
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.

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This circular does not constitute an offer or invitation to subscribe for or purchase any securities nor is it calculated to invite any such offer or invitation. In particular, this circular is not an offer of securities for sale in Hong Kong, the United States or elsewhere. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States would be made by means of a prospectus that may be obtained from the issuer or selling security holder and that would contain detailed information about the company and management, as well as financial statements.

Certain information included in this circular is subject to amendment and finalisation and approval of the Prospectus. In addition, unless otherwise stated, certain financial information in this circular is unaudited and, in the case of CDH, may differ from the audited financial information of CDH which will be included in the Prospectus. Holders of, and prospective investors in, the securities of CITIC Resources Holdings Limited should therefore exercise caution in interpreting this information and when dealing in securities of CITIC Resources Holdings Limited.



CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

MAJOR TRANSACTION

**DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
CITIC DAMENG HOLDINGS LIMITED**

ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

THE CDH SHARE OPTION SCHEME

AND

CONNECTED TRANSACTION

DEED OF TAX INDEMNITY TO BE ISSUED IN FAVOUR OF THE CDH GROUP

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

OSK Capital Hong Kong Limited

A letter from the Independent Board Committee (as defined in this circular) containing its recommendation to Shareholders and Independent Shareholders (each as defined in this circular) is set out on pages 25 and 26 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, Shareholders and Independent Shareholders is set out on pages 27 to 47 of this circular.

A notice convening a special general meeting of CITIC Resources Holdings Limited to be held at Pacific Place Conference Centre, Mont Blanc Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 27 October 2010 at 3:00 p.m. is set out on pages 67 to 69 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting (or any adjournment thereof). Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting (or any adjournment thereof) should you so wish.

12 October 2010

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EXPECTED TIMETABLE

2010

Last day for dealing in Shares cum-entitlement to
the Preferential Offer Wednesday, 20 October

First day for dealing in Shares ex-entitlement to
the Preferential Offer Thursday, 21 October

Latest time for lodging transfers of Shares and
exercise notices in relation to share options under
the share option scheme of the Company to qualify for
the Preferential Offer 4:30 p.m. on Friday, 22 October

Register of members of the Company closes (*Note*) Monday, 25 October
to Wednesday, 27 October

Latest time for returning the forms of proxy
in respect of the Special General Meeting 3:00 p.m. on Monday, 25 October

Record Date for determining the entitlement to
the Preferential Offer and the eligibility of members to
attend and vote at the Special General Meeting (*Note*) Wednesday, 27 October

Special General Meeting 3:00 p.m. on Wednesday, 27 October

Register of members of the Company re-opens Thursday, 28 October

Note: The Company may determine another date for closure of the register of members of the Company and for determination of entitlements to the Preferential Offer, in which case a further announcement will be made to inform Shareholders.

All times and dates above refer to Hong Kong time and dates. The above timetable is tentative only and is subject to change depending on the final timetable of the Proposed Spin-off. Further announcements will be made by the Company as and when necessary.

DEFINITIONS

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

“Apexhill”	Apexhill Investments Limited, a company incorporated in the British Virgin Islands with limited liability and which is directly wholly-owned by CITIC United Asia
“associate”	has the meaning ascribed to it under the Listing Rules
“BLUE Application Form”	the form of application for the Reserved Shares for use by Qualifying Shareholders under the Preferential Offer
“Board”	the board of Directors
“Bye-laws”	the bye-laws of the Company as amended from time to time
“CA”	CITIC Australia Pty Limited, a company incorporated in the State of Victoria, Australia with limited liability
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CDH”	CITIC Dameng Holdings Limited, a company incorporated in Bermuda with limited liability and which, as at the Latest Practicable Date, is indirectly owned as to 80% by the Company and, subject to completion of the Reorganisation and prior to completion of the Global Offering, will be indirectly owned as to 52.4% by the Company
“CDH Group”	CDH and its subsidiaries
“CDH Share Option Scheme”	the share option scheme proposed to be adopted by CDH which will take effect subject to, among other things, the approval of Shareholders at the Special General Meeting and commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange as a result of the Proposed Spin-off
“CDH Share Options”	share options to be granted under the CDH Share Option Scheme
“CDH Shares”	shares in the share capital of CDH
“chief executive”	has the meaning ascribed to it under the Listing Rules
“Chongzuo Base”	a production facility owned and operated by 中信大錳礦業有限責任公司崇左分公司 (CITIC Dameng Mining Industries Limited, Chongzuo Branch), a branch office of the JVCo, that will produce and sell manganese tetroxide, lithium manganese oxide and lithium cobalt oxide
“CITIC Dameng Investments”	CITIC Dameng Investments Limited, a company incorporated in the British Virgin Islands with limited liability and which is directly wholly-owned by CDH

DEFINITIONS

“CITIC Group”	CITIC Group, a state-owned enterprise incorporated in the PRC
“CITIC United Asia”	CITIC United Asia Investments Limited, a company incorporated in Hong Kong with limited liability and which is indirectly wholly-owned by CITIC Group
“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
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Daxin EMD Plant”	the electrolytic manganese dioxide production plant owned and operated by 中信大錳礦業有限責任公司大新分公司(CITIC Dameng Mining Industries Limited, Daxin Branch), a branch office of the JVCo, which operates and manages the Daxin Mine
“Daxin Mine”	中信大錳礦業有限責任公司大新錳礦(CITIC Dameng Mining Industries Limited Daxin Manganese Mine)
“Deed of Tax Indemnity”	a deed of indemnity to be entered into by Highkeen in favour of the CDH Group pursuant to which Highkeen shall undertake to indemnify the CDH Group in respect of certain taxation
“Directors”	the directors of the Company
“Final Offer Price”	the final price per CDH Share fixed at a HK\$ amount (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at which the CDH Shares are to be offered pursuant to the Global Offering
“Global Offering”	the Hong Kong Public Offering and the International Offering
“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 company established in the PRC with limited liability

DEFINITIONS

“Guangxi Dameng BVI”	Guinan Dameng International Resources Limited, a company incorporated in the British Virgin Islands with limited liability and which is an indirect wholly-owned subsidiary of Guangxi Dameng held through Huanan Dameng Investments Limited, a direct wholly-owned subsidiary of Guangxi Dameng incorporated in Hong Kong with limited liability
“Highkeen”	Highkeen Resources Limited, a company incorporated in the British Virgin Islands with limited liability and which is indirectly wholly-owned by the Company
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Public Offering”	the offer of the CDH Shares to the public in Hong Kong for subscription
“Independent Board Committee”	a committee of the Board comprising of the independent non-executive Directors other than Mr. Tsang Link Carl, Brian
“Independent Financial Adviser”	OSK Capital Hong Kong Limited, a corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser to the Independent Board Committee, Shareholders and Independent Shareholders in relation to the Proposed Spin-off and the Deed of Tax Indemnity
“International Offering”	the international placing of the CDH Shares with certain professional and institutional and other investors (including the Preferential Offer)
“Independent Shareholders”	Shareholders other than CA and Keentech and their associates
“Joint Bookrunners”	the joint bookrunners in respect of the Global Offering
“Joint Global Coordinators”	the joint global coordinators in respect of the Global Offering
“JVCo”	中信大錳礦業有限責任公司 (CITIC Dameng Mining Industries Limited), a sino-foreign equity joint venture established in the PRC and, as at the Latest Practicable Date, owned as to 65.5% by CITIC Dameng Investments and as to 34.5% by Guangxi Dameng, and which, assuming completion of the Reorganisation, will be 100% indirectly wholly-owned by CDH

DEFINITIONS

“Keentech”	Keentech Group Limited, a company incorporated in the British Virgin Islands with limited liability
“Latest Practicable Date”	8 October 2010, the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Committee”	the Listing Committee of the Stock Exchange
“Listing Date”	the date of commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange as a result of the Proposed Spin-off
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
“major transaction”	has the meaning ascribed to it under the Listing Rules
“Montbeli Manganese Mine”	the manganese mine located in Bembélé, Moyen-Ogooue Province, Gabon, West Africa, the exploration rights and mining rights of which are owned by Compagnie Industrielle et Commerciale des Mines de Huazhou (Gabon), a company established in Gabon with limited liability and in which the Company, as at the Latest Practicable Date, holds a 26.724% equity interest
“Non-competition Undertaking”	an undertaking to be granted by Highkeen to CDH not to compete with the Relevant Business
“Over-allotment Option”	the option expected to be granted by CDH to the underwriters of the International Offering, pursuant to which CDH may be required by the Joint Global Coordinators (on behalf of the underwriters of the International Offering) to issue certain additional CDH Shares at the Final Offer Price to cover over-allocations in the International Offering
“Overseas Shareholders”	registered holders of Shares whose address entered in the register of members of the Company is, as of the Record Date, outside Hong Kong
“PRC”	the People’s Republic of China and, except where the context requires and only for the purposes of this circular, references in this circular to the PRC do not include Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC

DEFINITIONS

“Preferential Offer”	the preferential offer of the Reserved Shares to Qualifying Shareholders
“Proposed Spin-off”	the proposed spin-off of the Spin-off Business through the Global Offering and a separate listing of the CDH Shares on the Main Board of the Stock Exchange
“Prospectus”	the prospectus proposed to be issued by CDH in relation to the Global Offering
“Qualifying Shareholders”	Shareholders whose name appears on the register of members of the Company at 5:00 p.m. on the Record Date (other than Overseas Shareholder, if any, subject to compliance with the Listing Rules)
“Record Date”	Wednesday, 27 October 2010 (or such later date(s) as may be determined and announced by the Company), being the date for ascertaining Qualifying Shareholders who shall be entitled to assured allotments under the Preferential Offer
“Relevant Business”	the business of exploration, mining and processing of manganese and the associated production of manganese products, as well as the processing of non-manganese ferroalloy and trading of manganese commodities that the CDH Group engages in at the Listing Date
“Reorganisation”	the reorganisation of the CDH Group as described in the announcement of the Company dated 12 August 2010
“Reserved Shares”	the CDH Shares, representing about 10% of the CDH Shares available under the Global Offering (assuming that the Over-allotment Option is not exercised and without taking account of any CDH Shares to be issued upon the exercise of any CDH Share Options) to be offered pursuant to the Preferential Offer
“Retained Group”	the Group, after excluding the CDH Group
“SFC”	Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Shareholders”	holders of Shares

DEFINITIONS

“Shares”	ordinary shares of HK\$0.05 each in the share capital of the Company
“Special General Meeting”	the special general meeting of Shareholders to be convened for the purposes of allowing (i) Shareholders to consider and, if thought fit, approve, among other things, the Proposed Spin-off and the CDH Share Option Scheme; and (ii) Independent Shareholders to consider and, if thought fit, approve the Deed of Tax Indemnity
“Spin-off Business”	the business of, among other things, exploration, mining and processing of manganese and the associated production and sale of manganese related products carried on by the CDH Group
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary”	has the meaning ascribed to it under the Listing Rules
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Underwriters”	the underwriters in respect of the Global Offering
“United States”	the United States of America, its territories and possessions, any state of the United States, and the District of Columbia
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“KZT”	Tenge, the lawful currency of Kazakhstan
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For ease of reference only, the names of the PRC established companies and entities described in this circular have been included in this circular in both Chinese and English. The English names of these companies and entities are either English translations of their respective official Chinese names or English trade names used by them. In the event of any inconsistency between the English names and their respective Chinese names, the Chinese names shall prevail.

For the purpose of this circular, unless otherwise specified, amounts in KZT, RMB and US\$ have been converted into HK\$ or vice versa at the rates of KZT1 = HK\$0.052553, RMB1 = HK\$1.15 and US\$1 = HK\$7.8 respectively for illustration purposes only. No representation is made that any amounts in HK\$, KZT, RMB or US\$ 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. SUN Xinguo (Vice-Chairman)

Mr. ZENG Chen

(President and Chief Executive Officer)

Ms. LI So Mui

Mr. QIU Yiyong

Mr. TIAN Yuchuan

Registered Office:

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Non-executive Directors:

Mr. KONG Dan (Chairman)

Mr. MI Zengxin (Vice-Chairman)

Mr. WONG Kim Yin

Mr. ZHANG Jijing

Ms. YAP Chwee Mein

(Alternate to Mr. WONG Kim Yin)

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

12 October 2010

To Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

**DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
CITIC DAMENG HOLDINGS LIMITED**

ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

THE CDH SHARE OPTION SCHEME

AND

CONNECTED TRANSACTION

DEED OF TAX INDEMNITY TO BE ISSUED IN FAVOUR OF THE CDH GROUP

INTRODUCTION

Reference is made to the announcement of the Company dated 21 September 2010 in relation to the Proposed Spin-off.

LETTER FROM THE BOARD

On 23 July 2010, CDH submitted a further advance booking form for an application for the listing of, and permission to deal in, the CDH Shares already in issue and to be issued pursuant to the Global Offering (including the Over-allotment Option) on the Main Board of the Stock Exchange.

The Proposed Spin-off is expected to be effected by way of the Global Offering. Assuming completion of the Proposed Spin-off, the Company's interest in the issued share capital of CDH will be diluted to less than 50% and CDH will cease to be a subsidiary of the Company. However, the Company will still be a controlling shareholder of CDH upon completion of the Proposed Spin-off.

In connection with the Proposed Spin-off, the Company and/or its subsidiaries will be required to enter into certain agreements for the purposes of implementing the Proposed Spin-off including, but not limited to, the Non-competition Undertaking and the Deed of Tax Indemnity. In addition, CDH proposes to adopt the CDH Share Option Scheme for the purposes of the Proposed Spin-off.

The Proposed Spin-off is conditional upon the fulfilment or waiver of the conditions set out in the paragraph headed "Conditions to the Proposed Spin-off" below.

Completion of the Proposed Spin-off will not affect the listing of the Shares on the Main Board of the Stock Exchange. The Shares will continue to be separately listed and traded on the Main Board of the Stock Exchange after completion of the Proposed Spin-off.

This circular serves to:

- (a) provide Shareholders with information in relation to, among other things, the background to, the reasons for, and the benefits and effects of, the Proposed Spin-off, the Non-competition Undertaking, the CDH Share Option Scheme and the Deed of Tax Indemnity;
- (b) set out the recommendation from the Independent Board Committee to: (i) Shareholders as to whether the Proposed Spin-off is fair and reasonable and in the interests of the Company and Shareholders as a whole and advise Shareholders on how to vote at the Special General Meeting in relation to the resolution to approve the Proposed Spin-off; and (ii) Independent Shareholders as to whether the Deed of Tax Indemnity is fair and reasonable and in the interest of the Company and Shareholders as a whole and advise Independent Shareholders on how to vote at the Special General Meeting in relation to the resolution to approve the Deed of Tax Indemnity;
- (c) set out a letter of advice from the Independent Financial Adviser to the Independent Board Committee and Shareholders in respect of the Proposed Spin-off, and to the Independent Board Committee and Independent Shareholders in respect of the Deed of Tax Indemnity, as to whether their respective terms are fair and reasonable and in the interests of the Company and Shareholders as a whole; and
- (d) give Shareholders notice of the Special General Meeting at which ordinary resolutions will be proposed to consider and, if thought fit, approve: (i) the Proposed Spin-off and transactions related thereto and all documents necessary for and/or incidental to the performance and completion of the Proposed Spin-off; (ii) the CDH Share Option Scheme; and (iii) the entering into of the Deed of Tax Indemnity by Highkeen.

As the Proposed Spin-off is subject to, among other things, the approval of Shareholders and the Listing Committee and the final decision of the Board and the board of directors of CDH, the Proposed Spin-off may or may not occur. Shareholders and other investors are reminded to exercise caution when dealing in the securities of the Company.

LETTER FROM THE BOARD

PROPOSED SPIN-OFF

Structure of the Proposed Spin-off

The Proposed Spin-off is expected to be effected by way of the Global Offering.

At present, it is expected that the Global Offering will comprise (i) the Hong Kong Public Offering, being an offering of the CDH Shares to the public in Hong Kong for subscription; and (ii) the International Offering, being an international placing of the CDH Shares with certain professional and institutional and other investors. A proportion of the CDH Shares allocated for subscription under the International Offering will be made available to Qualifying Shareholders in the Preferential Offer, being an offer to Qualifying Shareholders with assured entitlement to subscribe for the Reserved Shares by way of preferred application (see “Preferential Offer” below for further details) at the Final Offer Price.

It is currently expected that CDH will grant to the underwriters of the International Offering the Over-allotment Option (exercisable by the Joint Global Coordinators on behalf of the underwriters of the International Offering) to require CDH to issue certain additional CDH Shares at the Final Offer Price to, among other things, cover over-allocations in the International Offering, if any.

In addition, Highkeen, an indirect wholly-owned subsidiary of the Company, may enter into a stock borrowing arrangement with the stabilising manager of the Global Offering pursuant to which the stabilising manager or its agent may borrow CDH Shares from Highkeen in order to facilitate the settlement of over-allotments in connection with the Global Offering. No payment will be made to Highkeen by the stabilising manager or its agent in relation to the stock borrowing arrangement.

The CDH Shares to be issued pursuant to the Global Offering (and upon the exercise of the Over-allotment Option, if any) will rank pari passu in all respects with all other CDH Shares in issue immediately prior to completion of the Global Offering (and the exercise of the Over-allotment Option, if any).

On the basis of the above structure, upon completion of the Proposed Spin-off (assuming the Over-allotment Option is not exercised and without taking account of any CDH Shares to be issued upon the exercise of any CDH Share Options), CDH will have a public float of 25%.

Subject to the approval of the listing of, and granting of permission to deal in, the CDH Shares on the Main Board of the Stock Exchange as well as compliance with the stock admission requirements of HKSCC, the CDH Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or such other date as may be determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

Further announcement(s) will be made by the Company and/or CDH to update Shareholders and investors of any significant development relating to the Proposed Spin-off and/or the Global Offering (including the final structure and size, the indicative price range and the Final Offer Price) as and when appropriate.

LETTER FROM THE BOARD

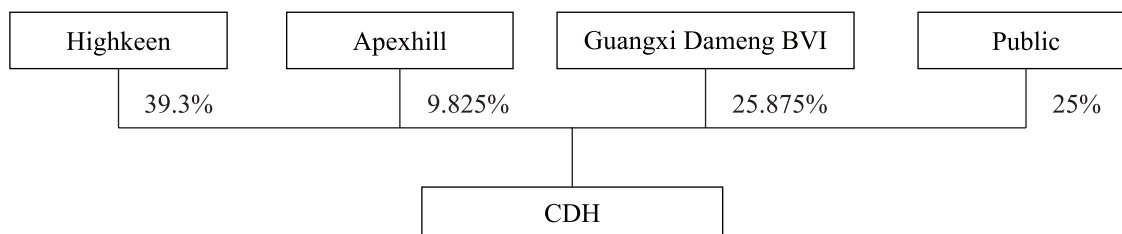
Stabilisation

In connection with the Global Offering, the price of the CDH Shares may be stabilised in accordance with the Securities and Futures (Price Stabilizing) Rules under the SFO. Details of any intended stabilisation and how it will be conducted and regulated will be contained in the Prospectus.

Dilution of the Company's interest in CDH upon completion of the Proposed Spin-off

As at the Latest Practicable Date, the Company has an 80% equity interest in CDH. Assuming completion of the Reorganisation, the Company's equity interest in CDH will fall to 52.4%.

Assuming completion of the Proposed Spin-off (and assuming the Over-allotment Option is not exercised and without taking account of any CDH Shares to be issued upon the exercise of any CDH Share Options), it is currently expected that immediately after completion of the Proposed Spin-off, the Company's equity interest in CDH, held through Highkeen, will fall to 39.3%. Set out below is the shareholding structure for CDH (immediately following and assuming completion of the Proposed Spin-off and assuming the Over-allotment Option is not exercised and without taking account of any CDH Shares to be issued upon the exercise of any CDH Share Options):



The shareholding structure of CDH set out above is indicative only and the final percentages will be published in the Prospectus.

Lock-up

Following completion of the Proposed Spin-off, the Company will be subject to restrictions on the disposal of the CDH Shares which are shown by the Prospectus to be beneficially owned by the Company. The Company and Highkeen, as the controlling shareholders of CDH, shall not:

- (a) in the period commencing on the date as specified in the Prospectus and ending on the date which is six months from the Listing Date, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the CDH Shares which are shown by the Prospectus to be beneficially owned by the Company; and
- (b) in the period of six months commencing on the date on which the period referred to in (a) above expires, dispose of, or enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of, any of the CDH Shares referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Company would cease to be a controlling shareholder of CDH.

LETTER FROM THE BOARD

Conditions to the Proposed Spin-off

As of the Latest Practicable Date, the Board and the board of directors of CDH have not made a final decision as to whether and when the Global Offering will be launched.

In addition, the Proposed Spin-off is conditional on, among other things, the following:

- (a) the approval of the Proposed Spin-off by Shareholders;
- (b) the publication of the Prospectus;
- (c) the Listing Committee granting approval for the listing of, and permission to deal in, all the CDH Shares in issue and to be issued pursuant to the Global Offering (and the exercise of the Over-allotment Option, if any) and any CDH Shares which may be issued pursuant to the exercise of CDH Share Options; and
- (d) the underwriting agreements to be entered into among CDH and the Underwriters becoming and remaining unconditional (including, if relevant, as a result of the waiver of any conditions by the Joint Bookrunners (on behalf of the Underwriters)) and such underwriting agreements not being terminated in accordance with their terms on or before the dates and times specified therein.

If any of these and other applicable conditions are not fulfilled or waived as appropriate, the Proposed Spin-off will lapse, and the Stock Exchange will be notified immediately and an announcement will be published by the Company and/or CDH as soon as practicable following such lapse.

Intended use of proceeds by CDH

CDH currently intends that the anticipated net proceeds from the Global Offering will be applied as follows:

- (a) approximately 55% of the net proceeds will be used to fund development and construction projects in the PRC and Gabon to improve the production capacity of the CDH Group, including:
 - (i) an expansion project at the Daxin EMD Plant;
 - (ii) a planned expansion project of underground mining and ore processing operations at the Daxin Mine;
 - (iii) the expansion and construction projects of the electrolytic manganese metal production facilities;
 - (iv) a planned construction project at Chongzuo Base;
 - (v) the development of the Montbeli Manganese Mine and associated facilities; and
 - (vi) miscellaneous technological improvement and renovation projects;
- (b) approximately 20% of the net proceeds will be used for the acquisition of mines and mining rights in relation to mines with identified mining resources and related production facilities;
- (c) approximately 15% of the net proceeds will be used to partially repay the principal amounts and interest accrued on the CDH Group's outstanding bank borrowings; and
- (d) approximately 10% of the net proceeds will be used for working capital and other general corporate purposes of the CDH Group.

The above intended use of proceeds from the Global Offering is indicative only and the application of the net proceeds of the Global Offering by CDH will be published in the Prospectus.

LETTER FROM THE BOARD

Preferential Offer

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, the CDH Shares on the Main Board of the Stock Exchange, about 10% of the CDH Shares available under the Global Offering (without taking account of CDH Shares to be issued pursuant to the exercise of the Over-allotment Option or upon the exercise of any CDH Share Options), representing the Reserved Shares, will be available for subscription by Qualifying Shareholders at the Final Offer Price under the Preferential Offer. The Reserved Shares will be allocated from the CDH Shares available under the International Offering. Qualifying Shareholders will be entitled to subscribe for the Reserved Shares on an assured basis. The final assured entitlement will depend on the number of Shares held by Qualifying Shareholders at 5:00 p.m. on the Record Date. The Company will publish an announcement on or after the Record Date confirming the Qualifying Shareholders' entitlement to the Reserved Shares.

With a view to maintaining at least the minimum prescribed percentage of CDH Shares in the hands of the public in compliance with the Listing Rules immediately after the Global Offering and to maximising the opportunity of the public to participate in the Global Offering, no Reserved Shares will be offered to connected persons of CDH or persons who will become connected persons of CDH immediately upon completion of the Global Offering to the extent that they are Qualifying Shareholders. As at the Latest Practicable Date, CA and Keentech are Shareholders and, being associates of Apexhill, are also connected persons of CDH. So far as the Directors are aware, no other Shareholder is or would become a connected person of CDH as a result of applying for its assured entitlement under the Preferential Offer.

Save as described in the preceding paragraph, Qualifying Shareholders will be permitted to apply for a number of Reserved Shares which is less than, or equal to, their assured allotments under the Preferential Offer. A valid application in respect of a number of Reserved Shares less than, or equal to, a Qualifying Shareholder's assured allotment will be accepted in full, subject to the terms and conditions mentioned in the BLUE Application Form which will be despatched to Qualifying Shareholders together with the Prospectus if the Global Offering proceeds. Where a Qualifying Shareholder applies for a number of Reserved Shares which is greater than his or her assured allotment, his or her assured allotment will be satisfied in full, subject as mentioned above, but the excess portion of such application will not be met and the excess application monies will be refunded. If an application is made for a number of Reserved Shares that is less than the assured entitlement of a Qualifying Shareholder, the applicant is recommended to apply for a number in one of the numbers of full board lots of Reserved Shares that will be stated in the table of numbers and payments on the back page of the BLUE Application Form which also states the amount of remittance payable on application for each number of full board lots of Reserved Shares. If such applicant does not follow this recommendation when applying for less than his or her assured entitlement, he or she must calculate the correct amount of remittance payable on application for the number of Reserved Shares applied for by using the formula which will be stated under the table of numbers and payments on the back page of the BLUE Application Form. Any application received in respect of the Preferential Offer that is not accompanied by the correct amount of application monies will be treated as invalid in its entirety and no Reserved Shares will be allotted to such applicant. Qualifying Shareholders may, in addition to applying for the Reserved Shares, also apply for the CDH Shares under the Hong Kong Public Offering.

LETTER FROM THE BOARD

Shareholders should note that assured allotments to the Reserved Shares may not represent a multiple of a full board lot of CDH Shares (currently expected to be 1,000) or a whole number of CDH Shares and will be rounded down to the closest whole number if required, and that dealings in odd lots of CDH Shares may be at a price below the prevailing market price for full board lots of CDH Shares.

Entitlements to apply for the Reserved Shares will not be transferable and there will be no trading in nil paid entitlements on the Stock Exchange. Any CDH Shares issued pursuant to the Preferential Offer will be fully paid and rank pari passu in all respects with other CDH Shares then in issue and to be issued pursuant to the Hong Kong Public Offering, the International Offering and the exercise of the Over-allotment Option, if any.

Any Qualifying Shareholder holding Shares representing less than 2,000 Shares (one board lot of Shares) will not be entitled to apply for the Reserved Shares.

In addition, to the extent permitted by rule 13.36(2) of the Listing Rules, Overseas Shareholders will not be entitled to apply for any of the Reserved Shares. According to the register of members of the Company as at the Latest Practicable Date, the Company has one Overseas Shareholder which is CA. Since CA is also a connected person of CDH, it will be excluded from applying for its assured entitlement under the Preferential Offer.

Qualifying Shareholders should note that any decision to apply for the Reserved Shares under the Preferential Offer should be based solely on information provided in the Prospectus.

Reasons for and benefits of the Proposed Spin-off

The reasons for and the benefits of the Proposed Spin-off include the following:

- (a) the Spin-off Business has grown to a size sufficient to warrant a separate listing of the CDH Shares which the Company considers will be of benefit to the Retained Group and the CDH Group respectively;
- (b) the Proposed Spin-off will create CDH as a pure-play investment opportunity that will enable investors to better understand both the Company and CDH as separate entities. The strategic focus and critical success factors are different for the Spin-off Business and the Retained Group's businesses (energy and minerals with oil exploration and production as its largest business segment);
- (c) the Proposed Spin-off will allow both the Company and CDH to target their respective shareholder bases more effectively and improve capital allocation within each company;
- (d) the Proposed Spin-off will allow the management of both the Company and CDH to focus more effectively on their respective businesses and improve CDH's ability to recruit, motivate and retain key management personnel;
- (e) the Proposed Spin-off will provide greater aggregate debt capacity to both the Company and CDH because there will be greater clarity for credit profiling by financial institutions that wish to extend credit or financing to the Company or CDH; and

LETTER FROM THE BOARD

- (f) the Proposed Spin-off will deliver greater shareholder value to shareholders of both the Company and CDH, because (i) CDH will enjoy enhanced flexibility to grow its business free of actual or perceived constraints as a subsidiary, (ii) CDH will enjoy increased ability to make acquisitions by using its stock as an acquisition currency, and (iii) the Company will be able to enjoy greater shareholder value from the growth of CDH by maintaining a controlling interest in the CDH Group.

The Directors (except those members of the Independent Board Committee, who will provide their recommendation after reviewing the letter from the Independent Financial Adviser, and Mr. Tsang Link Carl, Brian) consider that the Proposed Spin-off and the transactions contemplated thereunder are on normal commercial terms and in the interests of the Company and Shareholders as a whole.

INFORMATION ON THE CDH GROUP

CDH was incorporated in Bermuda on 18 July 2005.

The CDH Group is engaged in the Spin-off Business, being the business of, among other things, exploration, mining and processing of manganese and the associated production and sale of manganese related products.

As at the Latest Practicable Date, the Company holds an 80% equity interest in CDH. Assuming completion of the Reorganisation and the Proposed Spin-off respectively, the Company's equity interest in CDH will fall to 52.4% and, assuming the Over-allotment Option is not exercised and without taking account of any CDH Shares to be issued upon the exercise of any CDH Share Options, 39.3% respectively.

The following table shows the financials of the CDH Group which were included in the consolidated financial statements of the Group for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010.

(HK\$ million)	31 December 2007	31 December 2008	31 December 2009	30 June 2010
	(audited)	(audited)	(audited)	(unaudited)
Net assets of the Group	7,171.4	9,325.3	9,770.0	9,642.9

which includes:

	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Net assets of the CDH Group	659.7	1,155.2	1,142.4	1,079.2

(HK\$ million)	For the year ended 31 December 2007	For the year ended 31 December 2008	For the year ended 31 December 2009	For the six months ended 30 June 2010
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Of the Group:

	(audited)	(audited)	(audited)	(unaudited)
Revenue	10,007.7	18,761.5	19,425.4	14,207.2
Profit/(loss) before tax	731.0	(4,700.8)	151.3	368.6
Profit after tax	521.4	463.4	148.5	207.8
Profit attributable to Shareholders	282.8	204.3	115.7	167.5

which includes those of the CDH Group as follows:

	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	1,684.5	2,862.9	2,086.4	1,287.4
Profit before tax	416.1	431.1	75.3	84.0
Profit after tax	393.9	399.8	63.7	70.4
Profit attributable to Shareholders	175.8	191.4	38.9	40.6

LETTER FROM THE BOARD

DIRECTORS OF THE RETAINED GROUP AND THE CDH GROUP

Mr. Qiu Yiyong (“**Mr. Qiu**”) and Mr. Tian Yuchuan (“**Mr. Tian**”), who are executive Directors, are also executive directors of CDH. In addition, Mr. Mi Zengxin (“**Mr. Mi**”), a non-executive Director, will be appointed a non-executive director of CDH in connection with the Proposed Spin-off if it proceeds. Accordingly, the Company will have three common directors with CDH. Despite the common directorships between the Company and CDH, the Board and the board of directors of CDH believe that the Company and CDH will be able to operate independently of each other for the following reasons:

- (a) Mr. Mi is a non-executive Director and will act as a non-executive director of CDH. As a non-executive Director, he is responsible for the strategic development of the Group. As a non-executive director of CDH, Mr. Mi will be directly responsible for overseeing the overall strategy and major management decisions of the CDH Group. He will not, however, be involved in the day to day management of the Company or CDH;
- (b) it is intended that Mr. Qiu and Mr. Tian, currently both executive Directors, will become non-executive Directors and will continue to be executive directors of CDH upon completion of the Proposed Spin-off. Mr. Qiu and Mr. Tian will devote the majority of their working time to the business operation of the CDH Group and their main roles in the Company, as non-executive Directors, will be limited to participating in major business decisions at meetings of the Board. As such, it is expected that neither Mr. Qiu nor Mr. Tian will have overlapping responsibilities in the Company and CDH; and
- (c) Mr. Mi, Mr. Qiu and Mr. Tian will abstain from voting at meetings of the Board and the board of the directors of CDH in which matters of actual or potential conflict of interest between the Company and CDH are being considered.

FINANCIAL EFFECT OF THE PROPOSED SPIN-OFF ON THE GROUP

As stated earlier, assuming completion of the Proposed Spin-off (and without taking account of any CDH Shares to be issued upon the exercise of the Over-allotment Option and the exercise of any CDH Share Options), CDH will cease to be a subsidiary of the Company, but the Company will continue to be a controlling shareholder of CDH. Accordingly, the financials of the CDH Group will cease to be consolidated into the financial statements of the Company. Instead, the Company will account for its interest in the CDH Group as an investment in an associate.

LETTER FROM THE BOARD

Net Asset Value

The Group will not receive any cash inflow from the Proposed Spin-off but expects to recognise a gain in its consolidated income statement as a result of the Proposed Spin-off. Since the issue of the Company's announcement on 21 September 2010, the Company expects to determine the amount of any gain by reference to the market capitalisation of CDH. Based on the current estimated minimum market capitalisation of HK\$6,000 million for CDH, the current proposed structure and size of the Global Offering and the carrying value of the Company's equity interest in CDH, the amount of the gain to the Company resulting from the Proposed Spin-off would be about HK\$1,850 million.

Shareholders and investors should note that the amount of the gain described above is solely for illustration only and may not be the amount of the actual gain, if any, that is recognised by the Group as a result of the Proposed Spin-off. In addition, the illustration does not represent any indication about the final structure or size of the Global Offering or the Final Offer Price. Accordingly, the actual gain to be recognised by the Group may be different from the amount described in the illustration above and will be affected by, among other things, the financial position of the CDH Group at the time of completion of the Global Offering, the final structure and size of the Global Offering, the Final Offer Price and the actual completion date of the Global Offering. Assuming the Proposed Spin-off is completed by 31 December 2010, any gain will be recognised in the financial results of the Group for the financial year ending 31 December 2010.

Assets and Liabilities

Set out below is an unaudited statement of the assets and liabilities of the Group as at 30 June 2010 and an unaudited statement of the assets and liabilities of the Retained Group (assuming completion of the Proposed Spin-off occurred on 30 June 2010 with a market capitalisation of HK\$6,000 million in respect of CDH).

(HK\$ million)	The Group	The Retained Group
Non-current assets	20,712.9	20,659.9
Current assets	9,427.1	7,559.2
Current liabilities	4,520.0	3,020.0
Net current assets	4,907.1	4,539.2
Total assets less current liabilities	25,620.0	25,199.1
Non-current liabilities	15,977.1	14,277.4
Net assets	9,642.9	10,921.7

Earnings

As mentioned earlier, assuming completion of the Proposed Spin-off, the Company will not receive any cash inflow as a result of the Proposed Spin-off. In addition, the Company will no longer consolidate the profit/(loss) of the CDH Group and will account for its interest in CDH as an investment in an associate. Therefore, the Company will include its share in the profit/(loss) of the CDH Group as a share of profit/(loss) of an associate. Earnings contributed by the CDH Group are expected to reduce as the Company's equity interest in CDH will be diluted to 39.3% as a result of the Reorganisation and the Proposed Spin-off (assuming the Over-allotment Option is not exercised and without taking account of any CDH Shares issued upon the exercise of any CDH Share Options).

LETTER FROM THE BOARD

NON-COMPETITION UNDERTAKING

As a requirement of the Proposed Spin-off, the business of the Retained Group and the Spin-off Business must be clearly delineated and conducted independently of each other with no overlapping of interests. It is intended that after completion of the Proposed Spin-off, the CDH Group will continue to be principally engaged in the Spin-off Business, that is, the business of exploration, mining and processing of manganese and the associated production and sale of manganese related products, and the Retained Group engaged in energy and natural resources (other than manganese activities and manganese related products). In order to help ensure that the businesses of the Retained Group and the CDH Group remain separate after completion of the Proposed Spin-off, the Company proposes to enter into the Non-competition Undertaking with CDH. Pursuant to the Non-competition Undertaking, the Company will undertake with CDH that:

- (a) the Company will not, and will procure that its subsidiaries will not, subject to certain exceptions, either on its own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise) in any business which competes or may compete with the Relevant Business; and
- (b) the Company shall provide an annual confirmation that the Company and/or its subsidiaries (as applicable) has not breached the terms of the Non-competition Undertaking.

Under the terms of the Non-competition Undertaking, the Company and its subsidiaries are allowed to hold, directly or indirectly, securities of any company listed on the Stock Exchange or other recognised stock exchange which is primarily engaged in the Relevant Business provided that the interests of the Company and its subsidiaries in such company represents in aggregate not more than 5% of the total issued share capital of such company and that the Company and its subsidiaries, individually or together, are not in control of the board of directors of such company.

The Non-competition Undertaking does not prevent each of the Company and its subsidiaries from holding interests in members of the CDH Group or companies listed on the Stock Exchange or any other stock exchange whose primary business is not the Relevant Business.

The obligations of the Company under the Non-competition Undertaking will cease to have any effect whatsoever on the earlier of:

- (a) the date on which the Company and/or its subsidiaries cease to be a controlling shareholder of CDH;
- (b) the date on which the CDH Shares are no longer listed and traded on the Stock Exchange or other recognised stock exchange; and
- (c) the CDH Group ceases to be engaged in the Relevant Business.

The Non-competition Undertaking is not expected to have any adverse impact or effect on the operations and businesses of the Retained Group as there is no present intention for the Retained Group to be engaged in the Relevant Business, save for its interest in the CDH Group, following completion of the Proposed Spin-off.

LETTER FROM THE BOARD

THE CDH SHARE OPTION SCHEME

In connection with the Proposed Spin-off, it is proposed that the CDH Share Option Scheme be adopted by CDH. The purpose of the CDH Share Option Scheme is to enable CDH to grant the CDH Share Options to directors and employees of the CDH Group and other selected participants as reward for their contributions to the CDH Group and to provide an incentive to them to continue to further develop the CDH Group.

The CDH Share Option Scheme shall take effect subject to:

- (a) the passing of a resolution by shareholders of CDH to approve and adopt the CDH Share Option Scheme and to authorise the board of directors of CDH to grant CDH Share Options and to allot and issue the CDH Shares pursuant to the exercise of such CDH Share Options;
- (b) the passing of a resolution by Shareholders to approve the CDH Share Option Scheme;
- (c) the Listing Committee granting approval for the listing of, and permission to deal in, the CDH Shares to be allotted and issued pursuant to the exercise of any CDH Share Options (subject to an initial limit of 10% of the aggregate number of CDH Shares in issue on the Listing Date); and
- (d) the commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange.

None of the Directors are trustees of the CDH Share Option Scheme or have any direct or indirect interests in such trustees.

Pursuant to Note (1) to rule 17.03(3) of the Listing Rules, the total number of securities which may be issued upon exercise of all options to be granted under a share option scheme and any other schemes must not in aggregate exceed 10% (the “**General Scheme Limit**”) of the relevant class of securities of the listed issuer (or the subsidiary) in issue as at the date of approval of the scheme. Taking into consideration the fact that (i) the CDH Share Option Scheme does not become effective until, among other things, commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange; and (ii) the significant difference in the number of CDH Shares in issue as at the date of the Special General Meeting and the number of CDH Shares that will be in issue at the Listing Date, it is impracticable to set the General Scheme Limit of the CDH Share Option Scheme by reference to the number of CDH Shares in issue as at the date of the Special General Meeting. The Company has therefore applied for, and the Stock Exchange has granted, a waiver from strict compliance with the requirement under Note (1) to rule 17.03(3) of the Listing Rules so that the General Scheme Limit in respect of the CDH Share Option Scheme can be based on the total number of CDH Shares in issue at the Listing Date.

A summary of the principal terms of the CDH Share Option Scheme is set out in Appendix II to this circular.

LETTER FROM THE BOARD

The Directors consider it inappropriate to disclose the value of CDH Share Options which may be granted under the CDH Share Option Scheme as if they had been granted as at the Latest Practicable Date. Any such valuation will have to be made on the basis of certain option pricing models or other methodology that depend on various assumptions, including the exercise price, the exercise period, interest rates, expected volatility and other variables. As no CDH Share Options have been granted as at the Latest Practicable Date, certain variables are not available for calculating the value of CDH Share Options that can be granted under the CDH Share Option Scheme as if they had been granted at the Latest Practicable Date. The Directors and the directors of CDH believe that any calculation of the value of CDH Share Options as at the Latest Practicable Date based on a number of speculative assumptions would not be meaningful and would be misleading to Shareholders and other investors.

DEED OF TAX INDEMNITY

In connection with the Proposed Spin-off, Highkeen, Apexhill and Guangxi Dameng BVI (the “**Indemnifiers**”), being the shareholders of CDH after completion of the Reorganisation and prior to the completion of the Proposed Spin-off, will be required to enter into the Deed of Tax Indemnity on or about the date of the Prospectus, pursuant to which the Indemnifiers shall, in proportion to their respective equity interests in CDH immediately prior to the completion of the Global Offering, indemnify the members of the CDH Group as at the Listing Date (the “**Beneficiaries**”) in respect of:

- (a) taxation falling on any of the Beneficiaries resulting from or by reference to any income, profits or gains earned, accrued or received (or deemed to be so earned, accrued or received) on or before the date on which the Deed of Tax Indemnity becomes unconditional or any transactions, matters, things, event, act or omission occurring or deemed to occur on or before such date; and
- (b) all costs (including all legal costs), expenses, interests, penalties, fines, charges or other liabilities which any of the Beneficiaries may properly incur in connection with:
 - (i) the investigation, assessment or the contesting of any claim for taxation referred to in paragraph (a) above (“**Taxation Claim**”);
 - (ii) the settlement of any Taxation Claim;
 - (iii) any legal proceedings in which any of the Beneficiaries claim under or in respect of the Deed of Tax Indemnity, and in which judgment is given for any of the Beneficiaries; or
 - (iv) the enforcement of any settlement or judgment given for any of the Beneficiaries in respect of any claim under or in respect of the Deed of Tax Indemnity.

The Indemnifiers shall not be liable under the Deed of Tax Indemnity in respect of taxation:

- (a) to the extent that provision has been made for such taxation in the audited accounts of the Beneficiaries or any of them for an accounting period ended on or before 30 June 2010;
- (b) falling on any of the Beneficiaries in respect of any accounting period commencing on or after 1 July 2010 unless liability for such taxation would not have arisen but for some act or omission of, or transaction entered into by, the Indemnifiers, the Beneficiaries or any of them (whether alone or in conjunction with some other act, omission or transaction, whenever occurring), otherwise than in the ordinary course of business, or in the ordinary course of acquiring or disposing of capital assets, on or before the date on which the Deed of Tax Indemnity becomes unconditional;

LETTER FROM THE BOARD

- (c) to the extent that such taxation arises or is incurred as a consequence of any change in the law, rules or regulations, or the interpretation or practice thereof by the Inland Revenue Department of Hong Kong or any other statutory or governmental authority in Hong Kong or any other part of the world having retrospective effect coming into force after the date on which the Deed of Tax Indemnity becomes unconditional or to the extent that such taxation arises or is increased by an increase in rates of taxation after the date of the Deed of Tax Indemnity with retrospective effect;
- (d) to the extent that such taxation is discharged by another person who is not one of the Beneficiaries and none of the Beneficiaries is required to reimburse such person in respect of the discharge of the taxation;
- (e) to the extent of any provision or reserve made for taxation in the audited accounts referred to in (a) above which is finally established to be an over-provision or an excessive reserve, provided that the amount of any such provision or reserve applied to reduce the liability of the Indemnifiers or any of them in respect of taxation shall not be available in respect of any other taxation for which the Indemnifiers are also liable under the Deed of Tax Indemnity;
- (f) to the extent that such taxation would not have arisen but for a voluntary act or transaction carried out by any of the Beneficiaries after the date on which the Deed of Tax Indemnity becomes unconditional;
- (g) which arises as a result of any Beneficiary failing to act in accordance with the reasonable request of the Indemnifiers or any of them in avoiding, resisting, compromising or settling such taxation or any Taxation Claim after the date on which the Deed of Tax Indemnity becomes unconditional; or
- (h) to the extent that any claim is made by CDH after the expiry of the period of six years following the date on which the Deed of Tax Indemnity becomes unconditional.

The obligations of the Indemnifiers under the Deed of Tax Indemnity will be several and in proportion to their respective equity interests in CDH immediately prior to the completion of the Global Offering, (and not jointly or joint and severally) and conditional upon, among other things, the commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange.

It is expected that Highkeen will enter into the Deed of Tax Indemnity on or about the date of the Prospectus. The Deed of Tax Indemnity will reflect the terms described above which have been agreed in principle amongst the Company and CDH.

The Directors understand that indemnities similar to the Deed of Tax Indemnity are normally given by controlling shareholders of companies seeking a listing on the Stock Exchange and that the terms of the Deed of Tax Indemnity are similar to, or broadly in line with, the terms of those indemnities. The Directors, therefore, are of the view that the terms of the Deed of Tax Indemnity are normal commercial terms.

LETTER FROM THE BOARD

The Deed of Tax Indemnity, if entered into by Highkeen, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As at the Latest Practicable Date, the Directors do not expect there to be any significant liabilities (if any) for Highkeen under the Deed of Tax Indemnity. However, Shareholders should note that the liability of Highkeen, together with the other Indemnifiers, under the Deed of Tax Indemnity is not limited and there is no assurance that claims for significant amounts will not be made under it (although the Directors consider this unlikely). As the liability of Highkeen, together with the other Indemnifiers, is not limited under the Deed of Tax Indemnity, the Directors intend to obtain the approval of Independent Shareholders for Highkeen to enter into the Deed of Tax Indemnity in connection with the Proposed Spin-off.

No Director has or is expected to have any material interest in the Deed of Tax Indemnity.

INFORMATION ON THE GROUP

The Company is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, manganese mining and processing, and oil exploration, development and production. It is intended that the Retained Group will continue to be engaged in such businesses (other than the Spin-off Business) after completion of the Proposed Spin-off. For the financial year ended 31 December 2009, the consolidated profit before and after tax of the Group amounted to HK\$151.3 million and HK\$148.5 million respectively and the consolidated net assets of the Group as at 31 December 2009 were HK\$9,770.0 million.

Additional financial information of the Group is set out in Appendix I to this circular.

The CDH Group carries on the Spin-off Business. CDH is an investment holding company and its principal asset is its current indirect 65.5% equity interest in the JVCo which it holds through its wholly-owned subsidiary, CITIC Dameng Investments. Upon completion of the Reorganisation, the JVCo will become an indirect wholly-owned subsidiary of CDH.

LISTING RULES IMPLICATIONS

Proposed Spin-off and CDH Share Option Scheme

In the event of completion of the Proposed Spin-off, the Company's equity interest in CDH will be diluted to 39.3% (assuming the Over-allotment Option is not exercised and without taking account of the CDH Shares that may be issued upon the exercise of any CDH Share Options) and CDH will cease to be a subsidiary of the Company. As some of the percentage ratios under the applicable size tests in respect of the Proposed Spin-off are more than 25% (but less than 75%), the Proposed Spin-off constitutes a deemed disposal of the Company's equity interest in CDH and a major transaction for the Company and is subject to the announcement and shareholders' approval requirements of Chapter 14 of the Listing Rules. Approval from Shareholders for the Proposed Spin-off is also required under Practice Note 15 of the Listing Rules. In addition, the CDH Share Option Scheme is also subject to the approval of Shareholders pursuant to Chapter 17 of the Listing Rules.

No Shareholders are expected to have a material interest in the Proposed Spin-off and the CDH Share Option Scheme and, therefore, no Shareholders will be required to abstain from voting on the resolutions seeking shareholders' approval of the Proposed Spin-off and the CDH Share Option Scheme at the Special General Meeting.

LETTER FROM THE BOARD

Deed of Tax Indemnity

As at the Latest Practicable Date, CDH is an indirect non wholly-owned subsidiary of the Company. It is owned as to 20% by Apexhill, a wholly-owned subsidiary of CITIC United Asia which, in turn, is an indirect wholly-owned subsidiary of CITIC Group. CITIC Group, through its wholly-owned subsidiaries, Keentech and CA, controls 54.01% of all Shares in issue. Consequently, CDH, and each of its subsidiaries, is a connected person of the Company pursuant to rules 14A.11(5) and (6) of the Listing Rules. Accordingly, the Deed of Tax Indemnity, if entered into by Highkeen, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules. As the liability of Highkeen, together with the other Indemnifiers, is not limited under the Deed of Tax Indemnity and there is no assurance that claims will not be made under the Deed of Tax Indemnity, Independent Shareholders are being asked to consider and, if thought fit, approve the entering into of the Deed of Tax Indemnity by Highkeen in connection with and for the purposes of the Proposed Spin-off at the Special General Meeting.

Keentech and CA shall abstain from voting on the resolution to consider and, if thought fit, approve the Deed of Tax Indemnity at the Special General Meeting.

SPECIAL GENERAL MEETING AND VOTING BY POLL

The Special General Meeting will be convened for the purposes of allowing:

- (a) Shareholders to consider and, if thought fit, approve the Proposed Spin-off and the CDH Share Option Scheme; and
- (b) Independent Shareholders to consider and, if thought fit, approve the Deed of Tax Indemnity.

A notice convening the Special General Meeting is set out on pages 67 to 69 of this circular.

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

Pursuant to the Listing Rules, voting at the Special General Meeting shall be taken by way of a poll. 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 poll, every Shareholder present in person (or, in the case of a Shareholder being a corporation, by its duly authorised representative) or by proxy shall have one vote for every fully paid Share of which he is the holder (but so that no amount paid or credited as paid 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.

LETTER FROM THE BOARD

An announcement will be made by the Company following the Special General Meeting to inform Shareholders of the results of the poll vote in respect of the matters put to Shareholders at the Special General Meeting.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Fan Ren Da, Anthony and Mr. Ngai Man, has been formed to consider and make its recommendation to Shareholders and Independent Shareholders in respect of the resolutions to approve the Proposed Spin-off and the Deed of Tax Indemnity respectively and whether the Proposed Spin-off and the Deed of Tax Indemnity are fair and reasonable so far as Shareholders and Independent Shareholders respectively are concerned and in the interests of the Company and Shareholders as a whole.

Your attention is drawn to the letter from the Independent Board Committee set out on pages 25 and 26 of this circular which contains its recommendation to Shareholders and to Independent Shareholders as to voting at the Special General Meeting in respect of the Proposed Spin-off and the Deed of Tax Indemnity respectively.

INDEPENDENT FINANCIAL ADVISER

The Independent Financial Adviser has been appointed by the Company as the independent financial adviser to advise the Independent Board Committee, Shareholders and Independent Shareholders as to whether the Proposed Spin-off and the Deed of Tax Indemnity are fair and reasonable so far as Shareholders and Independent Shareholders respectively 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 27 to 47 of this circular which contains its advice to the Independent Board Committee, Shareholders and Independent Shareholders as to voting at the Special General Meeting.

RECOMMENDATION

The Directors (except those members of the Independent Board Committee, who will provide their recommendation after reviewing the letter from the Independent Financial Adviser, and Mr. Tsang Link Carl, Brian) are of the view that the Proposed Spin-off and the Deed of Tax Indemnity are fair and reasonable so far as Shareholders and Independent Shareholders respectively are concerned and in the interests of the Company and Shareholders as a whole and, accordingly, recommend Shareholders to vote in favour of the ordinary resolution to approve the Proposed Spin-off and Independent Shareholders to vote in favour of the ordinary resolution to approve the Deed of Tax Indemnity, each as set out in the notice of the Special General Meeting on pages 67 to 69 of this circular.

Shareholders should note that if they approve the Proposed Spin-off that they should also approve the Deed of Tax Indemnity as it is a document required for the purpose of facilitating the Proposed Spin-off.

LETTER FROM THE BOARD

The Directors are also of the view that the terms of the CDH Share Option Scheme are fair and reasonable so far as Shareholders are concerned and in the interests of the Company and Shareholders as a whole and recommend Shareholders to vote in favour of the ordinary resolution to approve the CDH Share Option Scheme as set out in the notice of the Special General Meeting on pages 67 to 69 of this circular.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the Proposed Spin-off and the Deed of Tax Indemnity are fair and reasonable so far as the Shareholders and Independent Shareholders respectively are concerned and in the interests of the Company and Shareholders as a whole.

GENERAL

There is no assurance that the Proposed Spin-off will take place or as to when it will take place. As of the Latest Practicable Date, the Board and the board of directors of CDH have not made a final decision as to whether and when the Global Offering will be launched. The decisions of the Board and the board of directors of CDH to proceed with the Global Offering are also dependent on a number of factors, including but not limited to, the approval of Shareholders and the Listing Committee and prevailing market conditions.

As the Proposed Spin-off is subject to, among other things, the approval of Shareholders and the Listing Committee and the final decision of the Board and the board of directors of CDH, the Proposed Spin-off may or may not occur. Shareholders and other investors are reminded to exercise caution when dealing in the securities of the Company.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 25 October 2010 to Wednesday, 27 October 2010 (both days inclusive) for the purpose of determining Qualifying Shareholders and their assured entitlement to participate in the Preferential Offer and rights of Shareholders to vote at the Special General Meeting. During the closure of the register of members of the Company, no transfer of Shares will be effected. In order to qualify for the Preferential Offer and to vote at the Special General Meeting: (a) all transfers of Shares accompanied by the relevant certificates; and (b) all documents for the exercise of any share options under the share option scheme of the Company accompanied by the relevant exercise notices, must be lodged with Tricor Tengis Limited, the share registrar of the Company, no later than 4:30 p.m. on Friday, 22 October 2010 (or such later date as the Company may determine and announce).

ADDITIONAL INFORMATION

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

Yours faithfully,
For and on behalf of the Board
CITIC Resources Holdings Limited
Zeng Chen
Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

12 October 2010

To Shareholders and Independent Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

**DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
CITIC DAMENG HOLDINGS LIMITED
ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

AND

CONNECTED TRANSACTION

DEED OF TAX INDEMNITY TO BE ISSUED IN FAVOUR OF THE CDH GROUP

We have been appointed as members of the Independent Board Committee to advise Shareholders in connection with the Proposed Spin-off and Independent Shareholders in respect of the Deed of Tax Indemnity, details of which are set out in the “Letter from the Board” in a circular dated 12 October 2010 to Shareholders (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

OSK Capital Hong Kong Limited has been appointed to advise us and:

- (a) Shareholders as to whether the Proposed Spin-off is fair and reasonable so far as Shareholders are concerned and in the interests of the Company and Shareholders as a whole; and
- (b) Independent Shareholders as to whether the Deed of Tax Indemnity is fair and reasonable so far as Independent Shareholders are concerned and in the interests of the Company and Shareholders as a whole.

Details of its advice are set out on pages 27 to 47 of the Circular. Your attention is also drawn to the letter from the Board set out on pages 7 to 24 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the advice and recommendation of OSK Capital Hong Kong Limited, we are of the opinion that:

- (i) the Proposed Spin-off is fair and reasonable so far as Shareholders are concerned;
- (ii) the Deed of Tax Indemnity is fair and reasonable so far as Independent Shareholders are concerned; and
- (iii) the Proposed Spin-off and the Deed of Tax Indemnity are in the interests of the Company and Shareholders as a whole.

We, therefore, recommend Shareholders and Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the Special General Meeting, which are set out in the notice convening the Special General Meeting, to approve the Proposed Spin-off and the Deed of Tax Indemnity respectively.

Yours faithfully,
For and on behalf of
the Independent Board Committee

FAN Ren Da, Anthony

NGAI Man

Independent non-executive Directors

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from OSK Capital Hong Kong Limited, the independent financial adviser to the Independent Board Committee and Shareholders in respect of the Proposed Spin-off, and to the Independent Board Committee and Independent Shareholders in respect of the Deed of Tax Indemnity, which has been prepared for the purpose of incorporation into this circular.

OSK Capital Hong Kong Limited

僑豐融資有限公司

Subsidiary of OSK Investment Bank Berhad, Malaysia

11/F., Hip Shing Hong Centre,
55 Des Voeux Road Central, Hong Kong

12 October 2010

The Independent Board Committee, Shareholders and Independent Shareholders
CITIC Resources Holdings Limited

Dear Sirs,

MAJOR TRANSACTION

**DEEMED DISPOSAL IN RELATION TO THE PROPOSED SPIN-OFF AND SEPARATE LISTING OF
CITIC DAMENG HOLDINGS LIMITED
ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

AND

CONNECTED TRANSACTION

DEED OF TAX INDEMNITY TO BE ISSUED IN FAVOUR OF THE CDH GROUP

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Independent Board Committee and Shareholders in connection with the Proposed Spin-off, and to the Independent Board Committee and Independent Shareholders in connection with the entering into of the Deed of Tax Indemnity, details of which are set out in the circular of the Company dated 12 October 2010 (the “**Circular**”) of which this letter forms part. Capitalised terms used in this letter have the same meanings as defined in the Circular, unless the context requires otherwise.

As set out in the letter from the Board in the Circular (the “**Letter from the Board**”), on 23 July 2010, CDH submitted a further advance booking form for an application for the listing of, and permission to deal in, the CDH Shares already in issue and to be issued pursuant to the Global Offering (including the Over-allotment Option) on the Main Board of the Stock Exchange.

Under the current structure of the Proposed Spin-off, the Company’s interest in the issued share capital of CDH will be diluted from 52.4% (before the Proposed Spin-off and assuming completion of the Reorganisation) to 39.3% immediately following completion of the Proposed Spin-off (but before exercise of the Over-allotment Option). As stated in the Letter from the Board, the Proposed Spin-off constitutes a deemed disposal of the Company’s equity interest in CDH and a major transaction for the Company and is subject to the announcement and shareholders’ approval requirements of Chapter 14 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

In connection with the Proposed Spin-off, Highkeen (an indirect wholly-owned subsidiary of the Company), Apexhill and Guangxi Dameng BVI will enter into the Deed of Tax Indemnity with CDH shortly prior to the issue of the Prospectus. As at the Latest Practicable Date, CDH is an indirect non wholly-owned subsidiary of the Company. It is owned as to 20% by Apexhill, a wholly-owned subsidiary of CITIC United Asia which, in turn, is an indirect wholly-owned subsidiary of CITIC Group. CITIC Group, through its wholly-owned subsidiaries, Keentech and CA, controls 54.01% of the issued share capital of the Company. Hence, CDH and each of its subsidiaries are connected persons of the Company pursuant to Rules 14A.11(5) and (6) of the Listing Rules. As such, the Deed of Tax Indemnity, if entered into by Highkeen, will constitute a connected transaction of the Company under Chapter 14A of the Listing Rules and as there is no limit on the liability of Highkeen under the Deed of Tax Indemnity, the entering into of the Deed of Tax Indemnity is subject to, among other things, the approval of Independent Shareholders.

The Independent Board Committee comprising the independent non-executive Directors, Mr. Fan Ren Da, Anthony and Mr. Ngai Man has been established to give advice and recommendation to Shareholders in respect of the Proposed Spin-off and to Independent Shareholders in respect of the Deed of Tax Indemnity. OSK Capital Hong Kong Limited has been appointed as the independent financial adviser to advise (i) the Independent Board Committee and Shareholders as to whether the terms of the Proposed Spin-off are fair and reasonable and whether the Proposed Spin-off is in the interests of the Company and Shareholders as a whole, and (ii) the Independent Board Committee and Independent Shareholders as to whether the terms of the Deed of Tax Indemnity are fair and reasonable and whether the Deed of Tax Indemnity is in the interests of the Company and Shareholders as a whole.

In formulating our opinion, we have relied upon the information, facts and representations contained in the Circular and those supplied or made available to us by the Directors and management of the Company and the directors and management of CDH. We have assumed that all such information, facts and representations were true and accurate in all respects at the time they were supplied or made and continue to be true and accurate at the date of the Circular and can be relied upon. We have no reason to doubt the truth, accuracy and completeness of such information and representations and have confirmed with the Directors and management of the Company and the directors and management of CDH that no material facts have been withheld or omitted from such information and representations.

We have taken all reasonable and necessary steps to comply with the requirements set out in Rule 13.80 of the Listing Rules. We consider that we have been provided with sufficient information to enable us to reach an informed view. We have not, however, conducted any independent verification of such information or any independent in-depth investigation into the business, affairs, financial position or prospects of the Group nor have we carried out any in-depth research on the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS CONSIDERED

In formulating our opinion on the Proposed Spin-off and the Deed of Tax Indemnity, we have taken into consideration the following principal factors:

Background information on the Group, the Retained Group and the CDH Group

Background information on the Group

The Company is a diversified energy and natural resources investment holding company and through its subsidiaries has interests in aluminium smelting, coal, import and export of commodities, manganese mining and processing, and oil exploration, development and production. We understand from the Company that the Group's manganese and manganese related business, that is, the Spin-off Business, is conducted through the CDH Group and, after the Proposed Spin-off, the Retained Group will continue to be engaged in the same businesses (other than the Spin-off Business).

Set out below are highlights of the financial results of the Group for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010:

(HK\$ million)	For the year ended 31 December			For the six months
	2007	2008	2009	ended 30 June 2010
	(audited)	(audited)	(audited)	(unaudited)
Revenue	10,007.7	18,761.5	19,425.4	14,207.2
Profit/(Loss) before tax	731.0	(4,700.8)	151.3	368.6
Profit after tax	521.4	463.4	148.5	207.8

As at 30 June 2010, the Group had unaudited consolidated net assets of HK\$9,642.9 million.

According to the Company's annual report for the year ended 31 December 2007 ("**FY 2007**"), the Group achieved satisfactory results in FY 2007 as the Group's aluminium smelting and import and export of commodities business made significant contributions and were an integral part of the Group's overall strategy.

As stated by the Company in its annual report for the year ended 31 December 2008 ("**FY 2008**"), the significant growth in revenue as compared to FY 2007 was mainly attributable to the Group's almost 50% interest in the Karazhanbas oilfield, Kazakhstan (the "**Kazakhstan Properties**"). The acquisition of the Kazakhstan Properties by the Group was concluded in December 2007. As such, the Group was able to account for a full year's contribution from the Kazakhstan Properties in FY 2008.

In spite of the growth in revenue, the Group recorded a significant loss before tax in FY 2008 due to a provision for impairment of items of property, plant and equipment of HK\$6,420.7 million which arose mainly from the Kazakhstan Properties as a result of the adverse effect on oil prices caused by the global financial crisis which started in the second half of 2008.

Despite the loss before tax recorded by the Group, the Group recorded a profit after tax of HK\$463.4 million in FY 2008. This was because the Group was able to record a tax credit of HK\$5,164.1 million which mainly resulted from the above-mentioned provision for impairment and a change in tax rates in respect of the Group's crude oil operations in Kazakhstan pursuant to a new tax code introduced in 2008.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated by the Company in its annual report for the year ended 31 December 2009 (“FY 2009”), the Group’s operations faced significant challenges as the global financial and economic crisis in late 2008 pushed energy and commodities prices to their lowest levels in recent years, resulting in an adverse impact on the Group’s financial performance. Save for the Group’s business of import and export of commodities (the “**Trading Business**”) which recorded a 37% increase in revenue, revenue of other business segments decreased in FY 2009 as compared to FY 2008, resulting in an overall marginal increase of 3.5% in the Group’s revenue for FY 2009.

In spite of an overall increase in the Group’s revenue in FY 2009, gross margin decreased significantly as a result of pricing pressure. With global economic conditions recovering in 2009, energy and commodities prices began to recover and the Group’s businesses gradually improved. However, only certain business segments within the Group made a positive return under this challenging environment. The Group’s aluminium smelting operations recorded its first ever loss, and the net profit from its coal, crude oil operations and the Spin-off Business decreased significantly. This was mainly due to a combination of weak selling prices and a drop in demand. Only the Trading Business managed to record an increase in net profit in such adverse market conditions and this was mainly attributable to the expansion of its business in the PRC.

The Group recorded a loss of HK\$295.6 million in FY 2009 before tax and the write-back of provision for impairment. An amount of HK\$446.9 million was reversed from the previously recognised impairment loss on the Kazakhstan Properties as its estimated recoverable amounts had increased due to an increase in the oil reserves of the Karazhanbas oilfield. With this write-back, the Group recorded an overall profit before tax of HK\$151.3 million for FY 2009.

As improvements in the global financial markets and major economies continue, aided by stimulation policies implemented by governments in the PRC, Europe and the United States, the Company has seen a concurrent improvement and stabilisation in energy and commodities prices which has benefited the Group. During the six months ended 30 June 2010 (“1H 2010”), energy and commodities prices traded in a narrower price range and were significantly less volatile. This has alleviated to some extent the negative effects and ensuing uncertainty in energy and commodities prices brought about by the global financial crisis in 2008 that continued into 2009, and the Group recorded revenue of HK\$14,207.2 million for 1H 2010 compared to the revenue of the Group of HK\$8,798.7 million for the six months ended 30 June 2009. More favourable market and operating conditions and the Group’s efforts to reduce costs have enabled the Group to achieve a turnaround in performance, with each business segment of the Group generating profitable results in 1H 2010, bringing the total profit before tax of the Group to HK\$368.6 million for 1H 2010.

As set out in the Company’s interim report for 1H 2010, energy and commodities prices have returned to reasonable levels with demand having improved and stabilised. Furthermore, the global financial markets and major economies are expected to continue to improve as governments of leading nations continue to implement policies to promote economic and financial improvements and to stimulate and enhance confidence in consumers, investors and other market participants. Set against this background, the Group is committed to achieving its long-term objective by improving overall oil production and will seek to commence oil production at its Yuedong oilfield in Liaoning Province, PRC in the third quarter of 2010. In addition to fostering organic growth, the Group will continue to review potential investment opportunities capable of enhancing the Group’s asset portfolio to achieve and maximise long-term economic benefits for the Group and Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Background information on the Retained Group

As stated in the paragraph headed “Background information on the Group” above, after the Proposed Spin-off, the Retained Group will continue to be engaged in the businesses of energy and minerals with oil exploration and production as its largest segment (the “**Retained Business**”).

Set out below are highlights of the financials of the Retained Business segments for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010. As illustrated in the operating results of the Retained Business, the Retained Group has substantial businesses and operations and such Retained Business will continue after the Proposed Spin-off:

(HK\$ million)	For the year ended 31 December			For the six months
	2007	2008	2009	ended 30 June 2010
	(audited)	(audited)	(audited)	(unaudited)
<u>Segment revenue</u>				
Aluminium smelting	1,761.4	1,667.0	1,029.1	605.1
Coal	169.9	449.0	344.0	220.2
Trading Business	5,873.6	9,573.0	13,083.4	10,371.6
Crude oil	518.3	4,209.6	2,882.5	1,722.9
	8,323.2	15,898.6	17,339.0	12,919.8
<u>Segment results *</u>				
Aluminium smelting	211.0	95.9	(72.5)	91.4
Coal	14.6	188.5	68.5	73.1
Trading Business	152.7	149.2	198.1	210.5
Crude oil	221.8	1,360.8	178.8	289.4
Others	(33.9)	(17.9)	—	—
	566.2	1,776.5	372.9	664.4

* Before share of profit of an associate and unallocated gains and expenses.

Based on the Company’s annual report for FY 2008, revenue of the aluminium segment dropped by about 5% as a result an overall decrease in selling prices and sales volume due to the worldwide economic downturn. Increased production costs, including costs of alumina and electricity which are linked to the market price of aluminium, also affected the profits of this segment.

Revenue from the coal segment increased significantly in FY 2008 due to increases in both selling prices and sales volume compared to FY 2007 which were caused by supply constraints and strong demand.

According to the Company’s annual report for FY 2008, the significant growth in revenue of the Trading Business was largely due to increases in sales volume. Despite the increase in revenue, profits from this segment deteriorated as prices of alumina and iron ore exports fell at the onset of the global financial crisis towards the end of 2008.

As stated in the paragraph headed “Background information on the Group” above, the Group’s acquisition of an almost 50% interest in the Kazakhstan Properties was concluded in December 2007 resulting in the Group being able to account for a full year’s contribution from the Kazakhstan Properties in FY 2008.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

According to the Company's annual report for FY 2009, the aluminium smelting operations recorded its first ever loss as a result of a combination of weak selling prices, a drop in demand and unfavourable exchange rates. Reductions in production costs lagged behind the drop in selling prices, causing gross margins to fall sharply.

Both revenue and profits of the coal segment suffered in FY 2009 from a deterioration in exchange rates as well as a decrease in selling prices of coal.

As stated in the paragraph headed "Background information on the Group" above, only the Trading Business managed to record an increase in revenue and net profit in FY 2009 and this was mainly attributable to the expansion of its business in the PRC. According to the Company's annual report for FY 2009, revenue and profits from the crude oil segment experienced a significant drop caused by the dramatic drop in oil prices of 35%, particularly in respect of the Karazhanbas oilfield.

As set out in the Company's interim report for 1H 2010, more favourable market and operating conditions and the Group's efforts to reduce costs have enabled each business segment to generate profitable segment results.

Background information on the CDH Group

The Spin-off Business is operated by the CDH Group and comprises the exploration, mining and processing of manganese and the associated production and sale of manganese related products. The CDH Group has operations and assets in the PRC and Gabon, West Africa.

CDH was incorporated in Bermuda on 18 July 2005. It is an investment holding company and its principal asset is its equity interest in the JVCo. As at the date of this letter, the Company holds an indirect 80% shareholding interest in CDH which holds an indirect 65.5% shareholding interest in the JVCo. Upon completion of the Reorganisation, the Company will hold an indirect 52.4% shareholding interest in CDH which will indirectly wholly own the JVCo.

As set out in the Company's annual report for FY 2009, the CDH Group controlled the largest manganese mines in the PRC, namely the Daxin Mine and Guangxi Tiandeng Manganese Mine (the "**Tiandeng Mine**"). We understand that the Daxin Mine and the Tiandeng Mine are located in an area known for abundant manganese mineralisation in Guangxi, the PRC. We understand from the Company that open pit and underground mining are conducted in the Daxin Mine while open pit mining is currently conducted in the Tiandeng Mine.

We understand from the Company that the CDH Group holds the mining right for the Daxin Mine up to 21 February 2035 and engages around 3,300 employees for its mining operations, including exploitation, selection and processing of manganese. We understand from the Company that the CDH Group holds the mining right for the Tiandeng Mine up to 2 December 2024 and engages around 250 employees for its mining operations, including exploitation and selection of manganese. We further understand from the Company that the CDH Group also holds the exploration and mining rights for the Montbeli Manganese Mine, which expires on 4 December 2017. The CDH Group is in the process of completing all required regulatory procedures with respect to the mining permit for the Montbeli Manganese Mine, including procuring the mining convention (an agreement between the holder of an exploration or mining permit and the State of Gabon in relation to the mine). The mining and ore processing operations at the Montbeli Manganese Mine are expected to commence in 2011 and the CDH Group engages around 80 employees for its manganese mining and processing operations in Gabon.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below are highlights of the financials of the CDH Group for the three years ended 31 December 2007, 2008 and 2009 and for the six months ended 30 June 2010:

(HK\$ million)	For the year ended 31 December			For the six months
	2007	2008	2009	ended 30 June 2010
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenue	1,684.5	2,862.9	2,086.4	1,287.4
Profit before tax	416.1	431.1	75.3	84.0
Profit after tax	393.9	399.8	63.7	70.4

As at 30 June 2010, the CDH Group had unaudited net assets of HK\$1,079.2 million.

We understand from the Company that the increase in revenue of the CDH Group in FY 2008 was attributable to the increase in manganese prices in the domestic and international markets due to strong market demand for manganese products driven by the growth of the PRC and international steel manufacturing industry as well as overall economic growth prior to the global financial crisis in late 2008. Despite the significant increase in revenue, the CDH Group's profits before and after tax remained close to the levels recorded in FY 2007 mainly due to (i) a decrease in gross margins as a result of an increase in inventory provision, primarily to reflect the lower net realisable value ("NRV") of the CDH Group's inventories at the end of FY 2008 due to the global economic downturn which unfolded towards end of 2008, (ii) an increase in the average unit cost of electrolytic manganese metal and silicomanganese alloy (two of the main downstream products of the CDH Group) reflecting, among other things, increases in raw and auxiliary materials, fuel and power costs and production labor costs, and (iii) increases in selling and distribution expenses as well as administrative expenses as the CDH Group expanded its operations in 2008.

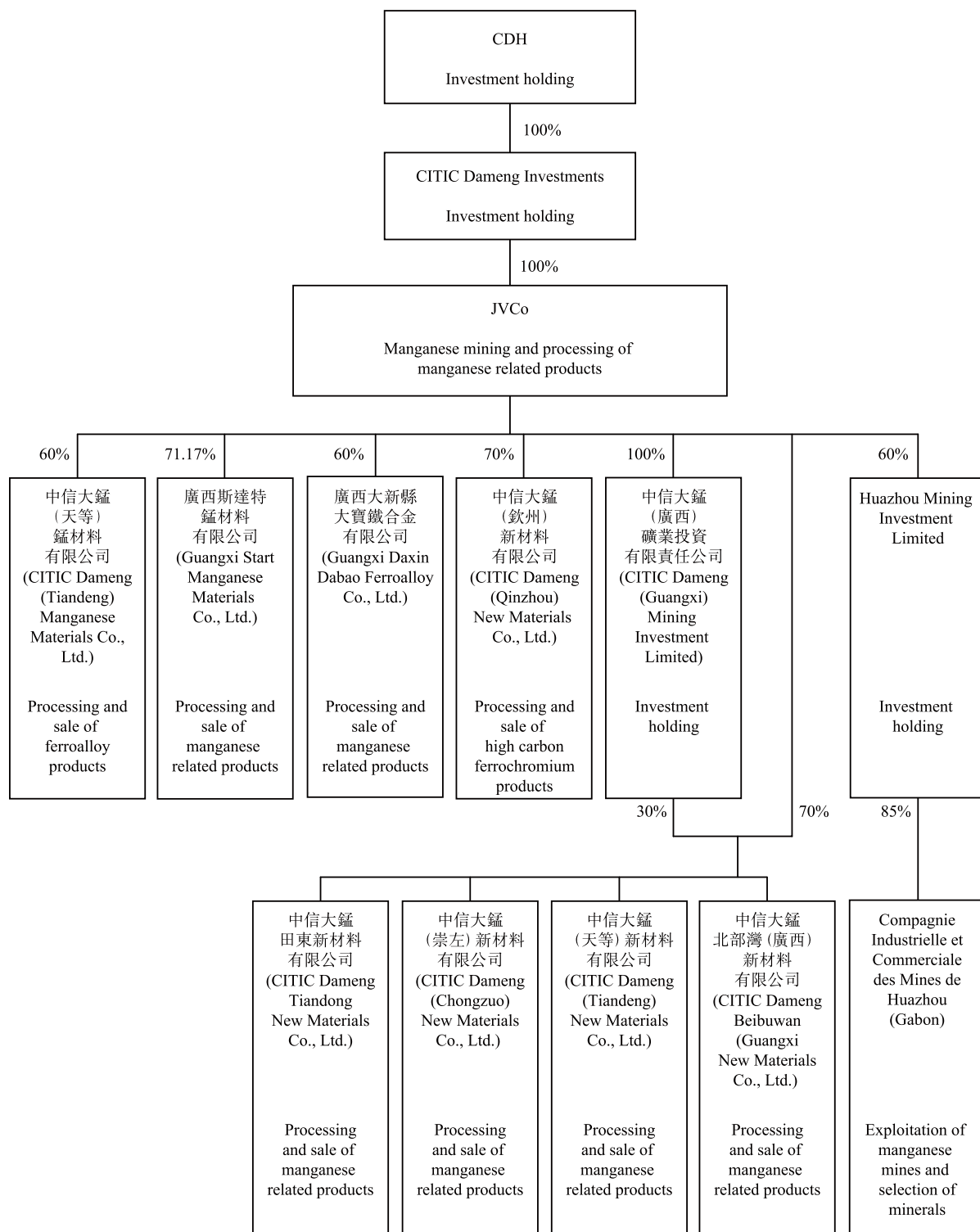
As disclosed in the Company's annual report for FY 2009, the Spin-off Business was adversely affected in the first half of 2009 as a result of a severe contraction in demand in the steel market caused by the global financial crisis which started in late 2008. With a view to improving performance, the Group has tried to expand the Spin-off Business's market share in the PRC and to focus on selling self-produced products. The decrease in revenue for FY 2009 was due to a reduction in selling prices and sales volume during the year. Though prices gradually increased in the second half of 2009, the average selling prices of self-produced products, mainly electrolytic manganese metal, silicomanganese alloy and high carbon ferrochromium, experienced a drastic decrease in the range of 31% to 43% during FY 2009.

The Company further stated that direct costs in respect of the CDH Group's manganese downstream processing, such as raw and auxiliary materials, labour costs and electricity, did not fall in line with the selling prices of manganese products and exerted pressure on margins of the Spin-off Business. As a result, the CDH Group's gross profit margins suffered a decrease of around 5%. The profitability of the CDH Group in FY 2009 was also adversely affected by a significant increase in finance costs, arising from the expansion of the Spin-off Business in the PRC and Gabon. In addition, a provision of HK\$31.7 million (net of deferred tax credit) was made to the closing inventories to reflect the drop in estimated NRV as at 31 December 2009. As a result of the above major factors, profit after tax of the CDH Group attributable to the Group decreased by 84% in FY 2009 to HK\$63.7 million.

As stated in the Company's interim report for 1H 2010, the Spin-off Business was able to improve its performance during 1H 2010 as demand for steel products grew, prompting a recovery in steel markets. We further understand from the Company that the prices of many of CDH Group's products in its downstream processing operations increased significantly in 1H 2010 and the CDH Group recorded revenue of HK\$1,287.4 million for 1H 2010. In addition, the gross profit margins of the CDH Group increased during 1H 2010 due to, among other factors, a significant decrease in the write-down of inventories to NRV, and the CDH Group was able to record profit before tax of HK\$84.0 million for 1H 2010.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The corporate structure of CDH and its material operating subsidiaries, assuming completion of the Reorganisation, is illustrated below:



LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Details of the Proposed Spin-off

Structure of the Proposed Spin-off

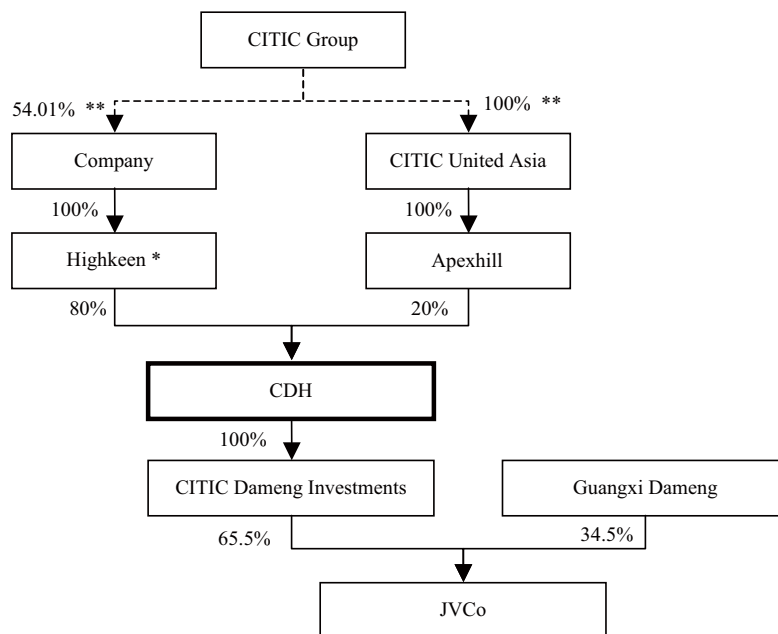
As set out in the Letter from the Board, it is currently expected that the Global Offering comprising (i) the Hong Kong Public Offering, being an offering of the CDH Shares to the public in Hong Kong for subscription; and (ii) the International Offering, being an international placing of the CDH Shares with certain professional and institutional and other investors (which will include the Preferential Offer), will offer 25% of the enlarged issued share capital of CDH upon its listing for subscription (before the exercise of the Over-allotment Option). It is also expected that the Over-allotment Option will be granted by CDH to the underwriters of the International Offering to require CDH to issue certain additional CDH Shares representing up to 15% of the CDH Shares to be initially offered under the Global Offering at the Final Offer Price to cover any over-allocations in the International Offering.

It is currently expected that out of the CDH Shares to be made available for subscription under the International Offering, a portion of such CDH Shares (about 10% of the CDH Shares under the Global Offering, not taking into account any CDH Shares to be issued under the Over-allotment Option) representing the Reserved Shares will be made available to Qualifying Shareholders at the Final Offer Price under the Preferential Offer. We understand from the Company that to the extent permitted by rule 13.36(2) of the Listing Rules, Shareholders with a registered address outside Hong Kong will not be eligible for the Preferential Offer as the Directors are of the view that it is costly to identify and comply with the laws of other jurisdictions in order to extend the Preferential Offer to only a small number of Overseas Shareholders. We understand from the Company that as at the Latest Practicable Date, there is only one Overseas Shareholder which is also a connected person of the Company. As stated in the Letter from the Board, no Reserved Shares under the Preferential Offer will be offered to connected persons of CDH and we understand from the Company that such Overseas Shareholder (which is also a connected person of CDH) will be excluded from applying for its assured entitlement for any Reserved Shares.

The final structure of the Proposed Spin-off, including the size of the Global Offering and the exact apportionment between the Hong Kong Public Offering and the International Offering, is to be finalised. On the basis of the expected public float of 25% of the enlarged issued share capital of CDH upon its listing (and assuming the Over-allotment Option is not exercised), the shareholding structures of the CDH Group before and after the Reorganisation and the Proposed Spin-off are illustrated below:

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

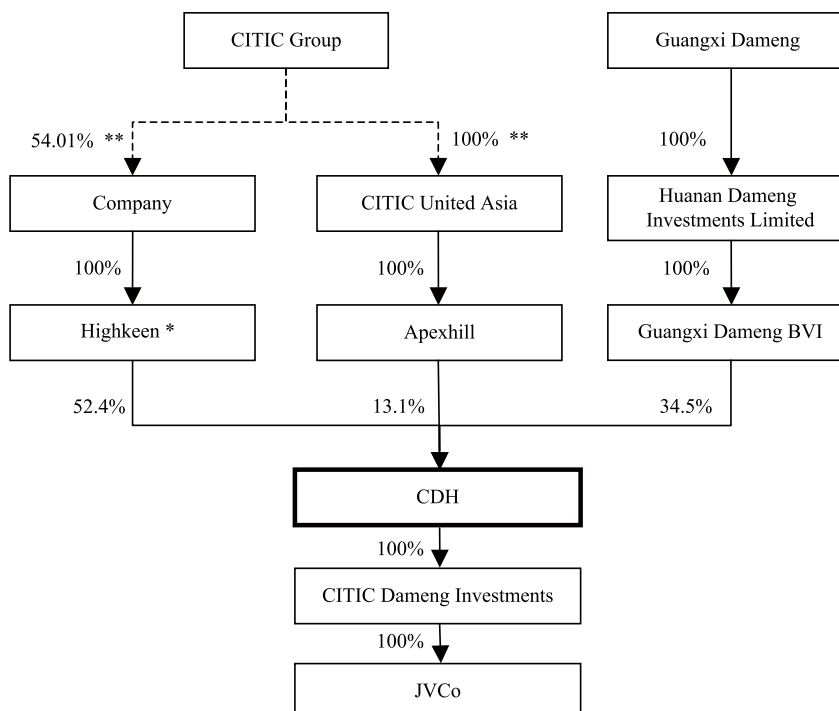
Shareholding structure as at the Latest Practicable Date



* An indirect wholly-owned subsidiary of the Company.

** Indirect interest.

Upon completion of the Reorganisation

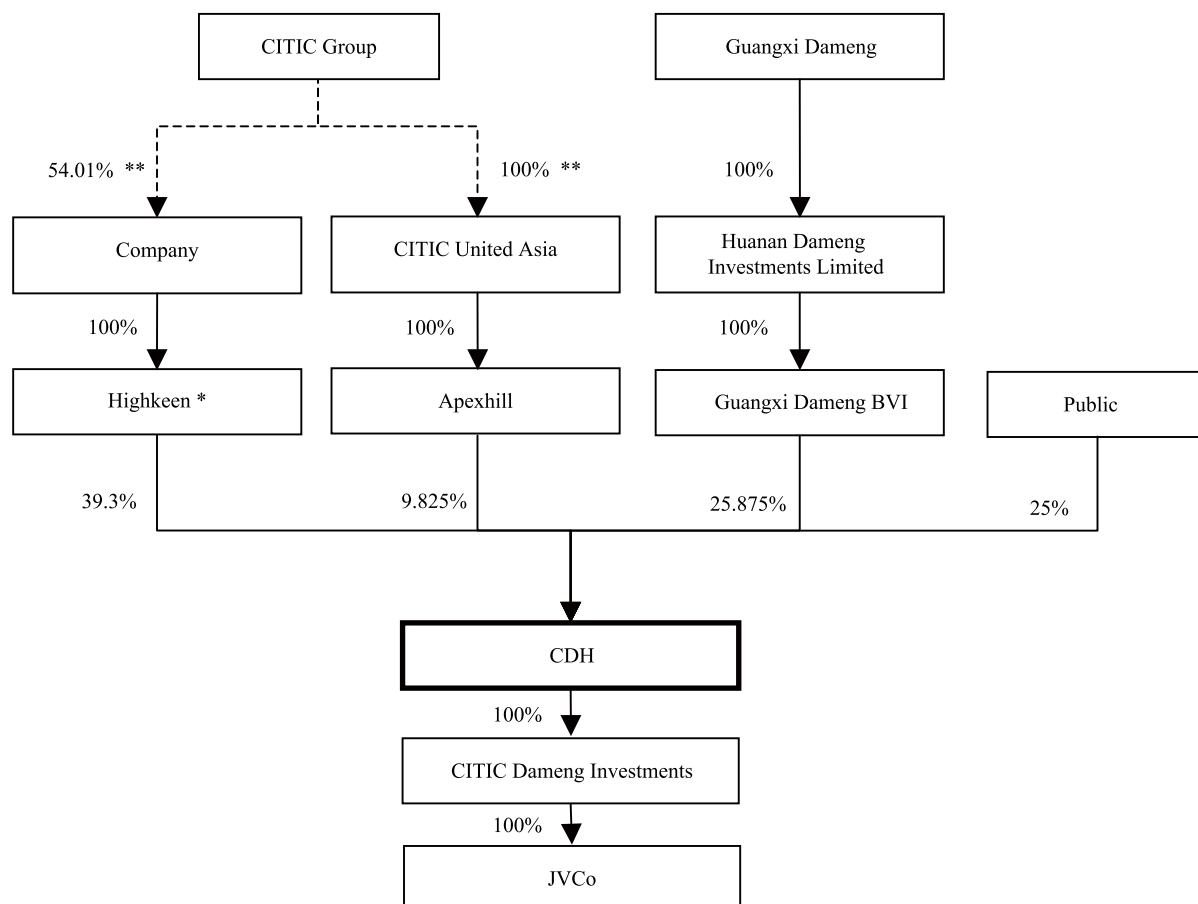


* An indirect wholly-owned subsidiary of the Company.

** Indirect interest.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Upon completion of the Reorganisation and the Proposed Spin-off



* An indirect wholly-owned subsidiary of the Company.

** Indirect interest.

The above shareholding structure of CDH upon completion of the Reorganisation and the Proposed Spin-off is illustrated on the basis that the Over-allotment Option is not exercised. If the Over-allotment Option is exercised, based on the current expected size of the Over-allotment Option representing up to 15% of the Global Offering, the Company's interest in the CDH Group will be diluted further to 37.9% of the enlarged issued share capital of CDH. In any event, the Company would still remain as the single largest shareholder of CDH holding a controlling interest of more than 30% upon completion of the Proposed Spin-off.

Stock borrowing arrangement

In addition, in order to facilitate the settlement of over-allotments in connection with the Global Offering, Highkeen (an indirect wholly-owned subsidiary of the Company) may enter into a stock borrowing arrangement with the stabilising manager of the Global Offering.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Lock-up

Furthermore, as stated in the Letter from the Board, in compliance with the Listing Rules, for a period of six months following completion of the Proposed Spin-off, the Company will be prohibited from disposing of any CDH Shares in which it is interested as at the Listing Date. Thereafter, for a further period of 6 months, the Company will be restricted from disposing of any of its CDH Shares such that it ceases to hold a controlling interest in CDH.

Non-competition undertaking

We understand from the Company that after completion of the Proposed Spin-off, the Spin-off Business will continue to be conducted through the CDH Group. As stated in the Letter from the Board, in order to clearly separate the respective businesses of the Retained Group and the CDH Group after the Proposed Spin-off, the Company proposes to enter into a non-competition undertaking with CDH, pursuant to which the Company will not, and will procure that its subsidiaries will not, subject to certain exceptions, either on its own account or in conjunction with or on behalf of any person, firm or company, directly or indirectly, be interested or engaged in or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent or otherwise) in any business which competes or may compete with the Relevant Business whilst the Company is a controlling shareholder of CDH.

We note that it is a common practice for new listings in Hong Kong that the controlling shareholder of a new listing applicant gives a non-competition undertaking in favour of the listing applicant to facilitate its listing. The terms of the non-competition undertaking proposed to be entered into by the Company are broadly similar to other such undertakings.

Adoption of the CDH Share Option Scheme

In connection with the Proposed Spin-off, it is proposed that the CDH Share Option Scheme be adopted by CDH. The purpose of the CDH Share Option Scheme is to enable CDH to grant CDH Share Options to directors, employees and other selected participants as reward for their contributions to the CDH Group and to provide an incentive for them to continue to further develop the CDH Group.

The CDH Share Option Scheme shall take effect subject to:

- (a) the passing of a resolution by shareholders of CDH to approve and adopt the CDH Share Option Scheme and to authorise the board of directors of CDH to grant CDH Share Options and to allot and issue CDH Shares pursuant to the exercise of such CDH Share Options;
- (b) the passing of a resolution by Shareholders to approve the CDH Share Option Scheme;
- (c) the Listing Committee granting approval for the listing of, and permission to deal in, the CDH Shares to be allotted and issued pursuant to the exercise of any CDH Share Options (subject to an initial limit of 10% of the aggregate number of CDH Shares in issue on the Listing Date); and
- (d) the commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange.

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The terms of the CDH Share Option Scheme are set out in the Circular. The CDH Share Option Scheme contains the usual terms of share option schemes commonly adopted by companies listed on the Stock Exchange and are in compliance with Chapter 17 of the Listing Rules.

Deed of Tax Indemnity

As stated in the Letter from the Board, in connection with the Proposed Spin-off, the Deed of Tax Indemnity would be entered into by Highkeen (an indirect wholly-owned subsidiary of the Company) to indemnify the CDH Group in respect of certain taxation.

We understand from the Company that the Deed of Tax Indemnity will be entered into among the shareholders of CDH immediately before the Proposed Spin-off (but after completion of the Reorganisation) (the “**Indemnifiers**”) in favour of the CDH Group, pursuant to which the Indemnifiers shall agree to, severally, but not jointly, indemnify each of the companies within the CDH Group, in proportion to the Indemnifiers’ respective shareholdings in CDH immediately before the Global Offering, against certain taxation incurred on or before the date on which the Deed of Tax Indemnity becomes unconditional. The Indemnifiers (including the Group but other than the CDH Group) may only be claimed against under the Deed of Tax Indemnity if, among other things, (i) such taxation has not been provided for in the accounts of the CDH Group for an accounting period ended on or before 30 June 2010 which will be audited by the reporting accountants of CDH in accordance with Hong Kong Financial Reporting Standards; or (ii) taxation incurred by the CDH Group in respect of any accounting period commencing on or after 1 July 2010 arising from an act, omission of, or transaction entered into by, the Indemnifiers and/or the CDH Group, which are out of the ordinary course of business, or are not in the ordinary course of acquiring or disposing of capital assets, on or before the date on which the Deed of Tax Indemnity becomes unconditional. There is no limit on the potential liability of the Deed of Tax Indemnity. Presently, CDH is a subsidiary of the Company and any taxation expenses incurred by the CDH Group are reflected in the consolidated accounts of the Company. Due to the above limited scope of exposure, the Company believes that the entering into of the Deed of Tax Indemnity shall not expose the Group (other than the CDH Group) to material additional risks or lead to any material adverse financial impact on the Group’s financial position. Shareholders may refer to the section headed “Deed of Tax Indemnity” in the Letter from the Board for the principal terms and conditions of the Deed of Tax Indemnity.

We have reviewed the terms of the Deed of Tax Indemnity and note that they are broadly in line with the terms of other similar deeds of indemnity commonly entered into by the controlling shareholders of a new listing applicant in favour of the listing applicant in connection with its listing.

Given the reasons for the entering into of the Deed of Tax Indemnity in connection with the Proposed Spin-off and the market practice that we are aware of, we consider that the terms of the Deed of Tax Indemnity (where there is no limit on the potential liability of the Deed of Tax Indemnity) are fair and reasonable.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Future plans of the CDH Group after the Proposed Spin-off

The CDH Group aims at becoming a leading global resource company focusing on manganese.

After implementation of the Proposed Spin-off, the CDH Group intends to (i) continue to increase the capacity of its production plants and expand its production facilities to diversify the product portfolio of its manganese related products, (ii) expand and upgrade its manganese reserves by further exploration efforts of its manganese mines, and (iii) increase its manganese reserves by acquiring assets holding manganese resources.

Further information regarding the future plans of the CDH Group will be set out in the Prospectus. It should be noted that implementation of the above future plans of the CDH Group is subject to the success of the Proposed Spin-off and the Global Offering.

Intended use of proceeds by CDH

CDH currently intends that the anticipated net proceeds from the Global Offering will be applied as follows:

- (a) approximately 55% of the net proceeds will be used to fund development and construction projects in the PRC and Gabon to improve the production capacity of the CDH Group, as further detailed in the section headed “Intended use of proceeds by CDH” in the Letter from the Board;
- (b) approximately 20% of the net proceeds will be used for the acquisition of mines and mining rights in relation to mines with identified mining resources and related production facilities;
- (c) approximately 15% of the net proceeds will be used to partially repay the principal amounts and interest accrued on the CDH Group’s outstanding bank borrowings; and
- (d) approximately 10% of the net proceeds will be used for working capital and other general corporate purposes of the CDH Group.

The above intended use of proceeds from the Global Offering is indicative only and the application of the net proceeds of the Global Offering by CDH will be published in the Prospectus.

Expected timing of listing

It is currently envisaged that the listing of the CDH Shares on the Main Board of the Stock Exchange is expected to commence later this year.

Reasons for and benefits of the Proposed Spin-off

As stated in the Letter from the Board, the Directors believe that the Proposed Spin-off will be beneficial to the Company as it will:

- (a) create CDH as a pure-play investment opportunity that will enable investors to better understand both the Company and CDH as separate entities. The strategic focus and critical success factors are different for the Spin-off Business and the Retained Group’s businesses (energy and minerals with oil exploration and production as its largest business segment);
- (b) allow both the Company and CDH to target their respective shareholder bases more effectively and improve capital allocation within each company;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (c) allow the management of both the Company and CDH to focus more effectively on their respective businesses and improve CDH's ability to recruit, motivate and retain key management personnel;
- (d) provide greater aggregate debt capacity to both the Company and CDH because there will be greater clarity for credit profiling by financial institutions who wish to extend credit or financing to the Company or CDH; and
- (e) deliver greater shareholder value to shareholders of both the Company and CDH, because (i) CDH will enjoy enhanced flexibility to grow its business free of actual or perceived constraints as a subsidiary, (ii) CDH will enjoy increased ability to make acquisitions by using its stock as an acquisition currency, and (iii) the Company will be able to enjoy greater shareholder value from the growth of CDH by maintaining a controlling interest in the CDH Group.

Delineation of the Spin-off Business from the Retained Business

We understand from the Company that the operations of the CDH Group are distinct from the Retained Group. The CDH Group was set up for the sole purpose of establishing and engaging in the Spin-off Business separately from the other businesses of the Retained Group. The products of the Retained Group and those of the CDH Group differ significantly with unique usages and distinct sales networks.

We understand from the Company that the CDH Group and the Retained Group will have boards of directors and senior management that function independently of each other save that CDH will have three common directors with the Company, two of them being executive directors (the “**Common Executive Directors**”) and the remaining one a non-executive director of CDH. It is expected that upon completion of the Global Offering, the Common Executive Directors who are primarily involved in overseeing the management and operations of the Spin-off Business will be re-designated as non-executive Directors. As such, the Company does not expect the Proposed Spin-off to have any material adverse impact on the operation of the Retained Group as there will not be any overlap in the operation focus of the Retained Group and the CDH Group as the two groups are already managed by separate management teams.

We agree that the Proposed Spin-off will help delineate the respective businesses of the Retained Group and the CDH Group allowing the Company to concentrate on developing its business of energy and minerals with oil exploration and production as its largest segment while the CDH Group can concentrate on developing the Spin-off Business. As stated in the Letter from the Board, the Spin-off Business has grown to a size sufficient to warrant a separate listing of the CDH Shares which the Company considers will be beneficial to the Retained Group and the CDH Group respectively. CDH is currently a private company. We agree that a separate listing of CDH on the Stock Exchange should improve CDH's fund-raising ability given the prospect of better trading liquidity at an established share exchange market place which will in turn improve its ability to fund future expansion and acquisitions related to the Spin-off Business. The Company as the controlling shareholder of CDH shall thus be able to enjoy the enhanced prospect of the CDH Group as well as the better liquidity of its shareholding in CDH. We consider that the listing of CDH should improve its ability to attract and retain talented staff given the enhanced exposure and reputation of CDH as a listed company as well as the additional avenue available to CDH of issuing share options to its employees as reward. We concur with the Company that the listing of CDH should be beneficial to the development of both the Company and the CDH Group.

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Future plans of the Retained Group

We understand from the Company that after the Proposed Spin-off, the Retained Group will continue to engage in the Retained Business, that is, energy and minerals with oil exploration and production as its largest segment. The Retained Group plans to improve its overall oil production. In addition to fostering organic growth, the Retained Group will continue to review potential investment opportunities that are valuable and capable of enhancing long-term economic benefits for the Retained Group.

We are of the view that the separate listing of the Spin-off Business would enhance the Retained Group's focus on developing its existing Retained Business. The management team of the Retained Group can concentrate on developing the Retained Business while the Spin-off Business will be independently run by a separate management team. Furthermore, the resources of the Retained Group can be directed to the development of the Retained Business without having to consider sharing its resources with the Spin-off Business. We consider that the Proposed Spin-off would be beneficial to the implementation of the future plans of the Retained Group of developing the Retained Business.

Company's investment in CDH

Moreover, upon listing of CDH, the Company will continue to hold a controlling interest in CDH and the Company's holding of the CDH Shares will become readily tradable on the Stock Exchange after the lock-up period as stipulated in the Prospectus. This extra liquidity will give the Company flexibility in handling its investment in CDH. In addition, the intrinsic value of the Company's investment in CDH will be reflected via the Proposed Spin-off. As further detailed in the next paragraph headed "Valuation of the Spin-off Business", CDH would have a minimum market capitalisation of HK\$6,000 million upon its listing representing 2.8 times of the aggregate of the net asset value of the CDH Group as at 30 June 2010 (not taking into account the non-controlling interests and after adjusting for the estimated gross proceeds from the Proposed Spin-off).

Valuation of the Spin-off Business

As far as we are aware, there is presently no company listed on the Stock Exchange which is directly comparable against CDH. As such, we have considered companies listed on other major stock exchanges in our following analysis.

Based on the Company's current estimation, CDH would have a minimum market capitalisation of HK\$6,000 million upon its listing (the "**Estimated Market Capitalisation**"). We set out below a comparison of the price-to-earnings ratio ("**PER**") and price-to-book ratio ("**PBR**") of (i) major manganese producers whose shares are listed on stock exchanges and (ii) manganese related companies listed on major stock exchanges (being the largest five stock exchanges by total market capitalisation of the companies listed on them) with market capitalisation the size of which is comparable to or larger than that of CDH (collectively the "**Comparable Companies**") against the PER and PBR of CDH calculated based on the Estimated Market Capitalisation. We understand from the Company that the major manganese producers included in the Comparable Companies are among the world's top six manganese producing companies listed on stock exchanges including two companies, each of which holds a 50% equity interest in one of the top six manganese producers.

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Apart from the Comparable Companies, we are not aware of any other manganese related companies listed on major stock exchanges which are comparable with CDH.

Company	Stock Exchange / Country	Market Capitalisation ⁽¹⁾							
		(local currency) ⁽¹¹⁾			(exchange rates used)		(equivalent to HK\$) ⁽²⁾	PER ⁽³⁾	PBR ⁽⁴⁾
		million	local currency	:	HK\$	million			
BHP Billiton Limited	ASX Limited / Australia	AUD	213,372.9	1	:	7.62	1,625,795.0	16.5	4.3
African Rainbow Minerals Limited	JSE Limited / South Africa	ZAR	37,199.1	1	:	1.13	41,912.3	20.5	2.1
Assore Limited	JSE Limited / South Africa	ZAR	21,646.1	1	:	1.13	24,388.6	14.6	2.8
Eramet S.A.	Euronext Paris / France	EUR	5,996.9	1	:	10.80	64,768.7	n.a. ⁽⁵⁾	2.2
Vale S.A.	BM&FBOVESPA S.A. / Brazil	BRL	274,306.1	1	:	4.61	1,265,730.5	30.5	2.7
OM Holdings Limited	ASX Limited / Australia	AUD	822.5	1	:	7.62	6,267.4	30.6	3.0
Anglo American PLC	London Stock Exchange plc / United Kingdom	GBP	35,160.4	1	:	12.31	432,923.3	23.0	2.0
Nippon Denko Co Ltd	Tokyo Stock Exchange, Inc. / Japan	JPY	75,426.2	100	:	9.41	7,097.5	441.1 ⁽⁶⁾	1.7
Eurasian Natural Resources Corp PLC	London Stock Exchange plc / United Kingdom	GBP	11,692.8	1	:	12.31	143,970.7	17.8	2.2
							Average	21.9 ⁽⁷⁾	2.5
							High	30.6 ⁽⁷⁾	4.3
							Low	14.6	1.7
CDH		HK\$	6,000.0 ⁽⁸⁾				6,000.0	123.4 ⁽⁹⁾	2.8 ⁽¹⁰⁾

Source: Bloomberg and the respective Comparable Companies' websites.

Notes:

- (1) As at 7 October 2010, being the latest practicable date for the purpose of ascertaining the information in the above table.
- (2) Converted based on the exchange rates as at 7 October 2010.
- (3) Calculated based on the closing share prices of the respective Comparable Companies as at 7 October 2010 and the latest full year profit attributable to shareholders as published by the respective Comparable Companies.
- (4) Calculated based on the closing share prices of the respective Comparable Companies as at 7 October 2010 and the latest net assets (not taking into account non-controlling interests) as published by the respective Comparable Companies.
- (5) Such Comparable Company recorded losses attributable to shareholders based on its latest published annual report.
- (6) Nippon Denko Co Ltd ("**Nippon Denko**") reported a relatively low profit attributable to shareholders of JPY171 million (HK\$16.1 million) for the year ended 31 December 2009, compared to JPY13,679 million (HK\$1,287.2 million) for the previous year. Such low profits for the latest financial year may have contributed to the exceptionally high PER.
- (7) Excluding Nippon Denko which is considered to be an outlier.
- (8) Being the Estimated Market Capitalisation.
- (9) Based on the net profit attributable to shareholders for FY 2009.
- (10) Based on the consolidated net assets (not taking into account non-controlling interests) as at 30 June 2010 of HK\$634.4 million and after adjusting for the estimated gross proceeds arising from the Global Offering of HK\$1,500 million.
- (11) "AUD" – Australian dollars, the lawful currency of Australia
"ZAR" – South African Rand, the lawful currency of South Africa
"EUR" – Euro, the lawful currency of the European Union
"BRL" – Brazilian Real, the lawful currency of Brazil
"GBP" – Pound Sterling, the lawful currency of the United Kingdom
"JPY" – Japanese Yen, the lawful currency of Japan

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Based on the above table, the PER of the Comparable Companies (excluding Nippon Denko) ranged from 14.6 to 30.6 times, with an average of 21.9 times, whereas the PBR of the Comparable Companies ranged from 1.7 to 4.3 times, with an average of 2.5 times.

Based on the Estimated Market Capitalisation and the consolidated profit of CDH attributable to its shareholders for FY 2009 of HK\$48.6 million, the PER of CDH would be 123.4 times which is significantly higher than those of the Comparable Companies.

As stated in the paragraph headed “Background information on the CDH Group” above, the Spin-off Business was adversely affected in 2009 as a result of a severe contraction in demand in the steel market caused by the global financial crisis in late 2008. As such, the net profit attributable to shareholders recorded by the CDH Group for FY 2009 was significantly less than those in previous years. We understand from the Company and CDH that the expected market capitalisation is estimated with reference to, among other things, the estimated future earnings of the CDH Group.

Upon completion of the Reorganisation, the JVCo will become an indirect wholly-owned subsidiary of CDH as opposed to an indirect 65.5% owned subsidiary at present and 100% of the results of the JVCo will be accounted for in the results of CDH attributable to its shareholders.

In terms of the CDH Group’s operating results, the results for 1H 2010 improved as detailed in the paragraph headed “Background information on the CDH Group” above. We have discussed with the management of the CDH Group regarding the CDH Group’s future plans after the Proposed Spin-off and have reviewed the draft independent technical review report on the mining assets and operations of the Daxin Mine, the Tiandeng Mine and the Montbeli Manganese Mine. We understand that it is expected that both the mining and processing operations of the CDH Group in the PRC will be expanded further. In addition, the Montbeli Manganese Mine is expected to commence production in 2011 reaching a mining production volume of 1.15 million tonnes per annum. Nonetheless, the manganese market is similar to other mineral related markets in that they are affected by the general global economic climate. In 2009, the global financial crisis greatly impacted on the operating results of the CDH Group. Although global financial conditions have stabilised to a certain extent, the economic outlook remains uncertain.

Based on the net profit of the CDH Group for the year ended 31 December 2009, the expected minimum market capitalisation of CDH will give an implied PER of 123.4 times, which is much higher than the trading PERs of the Comparable Companies. However, Shareholders should note that this high historical PER figure is calculated only based on the profit contribution from the Daxin Mine and the Tiandeng Mine whilst the Montbeli Manganese Mine is not yet in production and did not have any contribution to the profit of the CDH Group in 2009.

In contrast to the PER, we consider that comparing the PBR of the CDH Group with those of the Comparable Companies should provide a fairer ground of comparing the valuation of CDH with the Comparable Companies because the basis of calculating the PBR of CDH has already taken into account the asset value of each of the Daxin Mine, the Tiandeng Mine and the Montbeli Manganese Mine, in the assets value of the CDH Group in accordance with Hong Kong Financial Reporting Standards. Based on the Estimated Market Capitalisation, CDH’s PBR of 2.8 times is within the range of PBR of the Comparable Companies and above the average PBR of the Comparable Companies.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We were the independent financial adviser to the Company in respect of, among another transaction, the acquisition of the minority interest in the JVCo, the principal operating subsidiary of the CDH Group as shown in the group chart above in this letter, as part of the Reorganisation. The agreement in respect of the acquisition was entered into on 12 August 2010. The consideration for the acquisition was determined with reference to a valuation of the JVCo carried out by an independent valuer in the PRC as engaged by Guangxi Dameng, the current minority shareholder of the JVCo. As an additional reference, based on such valuation, the net assets of the JVCo and its subsidiaries were valued at RMB1,673.2 million (HK\$1,924.2 million) as at 31 March 2010 and the expected minimum market capitalisation of CDH represents approximately 3.1 times of such valuation.

In the absence of other valuation alternatives, based on the CDH Group's historical PBR, which is above the average PBR of the Comparable Companies, and the CDH Group's historical PER, which is significantly higher than those of the Comparable Companies (excluding Nippon Denko), we consider that the Estimated Market Capitalisation to be fair and reasonable.

Preferential Offer

Subject to the Listing Committee granting approval for the listing of, and permission to deal in, the CDH Shares on the Main Board of the Stock Exchange, about 10% of the CDH Shares available under the Global Offering (without taking account of any CDH Shares to be issued pursuant to the exercise of the Over-allotment Option), representing the Reserved Shares, will be available for subscription by Qualifying Shareholders at the Final Offer Price under the Preferential Offer. The Reserved Shares will be allocated from the CDH Shares available under the International Offering. Qualifying Shareholders will be entitled to subscribe for the Reserved Shares on an assured basis. The final assured entitlement will depend on the number of Shares held by the Qualifying Shareholders at 5:00 p.m. on the Record Date. With a view to maintaining at least the minimum prescribed percentage of CDH Shares in the hands of the public in compliance with the Listing Rules immediately after the Global Offering and to maximising the opportunity of the public to participate in the Global Offering, no Reserved Shares will be offered to connected persons of CDH or persons who will become connected persons of CDH immediately upon completion of the Global Offering to the extent that they are Qualifying Shareholders.

In order to assess the reasonableness of the assured entitlement to the Reserved Shares to be offered to Qualifying Shareholders under the Preferential Offer, we have considered the percentage of the total number of shares offered in the assured entitlement of past spin-off exercises since 2007. We have identified ten spin-off transactions on the Stock Exchange (the “**Comparable Transactions**”) since 1 January 2007 up to the Latest Practicable Date (based on the dates of the prospectuses or offering circulars of the offerings) which involved giving assured entitlements to existing shareholders by way of preferred applications.

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Date of prospectus/ offering circular	Company name (stock code)	Assured entitlement as a percentage of the total number of shares offered ⁽¹⁾
28 September 2010	Kosmopolito Hotels International Limited (2266)	5.3%
10 September 2010	Magic Holdings International Limited (1633)	4.0%
26 May 2008	Pou Sheng International (Holdings) Limited (3813)	5.1%
7 December 2007	BYD Electronic (International) Company Limited (285)	8.9%
4 October 2007	Dah Chong Hong Holdings Limited (1828)	5.7%
10 September 2007	Global Sweeteners Holdings Limited (3889)	5.0%
28 June 2007	New World Department Store China Limited (825)	5.0%
11 April 2007	Emperor Capital Group Limited (717)	88.7% ⁽²⁾
22 March 2007	CITIC 1616 Holdings Limited (1883)	6.9%
19 March 2007	Regal Real Estate Investment Trust (1881)	5.7%
	Average ⁽³⁾	5.7%
	High ⁽³⁾	8.9%
	Low	4.0%

Source: Stock Exchange's website.

- (1) Excluding the exercise of over-allotment options, if any.
- (2) The share offer of Emperor Capital Group Limited ("**Emperor Capital**") comprises a public offer of 36,000,000 shares of Emperor Capital and a preferential offering of 282,635,636 shares of Emperor Capital without any share placement.
- (3) Excluding Emperor Capital which is considered to be an outlier.

Based on the above table, the assured entitlement offered to shareholders under the Comparable Transactions as a percentage of their respective total number of shares offered ranged from 4.0% to 8.9% (excluding Emperor Capital's share offer). As such, the Reserved Shares of 10% of the total number of CDH Shares available under the Global Offering (not taking into consideration the exercise of the Over-allotment Option) available for subscription by Qualifying Shareholders is above the range of the Comparable Transactions (excluding Emperor Capital's share offer).

Based on the above and given that the Preferential Offer will allow Qualifying Shareholders to participate in the Global Offering on a preferential basis, we are of the view that the terms (including the size) of the Preferential Offer are fair and reasonable.

Financial Impact

Effect on earnings

The Company's effective equity interest in the CDH Group will be diluted from 52.4% (before the Proposed Spin-off and assuming completion of the Reorganisation) to 39.3% immediately following completion of the Proposed Spin-off (before exercise of the Over-allotment Option). As a result, the Company's share of future profits or losses of the CDH Group will be reduced after completion of the Proposed Spin-off. However, the Company considers that the prospects of the CDH Group will be further enhanced after the Proposed Spin-off. The CDH Group will cease to be a subsidiary of the Company and its financial results will cease to be consolidated into those of the Retained Group after completion of the Proposed Spin-off. Instead, the Retained Group's share of profit or loss of the CDH Group will be recorded as share of profit or loss of an associate.

The Company expects to recognise a gain (the "**Expected Gain**") in its consolidated income statement arising from the Proposed Spin-off. Based on the current Estimated Market Capitalisation and the current proposed structure of the Global Offering, the amount of gain to the Company resulting from the Proposed Spin-off is estimated to be about HK\$1,850 million, assuming the Over-allotment Option is not exercised.

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The actual gain to be recognised by the Company, which will be calculated by reference to and affected by, among other things, the financial position of the CDH Group at the time of completion of the Global Offering, the final structure and size of the Global Offering, the actual Final Offer Price and the actual completion date of the Global Offering, may be different from the above estimation. Assuming the Proposed Spin-off is completed by 31 December 2010, any gain will be recognised in the results of the Group for the financial year ending 31 December 2010.

Effect on net assets

As mentioned above, upon completion of the Proposed Spin-off, CDH will cease to be a subsidiary of the Company and the financials of the CDH Group will cease to be consolidated into the financial statements of the Group. Instead, the Retained Group will account for its interest in the CDH Group as an interest in an associate.

In addition, as a result of the dilution of the Company's effective equity interest in the CDH Group, the consolidated net assets of the Company is expected to reduce immediately after the Proposed Spin-off. At the same time, the consolidated net assets of the Company is expected to increase by the amount of the Expected Gain. As at 30 June 2010, CDH had unaudited total assets of HK\$4,278.9 million, total liabilities of HK\$3,199.7 million and net assets of HK\$1,079.2 million.

Effect on cashflow

As there is no sale of the CDH Shares held by the Company as part of the Global Offering, the entire net proceeds from the Proposed Spin-off will be received by CDH and the Retained Group will not receive any cash inflow from the Proposed Spin-off.

RECOMMENDATION

Having considered the principal reasons and factors, we are of the view that the Proposed Spin-off is in the interests of the Company and Shareholders as a whole, and its terms are fair and reasonable so far as the Company and Shareholders are concerned.

Having considered the terms of the Deed of Tax Indemnity and that the Deed of Tax Indemnity would be entered into in connection with the Proposed Spin-off, we are of the view that the Deed of Tax Indemnity is in the interests of the Company and Independent Shareholders as a whole, and its terms are on normal commercial terms, and fair and reasonable so far as the Company and Shareholders are concerned.

Accordingly, we advise the Independent Board Committee to recommend that (i) Shareholders vote in favour of the resolutions to be proposed at the Special General Meeting in relation to approving the Proposed Spin-off, and (ii) Independent Shareholders vote in favour of the resolution to be proposed at the Special General Meeting to approve the Deed of Tax Indemnity.

Yours faithfully,
For and on behalf of
OSK Capital Hong Kong Limited
Allen Tze
Director

1. INDEBTEDNESS

Borrowings

As at 31 August 2010, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of HK\$15,560.9 million, which comprised:

- secured bank loans of HK\$821.2 million;
- unsecured bank loans of HK\$6,397.0 million;
- unsecured other loans of HK\$580.3 million;
- finance lease payables of HK\$60.4 million; and
- bond obligations of HK\$7,702.0 million.

The secured bank loans were secured by the Group's 22.5% participating interest in the Portland Aluminium Smelter joint venture; property, plant and equipment, and prepaid land lease premiums of the JVCo; and guaranteed by a subsidiary of the Group. The bank trade finance facilities available to CITIC Australia Trading Limited are guaranteed by CITIC Resources Australia Pty Limited, a wholly-owned subsidiary of the Company.

In January 2008, the Company obtained an unsecured 5-year term loan facility of US\$280 million (HK\$2,184 million) for its general corporate funding requirements.

In 2009, the Group leased certain of its plant and equipment for its coal mine operation. The leases are classified as finance leases.

The bond obligations represent the issue of US\$1,000,000,000 6.75% senior notes due 2014 (the "**Notes**") by CITIC Resources Finance (2007) Limited ("**CR Finance**"), a direct wholly-owned subsidiary of the Company, in May 2007. The obligations of CR Finance under the Notes are guaranteed by the Company. The net proceeds of the Notes were used by the Group to facilitate the acquisition of the oil and gas properties of the Karazhanbas oilfield in Kazakhstan and for general working capital requirements.

Contingent liabilities

As at 31 August 2010, the Notes are guaranteed by the Company.

Commitments

As at 31 August 2010, the Group had:

- operating lease commitments of HK\$330.3 million;
- contracted capital expenditure commitments, but not provided for, of HK\$224.6 million;
- authorised capital expenditure commitments, but not contracted for, of HK\$1,372.6 million; and
- contracted capital expenditure commitments in respect of its share of the jointly-controlled assets' own capital commitments, but not provided for, of HK\$4,397.0 million.

Save as aforesaid, as at 31 August 2010, the Group had no other significant commitment.

Disclaimer

Save as aforesaid or as otherwise mentioned herein and the litigation as detailed in the section headed "Litigation" in Appendix III to this circular, and apart from the intra-group liabilities, none of the companies in the Group had, at the close of business on 31 August 2010, any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, debt securities 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 material contingent liabilities.

Except as disclosed above, at the close of business on the Latest Practicable Date, the Directors are not aware of any material changes in the Group's indebtedness and contingent liabilities since 31 August 2010.

Foreign currency transactions

Foreign currency amounts have, for the purpose of this indebtedness statement, been translated into Hong Kong dollars at the approximate rates of exchange prevailing at the close of business on 31 August 2010.

2. WORKING CAPITAL

The Directors are of the opinion that after taking into account the existing available borrowing facilities, internal resources and planned financial resources available to the Group, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this circular in the absence of unforeseeable material circumstances.

3. 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 2009, being the date to which the latest published audited financial statements of the Group were made up.

4. FINANCIAL AND TRADING PROSPECTS

The Group recorded a profit attributable to Shareholders of HK\$115.7 million and HK\$167.5 million respectively for the year ended 31 December 2009 and for the six months ended 30 June 2010. The consolidated net assets of the Group as at 31 December 2009 and 30 June 2010 were HK\$9,770.0 million and HK\$9,642.9 million respectively.

More favourable market and operating conditions have enabled the Group to achieve a turnaround in performance and record a profit attributable to Shareholders for the six months ended 30 June 2010. Importantly, each business segment of the Group was able to generate profitable segment results.

Oil exploration and production continues to be the largest business segment and contributor to the Group. Oil prices have recovered gradually from their lows in 2009. The principal and long-term objective of the Group is to strive for a continual increase in production capacity from the Group's oil interests.

The Spin-off Business was able to achieve a comparatively improved performance so far in the first half of 2010, with a growth in demand for steel products prompting a recovery in steel markets.

The Group's import and export of commodities business in Australia has generated notable contributions to the Group in the first six months of 2010. Demand from the PRC grew significantly and commodities prices rebounded from the low prices seen in 2009. It is expected that the steady economic growth of the PRC will help this business segment sustain its operating momentum.

Demand for low volatile pulverized coal injection coal ("**LV PCI coal**") remains strong. As steel production in the PRC is expected to continue to rise in 2010, the outlook for demand for LV PCI coal going forward remains positive.

The selling prices of aluminium have recovered to a level that enabled the Group to record a net profit for the first six months of 2010.

As improvements in the global financial markets and major economies continue aided by stimulation policies implemented by governments of leading nations, the Company has seen a concurrent improvement and stabilisation in energy and commodities prices and demand this year which has benefited the Group. It is expected that this trading environment will continue. Set against this background, the Group is committed to achieving improved returns for the Group aided by its long-term objective of improving overall oil production.

In addition to fostering organic growth, the Group will continue to review potential investment opportunities capable of enhancing the Group's asset portfolio to achieve and maximise long-term economic benefits for the Group and Shareholders.

This appendix summarises the principal terms of the CDH Share Option Scheme and does not form, nor is it intended to be, part of the CDH Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the CDH Share Option Scheme.

CDH SHARE OPTION SCHEME

For the purpose of this appendix only, unless the context otherwise requires, the following terms and expressions shall have the following meanings:

“Adoption Date”	the date on which the CDH Share Option Scheme is conditionally adopted by written resolution of the CDH Shareholders
“Business Day”	any day (excluding a Saturday and Sunday) on which banks are open for general banking business in Hong Kong
“CDH”	CITIC Dameng Holdings Limited
“CDH Board”	the board of CDH Directors
“CDH Directors”	the directors of CDH
“CDH Group”	CDH and its subsidiaries
“CDH Shareholders”	holders of CDH Shares
“CDH Share Option Scheme”	the share option scheme proposed to be adopted by CDH which will take effect subject to, among other things, the approval of CRH Shareholders at the Special General Meeting and commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange
“CDH Shares”	shares in the share capital of CDH
“CRH Shareholders”	holders of ordinary shares of HK\$0.05 each in the share capital of CITIC Resources Holdings Limited
“Date of Grant”	in respect of an Option, the Business Day on which the CDH Board resolves to make an offer to a Participant, whether or not the Offer is subject to the CDH Shareholders’ approval, on the terms of the CDH Share Option Scheme
“Grantee”	any Participant who accepts an Offer in accordance with the terms of the CDH Share Option Scheme or (where the context so permits) a person entitled to any such Option in consequence of the death of the original Grantee or the legal personal representative of such person

“Listing Date”	the date of commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Offer”	the offer of the grant of the Option
“Option”	an option to subscribe for the CDH Shares pursuant to the CDH Share Option Scheme and for the time being subsisting
“Option Period”	in respect of any particular Option, the period to be determined and notified by the CDH Board to the Grantee at the time of making an Offer which shall not expire later than 10 years from the Date of Grant of such Option
“Participant(s)”	directors (including executive directors, non-executive directors and independent non-executive directors) and employees of the CDH Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the CDH Group whom the CDH Board considers, in its sole discretion, has contributed or will contribute to the CDH Group. In determining the eligibility of the Participants, the CDH Board will, in its sole discretion, consider, as applicable, such person’s performance, contribution to the CDH Group’s operation and/or financial results and contribution to the development of the CDH Group
“Special General Meeting”	the special general meeting of the CRH Shareholders to be convened for the purposes of considering and, if thought fit, approving, among other things, the CDH Share Option Scheme
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

The following is a summary of the principal terms of the CDH Share Option Scheme proposed to be considered and, if thought fit, approved by ordinary resolution of the CRH Shareholders at the Special General Meeting and to be adopted by written resolution of the CDH Shareholders.

(a) Purpose

The purpose of the CDH Share Option Scheme is to reward Participants who have contributed to the CDH Group and to encourage Participants to work towards enhancing the value of CDH and the CDH Shares for the benefit of CDH and the CDH Shareholders as a whole.

(b) Who may join

On and subject to the terms of the CDH Share Option Scheme and the Listing Rules, the CDH Board shall be entitled at any time within 10 years after the Adoption Date to make an Offer to any Participant, as the CDH Board may in its absolute discretion select, to take up an Option pursuant to which such Participant may, during the Option Period, subscribe for such number of CDH Shares as the CDH Board may determine at a price calculated in accordance with paragraph (d) below. The Offer shall specify the terms on which the Option is to be granted. Such terms may, at the discretion of the CDH Board, include, among other things (i) the minimum period for which the Option must be held before it can be exercised; (ii) a performance target that must be reached before the Option can be exercised in whole or in part; and (iii) any other terms, all of which may be imposed (or not imposed) either on a case-by-case basis or generally. In determining such terms, the CDH Board will, in its sole discretion, consider, as applicable, the Participant's performance, contribution to the CDH Group's operation and/or financial results and contribution to the development of the CDH Group. As at the Adoption Date, there is no general minimum period specified by the CDH Board for which an Option must be held before it can be exercised and there is no general performance target imposed by the CDH Board that must be reached before the Option can be exercised in whole or in part.

An Offer shall remain open for acceptance by the Participant concerned for a period of 28 days from the Date of Grant provided that no such Offer shall be open for acceptance after such period has expired or after the CDH Share Option Scheme has been terminated or after the Participant to whom the Offer is made has ceased to be a Participant. An Offer is deemed to be accepted when CDH receives from the Grantee the offer letter signed by the Grantee specifying the number of CDH Shares in respect of which the Offer is accepted, and a remittance to CDH of HK\$1 as consideration for the grant of the Option. Such remittance is not refundable in any circumstances.

(c) Grant of Options to connected persons or their associates

Any grant of Options to any director, chief executive or substantial shareholder (as such term is defined in the Listing Rules) of CDH, or any of their respective associates, under the CDH Share Option Scheme or the grant of options under any other share option schemes of CDH or any of its subsidiaries shall be subject to the prior approval of the independent non-executive directors of CDH (excluding the independent non-executive directors who are the proposed Grantees in question). Where any grant of Options to a substantial shareholder or an independent non-executive director of CDH, or any of their respective associates, would result in the CDH Shares issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, lapsed, cancelled and outstanding) to such person in the 12-month period up to and including the Date of Grant:

- (i) representing in aggregate over 0.1% of the CDH Shares in issue on the Date of Grant; and
- (ii) having an aggregate value, based on the closing price of the CDH Shares as stated in the daily quotations sheet issued by the Stock Exchange on the Date of Grant, in excess of HK\$5 million,

such further grant of Options shall be subject to prior approval by resolution of the CDH Shareholders (voting by way of poll). CDH shall send a circular to the CDH Shareholders in accordance with the Listing Rules and all connected persons of CDH shall abstain from voting in favour of the resolution at such general meeting of the CDH Shareholders.

(d) Subscription price

The subscription price for the CDH Shares payable upon the exercise of CDH Share Options shall be determined by the CDH Board in its absolute discretion but in any event shall not be less than the highest of:

- (i) the closing price of the CDH Shares as stated in the daily quotations sheet issued by the Stock Exchange on the Date of Grant;
- (ii) the average closing price of the CDH Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five Business Days immediately preceding the Date of Grant; and
- (iii) the nominal value of the CDH Shares.

(e) Maximum number of CDH Shares

The maximum number of CDH Shares which may be issued upon exercise of all Options to be granted under the CDH Share Option Scheme and options under any other share option schemes of CDH shall not, in the absence of the CDH Shareholders' approval, in aggregate exceed 10% of the aggregate number of CDH Shares in issue on the Listing Date (such limit being 300,000,000 CDH Shares) (the "**Scheme Mandate Limit**"). Options lapsed in accordance with the terms of the CDH Share Option Scheme and (as the case may be) any other share option schemes of CDH will not be counted for the purpose of calculating the Scheme Mandate Limit.

CDH may renew the Scheme Mandate Limit at any time subject to prior CDH Shareholders' approval but, in any event, the total number of CDH Shares which may be issued upon exercise of all Options under the CDH Share Option Scheme and all options under any other share option schemes of CDH under the limit as refreshed must not exceed 10% of the CDH Shares in issue as at the date of approval of the renewal of the Scheme Mandate Limit. Options previously granted under the CDH Share Option Scheme and any other share option schemes of CDH (including those exercised, lapsed, cancelled and outstanding in accordance with the terms of the CDH Share Option Scheme and other share option schemes of CDH) will not be counted for the purpose of calculating the refreshed Scheme Mandate Limit.

Notwithstanding the foregoing, CDH may grant Options beyond the Scheme Mandate Limit to the Participants if:

- (i) separate CDH Shareholders' approval has been obtained for granting Options beyond the Scheme Mandate Limit to the Participants specifically identified by CDH before such shareholders' approval is sought; and
- (ii) CDH, in connection with the seeking of such separate CDH Shareholders' approval, has first sent a circular to the CDH Shareholders containing such information as may be required by the Listing Rules then prevailing to be included in such circular.

Subject to the paragraph immediately below, the maximum number of CDH Shares issued and to be issued upon exercise of the Options granted to each Grantee under the CDH Share Option Scheme (including both exercised and outstanding Options) in any 12-month period shall not (when aggregated with any CDH Shares subject to options granted during such period under any other share option schemes of CDH other than those options granted pursuant to specific approval by the CDH Shareholders in general meeting) exceed 1% of the CDH Shares in issue for the time being (the "**Individual Limit**").

Where any grant of Options to a Participant would result in the CDH Shares issued and to be issued upon exercise of all Options (and any options under any other share options schemes of CDH) granted and to be granted to such person (including Options and other options exercised, lapsed, cancelled and outstanding) in the 12-month period up to and including the date of such further grant representing in aggregate over the Individual Limit, such further grant must be separately approved by CDH Shareholders in general meeting with such Participant and his associates abstaining from voting. CDH shall send a circular to CDH Shareholders disclosing the identity of the Participant in question, the number and terms of the Options to be granted (and Options previously granted to such Participant) and such other information required under the Listing Rules.

(f) Maximum number of Options

At any time, the maximum number of CDH Shares which may be issued upon the exercise of all Options which then have been granted and have yet to be exercised under the CDH Share Option Scheme and all options issued under any other share option schemes of CDH shall not exceed 30% of the CDH Shares in issue from time to time.

(g) Time of exercise of Options

Subject to any restrictions applicable under the Listing Rules and notwithstanding the terms of grant thereof, an Option may be exercised by the Grantee in accordance with the terms of the CDH Share Option Scheme at any time during the period to be determined and notified by the CDH Board to each Grantee at the time of making an Offer. An Option shall expire no later than 10 years from the Date of Grant.

(h) Rights are personal to Grantees

An Option shall be personal to the Grantee and shall not be assignable or transferrable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Option.

(i) Rights on termination of employment and on death**(i) Rights on termination of employment**

- (1) If the Grantee ceases to be a Participant by reason of the termination of his employment or directorship on the grounds that he has been guilty of serious misconduct, or appears either to be unable to pay or to have no reasonable prospect of being able to pay his debts or has committed any act of bankruptcy or has become insolvent or has made any arrangement or compromise with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty or any other ground on which an employer would be entitled to terminate his employment summarily, his Option shall lapse automatically (to the extent not already exercised) and not be exercisable on or after the date of termination of his employment and to the extent the Grantee has exercised the Option in whole or in part, but the CDH Shares have not been allotted to him, the Grantee shall be deemed not to have exercised such Option and CDH shall return to the Grantee the amount of the subscription price for the CDH Shares received by CDH in respect of the purported exercise of such Option.
- (2) If a Grantee who is an employee or a director of CDH or another member of the CDH Group ceases to be a Participant for any reason other than his death or the termination of his employment or directorship is on one or more of the grounds specified in (1) above, his Option shall lapse (to the extent not already exercised) on the date of cessation or termination of such employment (which date shall be the Grantee's last actual working day with CDH or the relevant member of the CDH Group whether salary is paid in lieu of notice or not) and shall on that day cease to be exercisable.

(ii) Rights on death

If a Grantee ceases to be a Participant by reason of his death before exercising his Option in full and none of the events which would be a ground for termination of his employment as described in paragraph (i)(i)(1) above has arisen, his legal personal representative(s) may exercise the Option up to the Grantee's entitlement as at the date of death (to the extent not already exercised) within a period of twelve months following the date of his death.

(j) Effect of alterations to share capital

In the event of any alteration to the capital structure of CDH while any Option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of CDH in accordance with legal requirements of the Stock Exchange (other than any alteration in the capital structure of CDH as a result of an issue of CDH Shares as consideration in a transaction), the CDH Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (i) the maximum number of CDH Shares subject to the CDH Share Option Scheme; and/or
- (ii) the aggregate number or nominal amount of CDH Shares subject to Options so far as unexercised; and/or
- (iii) the subscription price of each outstanding Option,

provided that:

- (i) any such adjustments shall give a Grantee the same proportion of the equity capital of CDH as that to which that Grantee was previously entitled; and
- (ii) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Listing Rules and supplementary guidance on the interpretation of the Listing Rules issued by the Stock Exchange from time to time (including the supplemental guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes),

but no such adjustments shall be made to the extent that a CDH Share would be issued at less than its nominal value. In respect of any such adjustments, an independent financial adviser or the auditors of CDH must confirm to the CDH Directors in writing that the adjustments are in their opinion fair and reasonable.

(k) Rights on a general offer by way of takeover

In the event of a general offer by way of takeover or otherwise (other than by way of scheme of arrangement) being made to all the CDH Shareholders (or all such CDH Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and such offer becomes or is declared unconditional prior to the expiry date of any Options, CDH shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) shall be entitled to exercise his Option in full (to the extent not already exercised) or to the extent as notified by CDH at any time within such period as shall be notified by CDH.

(l) Rights on a general offer by way of scheme of arrangement

In the event of a general offer by way of scheme of arrangement being made to all the CDH Shareholders and approved by the necessary number of CDH Shareholders at the requisite meetings, CDH shall forthwith notify all the Grantees and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by CDH) exercise his Option either to its full extent or to the extent specified in such notice.

(m) Rights on winding up

In the event a notice is given by CDH to the CDH Shareholders to convene a CDH Shareholders' meeting for the purpose of considering and, if thought fit, approving a resolution to voluntarily wind up CDH, CDH shall forthwith give notice thereof to all the Grantees of subsisting Options and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by CDH) exercise his Option either to its full extent or to the extent specified in such notice, and CDH shall as soon as possible and in any event no later than three days prior to the date of the proposed CDH Shareholders' meeting, allot and issue and register in the name of the Grantee such number of fully paid CDH Shares to the Grantee which fall to be issued on the exercise of such Option.

(n) Rights on a compromise or arrangement

In the event a compromise or arrangement (other than a scheme of arrangement) between CDH and its members or creditors is proposed in connection with a scheme for the reconstruction or amalgamation of CDH, CDH shall give notice thereof to all the Grantees of subsisting Options on the same day as it gives notice of the meeting to its members or creditors to consider such compromise or arrangement, and any Grantee (or his legal personal representative) may at any time thereafter (but before such time as shall be notified by CDH) exercise his Option either to its full extent or to the extent notified by CDH and CDH shall as soon as possible and in any event no later than three days prior to the date of the proposed meeting, allot, issue and register in the name of the Grantee such number of fully paid CDH Shares which fall to be issued on the exercise of such Option.

(o) Ranking of CDH Shares

The CDH Shares to be allotted upon the exercise of an Option shall be subject to all the provisions of the Memorandum of Association and Bye-laws of CDH for the time being in force and shall rank pari passu in all respects with the fully paid CDH Shares in issue on the date on which those CDH Shares are allotted on exercise of the Option and accordingly shall entitle the holders to participate in all dividends or other distributions paid or made after the date on which the CDH Shares are allotted other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date thereof shall be on or before the date on which the CDH Shares to be allotted on the exercise of the option are allotted.

(p) Rights attaching to the Options

The Options do not carry any right to vote in general meetings of CDH, or any right, dividend, transfer or any other rights, including those arising on the liquidation of CDH.

(q) Period of the CDH Share Option Scheme

The CDH Share Option Scheme shall be valid and effective for a period of 10 years commencing from the Adoption Date.

(r) Alterations to the CDH Share Option Scheme

The specific provisions of the CDH Share Option Scheme which relate to the matters set out in rule 17.03 of the Listing Rules cannot be altered to the advantage of the Participants, and changes to the authority of the CDH Board in relation to any alteration of the terms of the CDH Share Option Scheme shall not be made, in either case, without the prior approval of the CDH Shareholders in general meeting. Any alterations to the terms and conditions of the CDH Share Option Scheme which are of a material nature, or any change to the terms of Options granted, must also, to be effective, be approved by the CDH Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the CDH Share Option Scheme. The CDH Share Option Scheme so altered must comply with Chapter 17 of the Listing Rules.

(s) Conditions of the CDH Share Option Scheme

The CDH Share Option Scheme shall take effect subject to:

- (i) the passing of a resolution by the CDH Shareholders to approve and adopt the CDH Share Option Scheme and to authorise the CDH Board to grant Options and to allot and issue the CDH Shares pursuant to the exercise of such Options;
- (ii) the passing of a resolution by the CRH Shareholders at the Special General Meeting to approve the CDH Share Option Scheme;
- (iii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal in, the CDH Shares to be allotted and issued pursuant to the exercise of any Options (subject to an initial limit of 10% of the aggregate number of CDH Shares in issue on the Listing Date); and
- (iv) the commencement of dealings in the CDH Shares on the Main Board of the Stock Exchange.

(t) Lapse of Option

An Option shall lapse automatically and shall not be exercisable, to the extent not already exercised, on the earliest of:

- (i) the expiry of the Option Period;
- (ii) the expiry of the periods referred to in paragraphs (i), (m) or (n) above respectively;
- (iii) the expiry of the period referred to in paragraph (k) above, subject to any court of competent jurisdiction not making an order to prohibit the offeror from acquiring the remaining CDH Shares in the offer;

- (iv) subject to the scheme of arrangement becoming effective, the expiry of the period as referred to in paragraph (l) above;
- (v) the date of the commencement of the winding-up of CDH;
- (vi) the date on which the Grantee ceases to be a Participant as referred to in paragraph (i)(i)(1);
- (vii) the date on which the Grantee commits a breach by selling, transferring, charging, mortgaging, encumbering or creating any interest in favour of any other person over or in relation to any Option; and
- (viii) subject to paragraph (i)(i)(2), the date the Grantee ceases to be a Participant for any other reason.

(u) Termination of the CDH Share Option Scheme

CDH by ordinary resolution in general meeting or the CDH Board may at any time terminate the CDH Share Option Scheme and in such event no further Options may be granted but in all other respects the CDH Share Option Scheme shall remain in full force and effect in respect of Options which are granted during the life of the CDH Share Option Scheme and which remain unexpired immediately prior to termination of the CDH Share Option Scheme.

(v) Restriction on grant of Options

A grant of Options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been published in accordance with the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of:

- (i) the date of the meeting of the CDH Board (as such date is first notified to the Stock Exchange in accordance with the Listing Rules) for the approval of CDH's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and
- (ii) the deadline for CDH to publish an announcement of its results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules),

and ending on the date of the results announcement, no Option may be granted.

(w) Cancellation

Any Options granted but not exercised may be cancelled if the Participant so agrees.

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 collectively and individually 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, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement herein misleading.

The issue of this circular has been approved by the Directors.

2. DISCLOSURE OF INTERESTS

(a) Disclosure of interests of Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are 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 are deemed or taken to have under such provisions of the SFO) or which are 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**”) as set out in Appendix 10 to the Listing Rules, and which have been notified to the Company and the Stock Exchange are as follows:

Interests in 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	0.33
Mr. Sun Xinguo	Directly beneficially owned	4,295,000	—	0.07
Mr. Mi Zengxin	Directly beneficially owned	—	10,000,000	0.17
Mr. Zeng Chen	Directly beneficially owned	—	10,000,000	0.17
Ms. Li So Mui	Directly beneficially owned	224,000	2,000,000	0.04
Mr. Zhang Jijing	Family	28,000 ⁽¹⁾	—	—
Mr. Zhang Jijing	Directly beneficially owned	—	10,000,000	0.17

Note:

- (1) The 28,000 Shares 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 associated corporations of the Company

Name of Director	Name of associated corporation	Shares/equity derivatives	Number of shares/equity derivatives held	Nature of interest	Percentage of the total issued share capital of the associated corporation
Mr. Zhang Jijing	CITIC Pacific Limited	Share options	500,000	Directly beneficially owned	0.01
Mr. Tsang Link Carl, Brian	Dah Chong Hong Holdings Limited	Ordinary shares	18,000	Directly beneficially owned	—

Mr. Zhang Jijing (“**Mr. Zhang**”) is an executive director and the managing director of CITIC Pacific Limited (“**CITIC Pacific**”) (Stock Code: 267) listed on the Main Board of the Stock Exchange. CITIC Pacific is engaged in a diversified range of businesses, including, but not limited to, the manufacturing of special steel, iron ore mining, property development and investment, basic infrastructure (such as energy, tunnels and communications) and marketing and distribution. Further details of the nature, scope and size of the businesses of CITIC Pacific as well as its management can be found in the latest annual report of CITIC Pacific. In the event that there are transactions between CITIC Pacific and the Company, Mr. Zhang will abstain from voting. Save as disclosed above, Mr. Zhang is not directly or indirectly interested in any business that constitutes or may constitute a competing business of the Company.

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, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are 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 are deemed or taken to have under such provisions of the SFO) or which are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which are required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange;
- (ii) none of the Directors or their respective associates was materially interested in any subsisting contract or arrangement which is significant in relation to the businesses of the Group taken as a whole; and
- (iii) 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.

Save as disclosed herein and in the section headed “Disclosure of interests of substantial Shareholders” below and so far as is known to the Directors, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or a short position in 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.

(b) Disclosure of interests of substantial Shareholders

As at the Latest Practicable Date, according to the register kept by the Company pursuant to Section 336 of the SFO, and so far as is known to the Directors, the persons or entities who had an interest or a short position in 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 are 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	3,267,916,123 ⁽¹⁾	54.01
CITIC Projects Management (HK) Limited	Corporate	2,517,502,330 ⁽²⁾	41.61
Keentech	Corporate	2,517,502,330 ⁽³⁾	41.61
CA	Corporate	750,413,793 ⁽⁴⁾	12.40
Temasek Holdings (Private) Limited	Corporate	693,776,341 ⁽⁵⁾	11.47
Temasek Capital (Private) Limited	Corporate	443,267,500 ⁽⁶⁾	7.33
Seletar Investments Pte. Ltd.	Corporate	443,267,500 ⁽⁷⁾	7.33
Baytree Investments (Mauritius) Pte. Ltd.	Corporate	443,267,500 ⁽⁸⁾	7.33

Notes:

- (1) The figure represents an attributable interest of CITIC Group through its interest in CITIC Projects Management (HK) Limited (“**CITIC Projects**”) and CA. Mr. Kong Dan, Mr. Sun Xinguo (“**Mr. Sun**”), Mr. Mi, Mr. Zeng Chen (“**Mr. Zeng**”), Mr. Qiu and Mr. Zhang are directors of CITIC Group.
- (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. Mr. Mi and Mr. Qiu are directors of CITIC Projects.
- (3) Keentech is a direct wholly-owned subsidiary of CITIC Projects. Mr. Sun, Mr. Qiu and Mr. Zhang are directors of Keentech.
- (4) CA is a direct wholly-owned subsidiary of CITIC Group. Mr. Zeng is the chairman of CA.
- (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 an indirect interest in Ellington Investments Pte. Ltd. (“**Ellington**”), which holds 250,508,841 Shares representing 4.14% of the total issued share capital of the Company. Temasek Holdings is a company incorporated in Singapore. Ellington, a company incorporated in Singapore, is an indirect wholly-owned subsidiary of Temasek Holdings. Mr. Wong Kim Yin is a managing director of Temasek Holdings.

- (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.

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 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 and no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

3. LITIGATION

Save as disclosed below and so far as is known to the Directors, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or claim 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 2007, the books and records of JSC Karazhanbasmunai (“**KBM**”) were audited by the Kazakhstan tax authorities with regard to the calculation and accrual of value added tax (“**VAT**”) receivable for a four-month period in 2006. As a result, KBM has not been refunded VAT receivable in an amount of KZT1,604,789,000 (HK\$84,336,000). In 2007 and 2008, KBM filed appeals with the Specialised Interregional Economic Court of Mangistau Oblast, Kazakhstan (the “**Economic Court**”) but decisions were made against KBM. On 8 February 2010, KBM appealed to the Supervisory Board of the Supreme Court of Kazakhstan (the “**Supervisory Board**”), but again decisions were made against KBM. KBM is considering making an appeal to the General Prosecutor of Kazakhstan.
- (b) In 2009, the customs authority of Kazakhstan conducted a customs audit on KBM and issued a claim (the “**Customs Duty Claim**”) against KBM for an aggregate amount of KZT4,351,014,000 (HK\$228,659,000) and related penalties of KZT854,110,000 (HK\$44,886,000). On 19 January 2010, KBM filed an objection against the Customs Duty Claim in the Economic Court. However, on 25 March 2010, KBM received an unfavourable decision. On 9 April 2010, KBM filed an appeal to the Mangistau Oblast Court, but again received an unfavourable decision. To avoid the imposition of additional penalties and freezing of its bank accounts by the customs authority, KBM settled the customs duty and the related penalties in full in July 2010. KBM is now in the process of making an appeal to the Supervisory Board.

4. DIRECTORS’ SERVICE CONTRACTS

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

5. 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 2009, 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.

6. EXPERT

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

Name	Qualification
OSK Capital Hong Kong Limited	a corporation licensed under the SFO to carry out types 1 and 6 regulated activities

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.

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 reference to its name in the form and context in which it appears.

7. MATERIAL CONTRACTS

The following contracts, not being contracts in the ordinary course of business, were entered into by the Group within two years immediately preceding the date of this circular and are or may be material:

- (a) the loan agreement dated 4 February 2009 among the Company, Apexhill and CITIC Dameng Investments, pursuant to which the Company and Apexhill lent HK\$240 million and HK\$60 million to CITIC Dameng Investments respectively to increase its equity interest in the JVCo;
- (b) the capital increase agreement dated 4 February 2009 between CITIC Dameng Investment and Guangxi Dameng in relation to the increase in the registered capital of the JVCo from RMB500.0 million (HK\$575.0 million) to RMB579.7 million (HK\$666.7 million) and the consequential increase of CITIC Dameng Investments' equity interest in the JVCo from 60% to 65.5% at a consideration of RMB255.6 million (HK\$293.9 million);
- (c) the share subscription agreement dated 12 August 2010 between CDH and Guangxi Dameng BVI relating to the subscription by Guangxi Dameng BVI for, and the allotment and issue by CDH of, 1,460,535 new CDH Shares at the aggregate subscription price of the Hong Kong dollar equivalent of RMB463.3 million (HK\$532.8 million) plus HK\$17.0 million; and

- (d) the transfer agreement dated 12 August 2010 between Guangxi Dameng and CITIC Dameng Investments relating to the sale and purchase of 34.5% interest in the equity of the JVCo held by Guangxi Dameng at a consideration of RMB463.3 million (HK\$532.8 million).

8. MISCELLANEOUS

- (a) The share registrar and transfer office of the Company in Hong Kong 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 32 years' experience in the accounting and banking field.
- (c) All references to times and dates in this circular refer to Hong Kong times and dates.
- (d) In the event of any inconsistency, the English language text of this circular shall prevail over the Chinese language text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the office 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 of the Company and the Bye-laws;
- (b) the annual reports of the Company for each of the three years ended 31 December 2007, 2008 and 2009;
- (c) the letter from the Independent Board Committee, the text of which is set out on pages 25 and 26 of this circular;
- (d) the letter from the Independent Financial Adviser, the text of which is set out on pages 27 to 47 of this circular;
- (e) material contracts as referred to in the section headed "Material Contracts" above;
- (f) a circular of the Company dated 26 August 2010 in respect of the Reorganisation;
- (g) the written consent from the Independent Financial Adviser referred to in the section headed "Expert" above;
- (h) the rules of the CDH Share Option Scheme;
- (i) the Deed of Tax Indemnity; and
- (j) the Non-competition Undertaking.

NOTICE OF SPECIAL GENERAL MEETING



CITIC RESOURCES HOLDINGS LIMITED

(incorporated in Bermuda with limited liability)

(Stock Code: 1205)

NOTICE IS HEREBY GIVEN that a special general meeting (the “**Meeting**”) of CITIC Resources Holdings Limited (the “**Company**”) will be held at Pacific Place Conference Centre, Mont Blanc Room, Level 5, One Pacific Place, 88 Queensway, Hong Kong on Wednesday, 27 October 2010 at 3:00 p.m. for the purposes of considering and, if thought fit, passing the following resolutions as ordinary resolutions:

ORDINARY RESOLUTION NO. 1

“**THAT:**

- (a) the spin-off of CITIC Dameng Holdings Limited (“**CDH**”) to be effected through (i) a global offering comprising an offering of shares of CDH (the “**CDH Shares**”) to the public in Hong Kong for subscription and/or an international placing of the CDH Shares with professional and institutional and other investors (including a preferential offer of the CDH Shares to certain shareholders of the Company whose addresses on the register of members of the Company are in Hong Kong and such other jurisdictions as shall be required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) (the “**Global Offering**”); and (ii) a separate listing of all CDH Shares in issue and to be issued pursuant to the Global Offering on the Main Board of The Stock Exchange of Hong Kong Limited, (the “**Spin-off**”); and
- (b) the entering into of those agreements and documents (including, but not limited to, the non-competition undertaking and the stock borrowing agreement) (the “**Spin-off Agreements**”) by the Company and its subsidiaries as shall be necessary or desirable in respect of or for the purposes of the Spin-off on such terms and in such form as shall be agreed or approved by the directors of the Company (the “**Directors**”), acting collectively or individually; and
- (c) the Directors, acting collectively or individually, be and are hereby authorised on behalf of the Company to sign such of the Spin-off Agreements and, as shall be required, any two Directors or a Director and the Secretary be and are hereby authorised to affix the common seal of the Company to such of the Spin-off Agreements as shall be required to be executed by the Company as a deed or under seal and to do all such other acts and deeds on behalf of the Company as shall in the discretion of the Directors, acting collectively or individually, be necessary or desirable in respect of or in connection with the Spin-off,

be and are hereby approved.”

NOTICE OF SPECIAL GENERAL MEETING

ORDINARY RESOLUTION NO. 2

“**THAT** the rules of the share option scheme (the “**CDH Share Option Scheme**”) of CITIC Dameng Holdings Limited (“**CDH**”), a copy of which is produced to the Meeting marked “A” and for the purpose of identification signed by the chairman of the Meeting, the summaries of which are set out in the circular of the Company dated 12 October 2010, be and are hereby approved as the share option scheme of CDH and the directors of the Company be and are hereby authorised to approve any amendments to the rules of the CDH Share Option Scheme as may be acceptable or not objected to by The Stock Exchange of Hong Kong Limited and to do all such acts and to enter into all such transactions and arrangements as may be necessary or expedient in order to give effect to the CDH Share Option Scheme.”

ORDINARY RESOLUTION NO. 3

“**THAT** the entering into of a deed of tax indemnity (the “**Deed of Tax Indemnity**”) by Highkeen Resources Limited, an indirect wholly-owned subsidiary of the Company, for the purposes of and in connection with the spin-off of CITIC Dameng Holdings Limited (“**CDH**”) in favour of CDH in respect of certain tax liabilities of CDH and its subsidiaries, a copy of which is produced to the Meeting marked “B” and for the purpose of identification signed by the chairman of the Meeting, and the terms and conditions of which are more particularly described in the circular of the Company dated 12 October 2010, subject to such amendments thereto as any of the directors of the Company consider necessary or desirable, be and is hereby approved.”

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

Hong Kong, 12 October 2010

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

NOTICE OF SPECIAL GENERAL MEETING

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 instead of him. A proxy need not be a member of the Company but must be present in person at the Meeting to represent the member. If more than one proxy is so appointed, the appointment shall specify the number and class of shares in respect of which each such proxy is so appointed.
- (2) A form of proxy for use at the Meeting is enclosed.
- (3) To be valid, a form of proxy, together with any 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 returned to the head office and principal place of business of the Company 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). Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting (or any adjournment thereof) should you so wish.
- (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 is 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.
- (5) In accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, voting on the above ordinary resolutions will be taken by poll.

As at the date hereof, the executive directors of the Company are Mr. Sun Xinguo; Mr. Zeng Chen; Ms. Li So Mui; Mr. Qiu Yiyong and Mr. Tian Yuchuan, the non-executive directors are Mr. Kong Dan; Mr. Mi Zengxin; Mr. Wong Kim Yin; Mr. Zhang Jijing and Ms. Yap Chwee Mein (alternate to Mr. Wong Kim Yin), and the independent non-executive directors are Mr. Fan Ren Da, Anthony; Mr. Ngai Man and Mr. Tsang Link Carl, Brian.