Company to advise the Independent Board Committee and Shareholders in respect of the Continuing Connected Transactions and the Annual Caps
“Keentech”	Keentech Group Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of CITIC Group
“Latest Practicable Date”	30 January 2008, 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
“Nanning Battery Plant”	南寧市電池廠 (Nanning Battery Plant), a company incorporated in the PRC and an associate of Guangxi Dameng
“Nanning Battery Plant Contract”	the framework contract dated 10 January 2008 and made between CITIC Dameng JV and Nanning Battery Plant
“PRC”	the People’s Republic of China (excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Relevant Contracts”	the Daxin Guinan Contracts, the Guangxi Dameng Contract, the Guangxi Guilin Contract, the Guangxi Liuzhou Contract and the Nanning Battery Plant Contract
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	holder(s) of Shares
“Shares”	ordinary shares of HK\$0.05 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“substantial shareholder”	has the meaning given to it in the Listing Rules
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

In this circular, amounts in RMB have been converted into HK\$ or vice versa at the rates of RMB1 = HK\$1.04 for illustration purposes only. No representation is made that any amounts in RMB or HK\$ have been or could have been or can be converted at the above rates or at any other rates or at all.

LETTER FROM THE BOARD



CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

Executive Directors:

Mr. KONG Dan (*Chairman*)
Mr. MI Zengxin (*Vice Chairman*)
Mr. SHOU Xuancheng (*Vice Chairman*)
Mr. SUN Xinguo (*President and Chief Executive Officer*)
Ms. LI So Mui
Mr. QIU Yiyong
Mr. ZENG Chen
Mr. ZHANG Jijing

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Non-executive Directors:

Mr. MA Ting Hung
Mr. TANG Kui
Mr. WONG Kim Yin (*Alternate to Mr. Tang Kui*)

Head Office and

Principal Place of Business:

Suites 3001-3006
30/F, One Pacific Place
88 Queensway
Hong Kong

Independent Non-executive Directors:

Mr. FAN Ren Da, Anthony
Mr. NGAI Man
Mr. TSANG Link Carl, Brian

1 February 2008

To Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS RELATING TO CITIC DAMENG JV

INTRODUCTION

Reference is made to the announcement by the Company dated 10 January 2008 in relation to the Continuing Connected Transactions.

On 10 January 2008, CITIC Dameng JV entered into the Relevant Contracts with Guangxi Dameng and the Guangxi Dameng Associates concerning the Continuing Connected Transactions. The Relevant Contracts provide a framework for the entering into from time to time of the Continuing Connected Transactions by CITIC Dameng JV with Guangxi Dameng and the Guangxi Dameng Associates on normal commercial terms and subject to prevailing market prices, for the period of three years commencing from 1 January 2008 and ending on 31 December 2010 (both dates inclusive).

LETTER FROM THE BOARD

The purpose of this circular is to provide you with details of the Relevant Contracts and the Continuing Connected Transactions contemplated by such contracts, the Annual Caps, the advice of the Independent Board Committee to Shareholders and the advice of the Independent Financial Adviser to the Independent Board Committee and Shareholders.

DESCRIPTION OF RELEVANT CONTRACTS AND CONTINUING CONNECTED TRANSACTIONS

(A) Daxin Guinan Contracts

(1) Daxin Guinan Contracts Details

Date:

10 January 2008

Parties:

- (a) CITIC Dameng JV
- (b) Daxin Guinan

Subject matter:

Purchase of sulphuric acid and steam from and sale of sulphur to Daxin Guinan by CITIC Dameng JV.

(2) Annual Caps

In relation to the purchase of sulphuric acid and steam from Daxin Guinan, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
81,536,000 (84,797,440)	94,280,000 (98,051,200)	94,280,000 (98,051,200)

In relation to the sale of sulphur to Daxin Guinan, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
25,500,000 (26,520,000)	25,500,000 (26,520,000)	25,500,000 (26,520,000)

The Annual Caps are determined by reference to anticipated future demand of CITIC Dameng JV for and projected future prices of sulphuric acid and steam and an assumed sustained demand for sulphur by Daxin Guinan particularly in the PRC market and the potential price of sulphur.

LETTER FROM THE BOARD

(3) 2007 Purchases and Sales

The total amount of purchases of sulphuric acid and steam from Daxin Guinan by CITIC Dameng JV as at 30 November 2007 was RMB26,549,000 (HK\$27,610,960).

The total amount of sales of sulphur to Daxin Guinan by CITIC Dameng JV as at 30 November 2007 was RMB22,042,000 (HK\$22,923,680).

(B) Guangxi Dameng Contract

(1) Guangxi Dameng Contract Details

Date:

10 January 2008

Parties:

- (a) CITIC Dameng JV
- (b) Guangxi Dameng

Subject matter:

Sale of natural discharge manganese dioxide to Guangxi Dameng by CITIC Dameng JV.

(2) Annual Caps

In relation to the sale of natural discharge manganese dioxide to Guangxi Dameng, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
6,475,000 (6,734,000)	6,475,000 (6,734,000)	6,475,000 (6,734,000)

The Annual Caps are determined by reference to projected future sales of natural discharge manganese dioxide and an assumed sustained demand for natural discharge manganese dioxide by Guangxi Dameng particularly in the PRC market and the potential price of natural discharge manganese dioxide.

(3) 2007 Sales

The total amount of sales of natural discharge manganese dioxide to Guangxi Dameng by CITIC Dameng JV as at 30 November 2007 was RMB3,100,000 (HK\$3,224,000).

LETTER FROM THE BOARD

(C) Guangxi Guilin Contract

(1) Guangxi Guilin Contract Details

Date:

10 January 2008

Parties:

- (a) CITIC Dameng JV
- (b) Guangxi Guilin

Subject matter:

Purchase of electrolytic manganese metal from, sale of manganese carbonate powder to and provision of services including mine selection, powder milling and manganese carbonate powder processing to Guangxi Guilin by CITIC Dameng JV.

(2) Annual Caps

In relation to the purchase of electrolytic manganese metal from Guangxi Guilin, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
400,000,000 (416,000,000)	400,000,000 (416,000,000)	400,000,000 (416,000,000)

In relation to the sale of manganese carbonate powder to Guangxi Guilin, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
19,200,000 (19,968,000)	19,200,000 (19,968,000)	19,200,000 (19,968,000)

LETTER FROM THE BOARD

In relation to the provision of services including mine selection, powder milling and manganese carbonate powder processing to Guangxi Guilin, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
1,400,000 (1,456,000)	1,400,000 (1,456,000)	1,400,000 (1,456,000)

The Annual Caps are determined by reference to anticipated future demand of CITIC Dameng JV for and projected future prices of electrolytic manganese metal and projected future sales of manganese carbonate powder and an assumed sustained demand for manganese carbonate powder by Guangxi Guilin particularly in the PRC market and the potential price of manganese carbonate powder.

(3) 2007 Purchases, Sales and Services

The total amount of purchases of electrolytic manganese metal from Guangxi Guilin by CITIC Dameng JV as at 30 November 2007 was RMB49,523,000 (HK\$51,503,920).

The total amount of sales of manganese carbonate powder to Guangxi Guilin by CITIC Dameng JV as at 30 November 2007 was RMB9,114,000 (HK\$9,478,560).

There were no mine selection, powder milling and manganese carbonate powder processing services provided to Guangxi Guilin by CITIC Dameng JV as at 30 November 2007.

(D) Guangxi Liuzhou Contract

(1) Guangxi Liuzhou Contract Details

Date:

10 January 2008

Parties:

- (a) CITIC Dameng JV
- (b) Guangxi Liuzhou

Subject matter:

Purchase of negative plate and vertical mill from and sale of metallurgical manganese ore to Guangxi Liuzhou by CITIC Dameng JV.

LETTER FROM THE BOARD

(2) Annual Caps

In relation to the purchase of negative plate and vertical mill from Guangxi Liuzhou, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
24,650,000 (25,636,000)	17,550,000 (18,252,000)	7,000,000 (7,280,000)

In relation to the sale of metallurgical manganese ore to Guangxi Liuzhou, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
7,500,000 (7,800,000)	Nil (Nil)	Nil (Nil)

The Annual Caps are determined by reference to anticipated future demand of CITIC Dameng JV for and projected future prices of negative plate and vertical mill and an assumed sustained demand for metallurgical manganese ore by Guangxi Liuzhou particularly in the PRC market and the potential price of metallurgical manganese ore.

(3) 2007 Purchases and Sales

There were no purchases of negative plate and vertical mill from Guangxi Liuzhou by CITIC Dameng JV as at 30 November 2007.

The total amount of sales of metallurgical manganese ore to Guangxi Liuzhou by CITIC Dameng JV as at 30 November 2007 was RMB7,815,000 (HK\$8,127,600).

LETTER FROM THE BOARD

(E) Nanning Battery Plant Contract

(1) Nanning Battery Plant Contract Details

Date:

10 January 2008

Parties:

- (a) CITIC Dameng JV
- (b) Nanning Battery Plant

Subject matter:

Purchase of packaging bags for manganese products produced by CITIC Dameng JV from Nanning Battery Plant by CITIC Dameng JV.

(2) Annual Caps

In relation to the purchase of packaging bags from Nanning Battery Plant, the Annual Caps are as follows:

2008	2009	2010
RMB (HK\$)	RMB (HK\$)	RMB (HK\$)
7,297,900 (7,589,816)	7,761,900 (8,072,376)	7,877,900 (8,193,016)

The Annual Caps are determined by reference to anticipated future demand of CITIC Dameng JV for and projected future prices of packaging bags.

(3) 2007 Purchases

The total amount of purchases of packaging bags from Nanning Battery Plant by CITIC Dameng JV as at 30 November 2007 was RMB4,119,000 (HK\$4,283,760).

LETTER FROM THE BOARD

TERMS OF THE RELEVANT CONTRACTS AND ANNUAL CAPS

The Relevant Contracts provide a framework for the entering into from time to time of the Continuing Connected Transactions by CITIC Dameng JV with Guangxi Dameng and the Guangxi Dameng Associates on normal commercial terms and subject to prevailing market prices. The terms of the Relevant Contracts have been negotiated on an arm's length basis.

Each of the Relevant Contracts is a new contract and effective up to and including 31 December 2010.

The Directors, including the independent non-executive Directors, are of the view that the Continuing Connected Transactions are and will be entered into on normal commercial terms and in the ordinary course of business of CITIC Dameng JV and the terms of the Relevant Contracts and the amount of the Annual Caps are fair and reasonable and the Continuing Connected Transactions are in the interests of the Company and Shareholders as a whole.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The sale of products such as sulphur, natural discharge manganese dioxide, manganese carbonate powder, metallurgical manganese ore and the provision of processing services to Guangxi Dameng and the Guangxi Dameng Associates have, or are expected to have, a positive contribution to the operating revenue of CITIC Dameng JV and increase the number of purchasers and customers and demand for CITIC Dameng JV's products and services at market prices. In relation to sulphuric acid, steam, electrolytic manganese metal, negative plate, vertical mill and packaging bags which CITIC Dameng JV acquires from the Guangxi Dameng Associates, the Guangxi Dameng Associates have proven to be reliable suppliers to CITIC Dameng JV at competitive prices which are important to the continuing operations and business of CITIC Dameng JV.

INFORMATION ON THE COMPANY

The Company is a diversified energy and natural resources investment holding company and has interests in oil, aluminium smelting, coal, import and export of commodities, and manganese businesses through its subsidiaries. The current principal operating businesses of the Group are located in Australia, Indonesia, the PRC and Kazakhstan.

The Company has a 48% attributable interest in CITIC Dameng JV which is held through a 80% non wholly-owned subsidiary of the Company.

The Continuing Connected Transactions are consistent with the Group's business strategy and objectives.

INFORMATION ON GUANGXI DAMENG

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

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

CITIC Dameng JV is an indirect non wholly-owned subsidiary of the Company.

Guangxi Dameng owns 40% of the equity of CITIC Dameng JV and is a substantial shareholder of CITIC Dameng JV, and each of the Guangxi Dameng Associates is an associate of Guangxi Dameng. Accordingly, Guangxi Dameng and each of the Guangxi Dameng Associates is a connected person of the Company and the Continuing Connected Transactions constitute or will constitute continuing connected transactions for the Company under the Listing Rules.

The Continuing Connected Transactions and the Annual Caps are subject to the reporting, announcement and shareholders' approval requirements of Chapter 14A of the Listing Rules.

SHAREHOLDERS CERTIFICATE PURSUANT TO RULE 14A.43 OF THE LISTING RULES

The Company has been granted a waiver from the requirement to hold a special general meeting of the Company to consider and, if thought fit, approve the Continuing Connected Transactions and the Annual Caps pursuant to Rule 14A.43 of the Listing Rules.

As no Shareholder would be required to abstain from voting if the Company were to convene a special general meeting of the Company to approve the Continuing Connected Transactions and the Annual Caps, the Company has received written approval from Keentech and CA to the Continuing Connected Transactions and the Annual Caps. Keentech and CA are wholly-owned subsidiaries of CITIC Group and constitute a closely allied group of Shareholders for the purposes of Rule 14A.43 of the Listing Rules.

As at the Latest Practicable Date, the total number of Shares in issue is 5,257,884,381 and Keentech and CA are the registered and beneficial holders of 1,990,180,588 Shares and 750,413,793 Shares respectively. The aggregate amount of 2,740,594,381 Shares held by Keentech and CA represents more than 50% of the nominal value of securities of the Company giving the right to attend and vote if a special general meeting of the Company were to be convened to approve the Continuing Connected Transactions and the Annual Caps. Accordingly, pursuant to Rule 14A.43 of the Listing Rules, no special general meeting of the Company will be convened in respect of the Continuing Connected Transactions and the Annual Caps.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Fan Ren Da, Anthony; Mr. Ngai Man and Mr. Tsang Link Carl, Brian, has been established to advise Shareholders as to whether the terms and conditions of the Relevant Contracts in relation to the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as Shareholders are concerned. Your attention is drawn to the letter from the Independent Board Committee set out on page 15 of this circular which contains its advice to Shareholders in relation to the Continuing Connected Transactions and the Annual Caps.

LETTER FROM THE BOARD

INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser has been appointed by the Company as the independent financial adviser to the Independent Board Committee and Shareholders as to whether the terms and conditions of the Relevant Contracts in relation to the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

Your attention is drawn to the letter from the Independent Financial Adviser set out on pages 16 to 24 of this circular which contains its advice to the Independent Board Committee and Shareholders in relation to the Continuing Connected Transactions and the Annual Caps.

OPINION OF THE BOARD

The Directors are of the opinion that the Continuing Connected Transactions and the Annual Caps are fair and reasonable and in the interest of the Company and Shareholders as a whole.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the entering into of the Continuing Connected Transactions, subject to the Annual Caps, are also fair and reasonable so far as Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
Sun Xinguo
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

1 February 2008

To Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS RELATING TO CITIC DAMENG JV

We refer to the circular of the Company to Shareholders of even date (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 advise you as to whether, in our opinion, the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

First Shanghai Capital Limited has been appointed by the Company as the independent financial adviser to advise us and Shareholders on these matters. 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 16 to 24 of the Circular.

Having considered the principal terms and basis upon which CITIC Dameng JV conducts the Continuing Connected Transactions, the reasons for entering into the Continuing Connected Transactions, and the advice of the Independent Financial Adviser, we are of the opinion that the Continuing Connected Transactions and the Annual Caps are fair and reasonable so far as Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

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

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter received from the Independent Financial Adviser setting out its advice to the Independent Board Committee and the Shareholders in respect of the proposed Continuing Connected Transactions pursuant to the Relevant Contracts and the Annual Caps for inclusion in this circular.



FIRST SHANGHAI CAPITAL LIMITED

19th Floor, Wing On House
71 Des Voeux Road Central
Hong Kong

1 February 2008

To the Independent Board Committee and the Shareholders

CITIC Resources Holdings Limited
Suites 3001 - 3006
30/F, One Pacific Place
88 Queensway
Hong Kong

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS RELATING TO CITIC DAMENG JV

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Shareholders in respect of the Continuing Connected Transactions pursuant to the Relevant Contracts and the Annual Caps, details of which are set out in the circular of the Company dated 1 February 2008 (the “**Circular**”) to the Shareholders of which this letter forms a part. Unless the context otherwise requires, terms used in this letter shall have the same meanings as those defined in the Circular.

Reference is made to the announcement of the Company dated 10 January 2008. CITIC Dameng JV, an indirect non wholly-owned subsidiary of the Company, has entered into the Relevant Contracts with Guangxi Dameng, a substantial shareholder of CITIC Dameng JV, and the Guangxi Dameng Associates, which constitute continuing connected transactions for the Company under Rule 14A.35 of the Listing Rules and are subject to the reporting, announcement and independent shareholders’ approval requirements under Rules 14A.45 to 14A.48 of the Listing Rules, and the annual review requirements under Rules 14A.37 to 14A.40 of the Listing Rules. However, as no Shareholders have any interest in the Relevant Contracts, no Shareholder would be required to abstain from voting if a special general meeting of the Company were convened for the purpose of considering and, if thought fit, approving the Relevant Contracts and the Annual Caps.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Company has applied for, and the Stock Exchange has granted, a waiver from strict compliance with Rule 14A.43 of the Listing Rules from convening a special general meeting of the Shareholders to consider and, if thought fit, approve the Continuing Connected Transactions on the basis that the Company has received written approval from Keentech and CA to the Continuing Connected Transactions and the Annual Caps. Keentech and CA are wholly-owned subsidiaries of CITIC Group. As at the Latest Practicable Date, the total number of Shares in issue is 5,257,884,381 and Keentech and CA are the registered and beneficial holders of 1,990,180,588 Shares and 750,413,793 Shares respectively. The aggregate amount of 2,740,594,381 Shares held by Keentech and CA represents more than 50% of the nominal value of securities of the Company giving the right to attend and vote if a special general meeting of the Company were to be convened to approve the Continuing Connected Transactions and the Annual Caps. Accordingly, no special general meeting of the Shareholders will be convened to consider the Continuing Connected Transactions and the Annual Caps.

The Independent Board Committee comprising the three 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 Shareholders as to whether the Continuing Connected Transactions as contemplated under the Relevant Contracts and the Annual Caps are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the Annual Caps have been determined on a fair and reasonable basis. As the independent financial adviser to the Independent Board Committee and the Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Shareholders as to whether the Continuing Connected Transactions as contemplated under the Relevant Contracts are on normal commercial terms, in the ordinary and usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole and whether the Annual Caps have been determined on a fair and reasonable basis.

In putting forth our opinion and recommendation, we have relied on the accuracy of the information and representations included in the Circular and provided to us by the Directors and the Company, and have assumed that all such information and representations made or referred to in the Circular and provided to us by the Directors and the Company were true at the time they were made and continue to be true as at the date hereof. We have also assumed that all statements of belief, opinion and intention made by the Directors in the Circular were reasonably made after due enquiry. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and have been advised by the Directors that they are not aware of any other material facts relating to the Continuing Connected Transactions, the Relevant Contracts and the Annual Caps having been withheld or omitted from the information provided and referred to in the Circular. We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our advice. We have not, however, conducted any independent verification of the information included in the Circular and provided to us by the Directors nor have we conducted any form of investigation into the business, affairs or future prospects of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendations as to the fairness and reasonableness of the Continuing Connected Transactions as contemplated under the Relevant Contracts and the Annual Caps, we have taken into account the following principal factors and reasons:

Background of the Group

The Company is an integrated provider of key natural resources with business interests in aluminium smelting, coal mining, import and export of commodities, manganese mining and processing and the exploration, development and production of oil.

The Company has a 48% attributable interest in CITIC Dameng JV, which is held through a 80% non wholly-owned subsidiary of the Company and is engaged in the mining and processing of manganese and sale of manganese products.

Background of Guangxi Dameng

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

Guangxi Dameng owns 40% of the equity of CITIC Dameng JV, and each of the Guangxi Dameng Associates is an associate of Guangxi Dameng. According to the annual report of the Company for the year ended 31 December 2006, the formation of the joint venture between the Group and Guangxi Dameng (i.e. CITIC Dameng JV) was completed in February 2006 with the aim of undertaking the business of manganese mining and processing, which enables the Group to manage and operate the largest manganese mines in the PRC and one of the largest manufacturers and suppliers of manganese products in the world.

Reasons for entering into the Relevant Contracts

As stated in the “Letter from the Board” in the Circular, the sale of products such as sulphur, natural discharge manganese dioxide, manganese carbonate powder, metallurgical manganese ore and the provision of processing services to Guangxi Dameng and the Guangxi Dameng Associates by CITIC Dameng JV have, or are expected to have, a positive contribution to the operating revenue of CITIC Dameng JV and increase the number of purchasers and customers and demand for its products and services at market prices. In relation to sulphuric acid, steam, electrolytic manganese metal, negative plate, vertical mill and packaging bags which CITIC Dameng JV acquires from the Guangxi Dameng Associates, the Guangxi Dameng Associates have proven to be reliable suppliers to CITIC Dameng JV at competitive prices which are important to the continuing operations and business of CITIC Dameng JV.

In light of the current principal activities and business strategies of the Group, we consider that the Relevant Contracts have been entered into in the ordinary and usual course of business of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Principal terms of the Relevant Contracts

CITIC Dameng JV has entered into the Relevant Contracts with Daxin Guinan, Guangxi Dameng, Guangxi Guilin, Guangxi Liuzhou and Nanning Battery Plant respectively in respect of the Continuing Connected Transactions for a period of three years commencing from 1 January 2008 up to and including 31 December 2010. Details of the Relevant Contracts are summarised as follows:

	Daxin Guinan (A)	Guangxi Dameng (B)	Guangxi Guilin (C)	Guangxi Liuzhou (D)	Nanning Battery Plant (E)
Date of contract	10 January 2008	10 January 2008	10 January 2008	10 January 2008	10 January 2008
Subject matter	Purchase of sulphuric acid and steam from and sale of sulphur to Daxin Guinan by CITIC Dameng JV	Sale of natural discharge manganese dioxide to Guangxi Dameng by CITIC Dameng JV	Purchase of electrolytic manganese metal from, sale of manganese carbonate powder to and provision of services including mine selection, powder milling and manganese carbonate powder processing to Guangxi Guilin by CITIC Dameng JV	Purchase of negative plate and vertical mill from and sale of metallurgical manganese ore to Guangxi Liuzhou by CITIC Dameng JV	Purchase of packaging bags for manganese products produced by CITIC Dameng JV from Nanning Battery Plant by CITIC Dameng JV
Term	A term commencing from 1 January 2008 to 31 December 2010 inclusive	A term commencing from 1 January 2008 to 31 December 2010 inclusive	A term commencing from 1 January 2008 to 31 December 2010 inclusive	A term commencing from 1 January 2008 to 31 December 2010 inclusive	A term commencing from 1 January 2008 to 31 December 2010 inclusive
Pricing	Based on prevailing market prices and normal commercial terms	Based on prevailing market prices and normal commercial terms	Based on prevailing market prices and normal commercial terms	Based on prevailing market prices and normal commercial terms	Based on prevailing market prices and normal commercial terms

The Directors are of the view that each of the Relevant Contracts provides a framework for the entering into from time to time of the Continuing Connected Transactions by CITIC Dameng JV with Guangxi Dameng and the Guangxi Dameng Associates on normal commercial terms and subject to prevailing market prices and that the terms of the Relevant Contracts have been negotiated on an arm's length basis.

We have reviewed, on a sampling basis, the sale and purchase records of the Group for the financial year ended 31 December 2007 and made comparisons between (i) the Group's sale and purchase transactions with Guangxi Dameng and the Guangxi Dameng Associates and (ii) sale and purchase transactions with other customers or suppliers who are independent third parties, and noted that those transactions conducted with Guangxi Dameng and the Guangxi Dameng Associates and with independent third parties were made at comparable prices. The Directors have also advised that the terms of the Continuing Connected Transactions will generally be no less favourable to the Group than terms available to or from other independent third parties.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Having considered the above, we are of the view that the Continuing Connected Transactions as contemplated under the Relevant Contracts are conducted on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole and are fair and reasonable insofar as the Shareholders are concerned.

Basis in arriving at the Annual Caps

The table below sets out the Group's historical transaction records up to 30 November 2007 and the proposed Annual Caps relating to the Relevant Contracts with Daxin Guinan, Guangxi Dameng, Guangxi Guilin, Guangxi Liuzhou and Nanning Battery Plant respectively for the three years ending 31 December 2010:

Subject matters	Up to 30 November 2007 <i>RMB' 000</i> <i>(HK\$'000)</i>	For the year ending 31 December 2008 <i>RMB' 000</i> <i>(HK\$'000)</i>	Increase/ (decrease) from 2007 %	For the year ending 31 December 2009 <i>RMB' 000</i> <i>(HK\$'000)</i>	Increase/ (decrease) from 2008 %	For the year ending 31 December 2010 <i>RMB' 000</i> <i>(HK\$'000)</i>	Increase/ (decrease) from 2009 %
(A) Daxin Guinan							
(i) Purchase of sulphuric acid and steam from Daxin Guinan	26,549 (27,611)	81,536 (84,797)	207.1	94,280 (98,051)	15.6	94,280 (98,051)	0.0
(ii) Sale of sulphur to Daxin Guinan	22,042 (22,924)	25,500 (26,520)	15.7	25,500 (26,520)	0.0	25,500 (26,520)	0.0
(B) Guangxi Dameng							
(i) Sale of natural discharge manganese dioxide to Guangxi Dameng	3,100 (3,224)	6,475 (6,734)	108.9	6,475 (6,734)	0.0	6,475 (6,734)	0.0
(C) Guangxi Guilin							
(i) Purchase of electrolytic manganese metal from Guangxi Guilin	49,523 (51,504)	400,000 (416,000)	707.7	400,000 (416,000)	0.0	400,000 (416,000)	0.0
(ii) Sale of manganese carbonate powder to Guangxi Guilin	9,114 (9,479)	19,200 (19,968)	110.7	19,200 (19,968)	0.0	19,200 (19,968)	0.0
(iii) Provision of services to Guangxi Guilin	Nil (Nil)	1,400 (1,456)	N/A	1,400 (1,456)	0.0	1,400 (1,456)	0.0

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Subject matters	Up to 30 November 2007 <i>RMB' 000</i> <i>(HK\$'000)</i>	For the year ending 31 December 2008 <i>RMB' 000</i> <i>(HK\$'000)</i>	Increase/ (decrease) from 2007 %	For the year ending 31 December 2009 <i>RMB' 000</i> <i>(HK\$'000)</i>	Increase/ (decrease) from 2008 %	For the year ending 31 December 2010 <i>RMB' 000</i> <i>(HK\$'000)</i>	Increase/ (decrease) from 2009 %
(D) Guangxi Liuzhou							
(i) Purchase of negative plate and vertical mill from Guangxi Liuzhou	Nil (Nil)	24,650 (25,636)	N/A	17,550 (18,252)	(28.8)	7,000 (7,280)	(60.1)
(ii) Sale of metallurgical manganese ore to Guangxi Liuzhou	7,815 (8,128)	7,500 (7,800)	(4.0)	Nil (Nil)	(100.0)	Nil (Nil)	N/A
(E) Nanning Battery Plant							
(i) Purchase of packaging bags for manganese products produced by CITIC Dameng JV from Nanning Battery Plant	4,119 (4,284)	7,298 (7,590)	77.2	7,762 (8,072)	6.4	7,878 (8,193)	1.5

The above Annual Caps are estimated based on various factors including but not limited to (1) the planned sales, purchase and production volume of CITIC Dameng JV for the three years ending 31 December 2010; (2) the historical transaction amounts recorded by the Group in the two financial years since the establishment of CITIC Dameng JV; and/or (3) the expected increases in the business to be conducted by the Group in the three years ending 31 December 2010 under the Continuing Connected Transactions.

For the purpose of analysing the basis of determination of the Annual Caps, we have also noted the following public information found on the Internet in addition to the operating/financial performance of the Group:

- According to the website of 中華人民共和國國家統計局 (The National Bureau of Statistics of China), the consumer price index in November 2007 has increased by 6.9% over the corresponding period in the previous fiscal year;

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- As mentioned by “The Conservative Voice” on 27 June 2007 in its website <http://www.theconservativevoice.com>, one of the fastest growing conservative sites on the Internet, manganese is a key component in steel and iron production, which accounts for up to 90% of the current consumption of metals. Since manganese is essential to steel production, the government of the United States considers manganese a strategic metal. China will also require manganese for the production of rail-tracks as the country dramatically expands its rail system over the next decade. In addition, manganese has a vast array of industrial uses - rust and corrosion prevention on steel, paint pigments, dry cell and alkaline batteries, animal feed, glass production, fertilizers and many other medical and health applications. New applications for manganese are being researched recently;
- As pointed out in the website <http://www.custeel.com> of 中國聯合鋼鐵網, the PRC government intends to impose a higher export duty on mining products in the coming year in order to address the issue of trade imbalance. Furthermore, the PRC government will continue to conduct special checks on the enforcement of laws regarding mining areas eco-environmental protection and deal with a number of law violations. These measures can lead to an increase in the production costs and hence, the closure of small and inefficient mines. Such decline in the supply of metal ores is expected to benefit the long-term development of CITIC Dameng JV;
- With reference to the section headed “Segment information” in the interim report of the Group for the six months ended 30 June 2007 (the “**Interim Report 2007**”), the Group’s business segment of manganese, which comprises the operation of manganese mining by CITIC Dameng JV and the sale of refined manganese products in the PRC, accounted for approximately 11.3% and 25.8% of the Group’s overall business segment revenue and results respectively for the six months ended 30 June 2007. By making comparisons between the same six-month period between each of the two financial years ended 31 December 2007, the Group’s segment revenue and results amounted to HK\$588.9 million and HK\$115.1 million for the six months ended 30 June 2007, representing significant increases of approximately 267.4% and 154.7% when compared to that of HK\$160.3 million and HK\$45.2 million in the corresponding period of the previous financial year;
- The financial results of CITIC Dameng JV have been consolidated into the accounts of the Group since the second quarter of year 2006. As stated in the Interim Report 2007, the revenue and net profit after tax derived from the Group’s manganese segment for the second quarter of year 2007 showed an increase of approximately 352% and 854% respectively when compared with the same in the previous year. According to the Interim Report 2007, such upsurge in revenue was driven by higher selling prices and increased sales volume and net profit grew in line with increased revenue, improved economies of scale and effective control on production costs and other expenses;

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With support of the above statistical data and financial information, we are of the view that the amount of the Annual Caps and the proposed percentage increase of transaction amounts for categories A(i), A(ii), B(i), C(i), C(ii) and E(i) by approximately 15.7% to 707.7% in 2008 when compared with the Group's historical transaction records in 2007, though considerable, are appropriate, fair and reasonable due to the rapid expansion of the business of CITIC Dameng JV which is driven by an upsurge in market demand. Moreover, the Directors believe that the business operation of CITIC Dameng JV has been developing at a faster pace since its establishment in 2006 to 2008, and will remain at a more mature stage of development thereafter, resulting in an expected greater transaction amounts in 2008.

In view of the above, we consider that the proposed growth rate of the amount of the Annual Caps for (1) categories A(i) and E(i) by approximately 15.6% and 6.4% respectively in 2009 when compared with that in 2008; and (2) category E(i) by approximately 1.5% in 2010 when compared with that in 2009 are appropriate, fair and reasonable.

Based on our discussion with the management of the Group, it is the Group's current business plan to purchase (1) 40,000 pieces of negative plates in each of 2008 and 2009; and (2) three and one vertical mills in 2008 and 2009 respectively from Guangxi Liuzhou to cope with its business expansion. The amount of the Annual Caps for category D(i) of RMB24.7 million and RMB17.6 million respectively, though considerable, are appropriate, fair and reasonable.

In respect of the amount of the Annual Caps for other categories which have basically been kept constant for years 2008, 2009 and 2010, we are of the view that they have been determined on a prudent, fair and reasonable basis.

Annual review requirements under the Listing Rules

The Continuing Connected Transactions are subject to a number of annual review requirements under the Listing Rules which include, among other things:

- the Continuing Connected Transactions for the three years ending 31 December 2010 will not exceed their respective Annual Caps;
- the independent non-executive Directors must review the Continuing Connected Transactions and confirm in the Company's annual report and accounts that the Continuing Connected Transactions have been entered into (a) in the ordinary and usual course of business of the Company; (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from other independent third parties of the Group; and (c) in accordance with the relevant contracts governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

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- the auditors of the Company will, in accordance with Rule 14A.38 of the Listing Rules, review the Continuing Connected Transactions and confirm the same in a letter to the Directors (a copy of which will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) in respect of each of the three years ending 31 December 2010, during which the Continuing Connected Transactions have been conducted;
- the Company will allow and will procure that the other parties to the Continuing Connected Transactions will provide the auditors of the Company with sufficient access to the relevant records of the Continuing Connected Transactions for the purpose of the auditors' review as referred to in the above. The Directors must state in the annual report whether the auditors have confirmed the matters stated in Rule 14A.38 of the Listing Rules; and
- the Company will comply with the applicable provisions of the Listing Rules governing connected transactions in the event that the total amount of the Continuing Connected Transactions exceeds the Annual Caps, or that there is any material amendment to the terms of the Continuing Connected Transactions.

In light of the annual review requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction on the value of the Continuing Connected Transactions by way of the Annual Caps; and (ii) the ongoing review by the independent non-executive Directors and the auditors of the Company of the terms of the Continuing Connected Transactions and the Annual Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Shareholders.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole and that the terms of the Relevant Contracts, the Continuing Connected Transactions and the proposed Annual Caps are on normal commercial terms and in the ordinary and usual course of business of the Group, fair and reasonable in so far as the Shareholders are concerned. If a general meeting of the Shareholders is to be held for the purpose of considering and, if thought fit, approving the Continuing Connected Transactions, the Relevant Contracts and the Annual Caps, we would recommend the Shareholders to vote in favour of the ordinary resolution(s) approving the Relevant Contracts, the Continuing Connected Transactions contemplated thereunder and the proposed Annual Caps.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited

Helen Zee
Managing Director

Eric Lee
Executive Director

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\$262,894,219.05 divided into 5,257,884,381 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. Kong Dan	Directly beneficially owned	—	20,000,000	0.38
Mr. Mi Zengxin	Directly beneficially owned	—	10,000,000	0.19
Mr. Shou Xuancheng	Directly beneficially owned	7,000,000	—	0.13
Mr. Sun Xinguo	Directly beneficially owned	10,000,000	—	0.19
Ms. Li So Mui	Directly beneficially owned	1,000,000	4,000,000	0.10
Mr. Qiu Yiyong	Directly beneficially owned	10,000,000	—	0.19
Mr. Zeng Chen	Directly beneficially owned	—	10,000,000	0.19
Mr. Zhang Jijing	Family	28,000 ⁽¹⁾	—	—
Mr. Zhang Jijing	Directly beneficially owned	—	10,000,000	0.19
Mr. Ma Ting Hung	Directly beneficially owned	111,966,000	—	2.13

Notes:

- (1) 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. Kong Dan	CITIC International Financial Holdings Limited	Associated corporation	Share options	4,800,000	Directly beneficially owned	0.08
Mr. Zeng Chen	CITIC Australia Trading Limited	Subsidiary	Ordinary shares	385,402 ⁽¹⁾	Family	0.45

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 or short positions 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 or a short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or 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 as long positions	Percentage of the total issued share capital of the Company
CITIC Group	Corporate	2,740,594,381 ⁽¹⁾	52.13
CITIC Projects Management (HK) Limited	Corporate	1,990,180,588 ⁽²⁾	37.85
Keentech	Corporate	1,990,180,588 ⁽³⁾	37.85
CA	Corporate	750,413,793 ⁽⁴⁾	14.28
Temasek Holdings (Private) Limited	Corporate	587,450,000 ⁽⁵⁾	11.17
Temasek Capital (Private) Limited	Corporate	385,450,000 ⁽⁶⁾	7.33
Seletar Investments Pte. Ltd.	Corporate	385,450,000 ⁽⁷⁾	7.33
Baytree Investments (Mauritius) Pte. Ltd.	Corporate	385,450,000 ⁽⁸⁾	7.33
Tembusu Capital Pte. Ltd.	Corporate	202,000,000 ⁽⁹⁾	3.84
Bartley Investments Pte. Ltd.	Corporate	202,000,000 ⁽¹⁰⁾	3.84
Ellington Investments Pte. Ltd.	Corporate	202,000,000 ⁽¹¹⁾	3.84
UBS AG	Beneficial owner/ interest of corporation controlled by UBS AG	369,304,455	7.02

Name of Shareholder	Nature of interest	Interests in Shares pursuant to short positions	Percentage of the total issued share capital of the Company
UBS AG	Beneficial owner/ person having security interest in shares/ interest of corporation controlled by UBS AG	106,819,000	2.03

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 Temasek Holdings (Private) Limited (“**Temasek Holdings**”) through its interest in Temasek Capital (Private) Limited (“**Temasek Capital**”) and Tembusu Capital Pte. Ltd. (“**Tembusu**”). Temasek Holdings is a company incorporated in Singapore.
- (6) The figure represents an attributable interest of Temasek Capital through its interest in Seletar Investments Pte. Ltd. (“**Seletar**”). Temasek Capital, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Holdings.
- (7) The figure represents an attributable interest of Seletar through its interest in Baytree Investments (Mauritius) Pte. Ltd. (“**Baytree**”). Seletar, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Capital.
- (8) Baytree, a company incorporated in Mauritius, is a direct wholly-owned subsidiary of Seletar.
- (9) The figure represents an attributable interest of Tembusu through its interest in Bartley Investments Pte. Ltd. (“**Bartley**”). Tembusu, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Temasek Holdings.
- (10) The figure represents an attributable interest of Bartley through its interest in Ellington Investments Pte. Ltd. (“**Ellington**”). Bartley, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Tembusu.
- (11) Ellington, a company incorporated in Singapore, is a direct wholly-owned subsidiary of Bartley.

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

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

Note:

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

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

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.

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 30 June 2007. 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.

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. EXPERT

The Independent Financial Adviser is a corporation licensed under the SFO to carry out type 6 regulated activities. The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

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.

8. INTEREST IN ASSETS

As at the Latest Practicable Date, none of the Directors or the Independent Financial Adviser had any interest, direct or indirect, in any asset which has since 31 December 2006, being the date to which the latest published audited financial statements of the Group were made up, been 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.

9. MISCELLANEOUS

- (a) The share registrar and transfer office of the Company is Tricor 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.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the offices of the Company at Suites 3001-3006, 30/F One Pacific Place, 88 Queensway, Hong Kong for the period of 14 days from the date of this circular:

- (a) the memorandum of association and the bye-laws of the Company;
- (b) the Relevant Contracts;
- (c) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 16 to 24 of this circular; and
- (d) the consent letter of the Independent Financial Adviser referred to under the section headed "Expert" above.