

Corporate Information

EXECUTIVE DIRECTORS

Mr. Kwok Viem, Peter (*Chairman*)
Mr. Ma Ting Hung (*Vice Chairman*)
Ms. Li So Mui
Mr. Mi Zengxin
Mr. Qiu Yiyong
Mr. Sun Xinguo
Mr. Zeng Chen
Mr. Zhang Jijing

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fan Ren Da, Anthony
Mr. Tsang Link Carl, Brian

AUDIT COMMITTEE

Mr. Fan Ren Da, Anthony
Mr. Tsang Link Carl, Brian

COMPANY SECRETARY

Ms. Li So Mui

AUDITORS

Ernst & Young
Certified Public Accountants
15th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong

PRINCIPAL BANKER

CITIC Ka Wah Bank Limited

SOLICITORS

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Woo, Kwan, Lee & Lo
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REGISTERED OFFICE

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HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

Stock Code: 1205

Six months ended 30 June

Unaudited

(Expressed in HK\$'000)

Financial Results

The board of directors (the "Directors") of CITIC Resources Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004 (the "Period").

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	2004	2003
TURNOVER		1,135,871	7,116
Cost of sales		(1,067,154)	(11,408)
Gross profit/(loss)		68,717	(4,292)
Other revenue and gains		9,664	7,740
Selling and distribution costs		(7,179)	(193)
Administrative expenses		(19,329)	(9,495)
Other operating expenses		(9,330)	(187)
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	3	42,543	(6,427)
Finance costs	4	(12,927)	(46)
PROFIT/(LOSS) BEFORE TAX		29,616	(6,473)
Tax	5	(25,289)	–
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		4,327	(6,473)
Minority interests		(894)	–
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS		3,433	(6,473)
EARNINGS/(LOSS) PER SHARE	6		
Basic		HK0.09 cent	HK(0.20 cent)
Diluted		N/A	N/A

(Expressed in HK\$'000)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2004 Unaudited	31 December 2003 Audited
NON-CURRENT ASSETS			
Fixed assets	8	1,121,242	91,532
Other assets		621,233	–
Goodwill		53,829	–
Investment in securities	9	170,511	–
Deferred tax assets		14,646	–
Prepayments		2,096	3,238
Other receivables		94,984	–
		2,078,541	94,770
CURRENT ASSETS			
Inventories		206,333	8,898
Accounts receivable	10	327,850	3,846
Prepayments, deposits and other receivables		36,721	1,972
Due from CITIC Australia Pty Limited		1,850	–
Other assets		54,801	–
Investment in securities	9	2,815	–
Pledged bank deposits		20,492	20,399
Cash and bank balances		1,769,104	1,100,153
		2,419,966	1,135,268
CURRENT LIABILITIES			
Accounts payable	11	149,125	3,407
Tax payable		14,207	–
Accrued liabilities and other payables		100,884	23,544
Due to CITIC Australia Pty Limited		5,903	–
Bank and other loans	12	323,432	20,735
Provisions		61,137	–
		654,688	47,686
NET CURRENT ASSETS			
		1,765,278	1,087,582
TOTAL ASSETS LESS CURRENT LIABILITIES			
		3,843,819	1,182,352
NON-CURRENT LIABILITIES			
Bank and other loans	12	1,171,294	11,862
Provisions		11,596	–
Deferred income and other payables		29,750	–
Deferred tax liabilities		112,000	–
		1,324,640	11,862
MINORITY INTERESTS			
		18,654	–
		2,500,525	1,170,490
CAPITAL AND RESERVES			
Issued capital	13	215,845	164,824
Reserves		2,284,680	1,005,666
		2,500,525	1,170,490

Six months ended 30 June
(Expressed in HK\$'000)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Reserves							Total
	Issued capital (Note 13)	Share premium account	Contributed surplus	Exchange fluctuation reserve	Capital reserve	Accumulated losses	Sub-total	
At 1 January 2004 (Audited)	164,824	1,200,879	65,527	860	4,104	(265,704)	1,005,666	1,170,490
Exchange realignments	-	-	-	(82,665)	-	-	(82,665)	(82,665)
New issue of shares	51,021	1,383,554	-	-	-	-	1,383,554	1,434,575
Professional fee incurred in relation to the investment projects	-	(14,252)	-	-	-	-	(14,252)	(14,252)
Share issuance expenses	-	(8,223)	-	-	-	-	(8,223)	(8,223)
Net profit for the Period	-	-	-	-	-	3,433	3,433	3,433
Reserves for dividend in subsidiaries	-	-	-	-	-	(2,833)	(2,833)	(2,833)
At 30 June 2004 (Unaudited)	215,845	2,561,958	65,527	(81,805)	4,104	(265,104)	2,284,680	2,500,525
At 31 December 2002 and 1 January 2003 (Audited)	164,824	1,200,879	65,527	860	4,104	(213,699)	1,057,671	1,222,495
Net loss for the six months ended 30 June 2003	-	-	-	-	-	(6,473)	(6,473)	(6,473)
At 30 June 2003 (Unaudited)	164,824	1,200,879	65,527	860	4,104	(220,172)	1,051,198	1,216,022

Six months ended 30 June
Unaudited
(Expressed in HK\$'000)

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	2004	2003
Net cash inflow/(outflow) from operating activities	206,208	(11,784)
Net cash inflow/(outflow) from investing activities	205,966	(13,688)
Net cash inflow from financing activities	256,777	9,864
Increase/(decrease) in cash and cash equivalents	668,951	(15,608)
Cash and cash equivalents at beginning of the period	1,100,153	1,123,498
Cash and cash equivalents at end of the period	1,769,104	1,107,890
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	248,697	439
Non-pledged time deposits with original maturity of less than three months when acquired	1,520,407	1,107,451
	1,769,104	1,107,890

30 June 2004

Notes:

1. Basis of preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice 25 "Interim Financial Reporting", accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). They have been prepared under the historical cost convention, except for the periodic remeasurement of certain assets as further explained in the respective accounting policies below.

The accounting policies adopted are consistent with those used in the Group's audited financial statements for the year ended 31 December 2003. Further to the aforesaid, the Group has extended its accounting policies for jointly controlled assets, investment in securities and goodwill as below:

(1) Jointly controlled assets

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

The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the balance sheets and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests of jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the share of the output of the jointly controlled assets of CITIC Resources Australia Pty Limited ("CRA") and its subsidiaries (together, the "CRA Group"), together with the CRA Group's share of any expenses incurred by the joint ventures, are recognised in the profit and loss account when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

(2) Investment in securities

Long term investments in listed equity securities, intended to be held for a continuing strategic or long term purpose, are stated at cost less any impairment losses, on an individual investment basis. The gains or losses arising from changes in the fair value of such securities are credited or charged to the profit and loss account in the period in which they arise.

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of such securities are credited or charged to the profit and loss account in the period in which they arise.

Forward contracts protect the Group from fluctuations in exchange rates, interest rates and commodity prices by establishing the rate at which the corresponding asset or liability will be settled. Any increase or decrease in the amount required to settle the asset or liability is off-set by a corresponding movement in the value of the forward contract. The gains and losses are therefore off-set for financial reporting purposes and are not recognised in the financial statements. The fee incurred in establishing each agreement is amortised over the contract period.

Forward contracts not held for hedging purposes are marked to market at the balance sheet date and any unrealised gains or losses on re-translation are recognised in the profit and loss account.

30 June 2004

(3) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition.

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of a subsidiary is presented separately in the balance sheet.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the 2003 annual financial statements of the Company.

2. Segment information

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

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

- (a) the aluminium smelter segment comprises the operation of the Portland Aluminium Smelter and sale of finished products;
- (b) the import and export of commodities segment represents import of various commodity products such as fertilizer, iron ore, aluminium ingot and alumina and export of other commodities and manufactured goods such as vehicle and industrial batteries, tyres, alloy wheels and various metals such as steel and aluminium extrusion products; and
- (c) the coal exploration segment comprises the operation of coal mining, exploration and sale.

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

No analysis for geographical segments for the Period is presented as over 90% of the Group's revenue, results, assets and liabilities were derived from its operations in Australia during the Period.

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

No analysis for business and geographical segments for the six months ended 30 June 2003 is presented as over 90% of the Group's revenue, results, assets and liabilities were derived from the manufacture and sale of plywood conducted in or located in the People's Republic of China ("PRC") during the period.

Unaudited

(Expressed in HK\$'000)

Business segments

The following tables present revenue, results and certain assets, liabilities and expenditure information for the Group's business segments for the Period.

Six months ended 30 June 2004	Aluminium smelter segment	Import and export of commodities segment	Coal exploration segment	Consolidated
Segment revenue:				
Sales to external customers	265,250	828,298	35,680	1,129,228
Other revenue	682	2,203	172	3,057
	265,932	830,501	35,852	1,132,285
Segment results	62,995	9,282	4,960	77,237
Interest income and unallocated revenue				13,250
Unallocated expenses				(47,944)
Profit from operating activities				42,543
Segment finance costs:				
Finance costs	(6,135)	(2,992)	(489)	(9,616)
Unallocated amounts				(3,311)
Profit before tax				29,616
Tax				(25,289)
Profit before minority interests				4,327
Minority interests				(894)
Net profit attributable to shareholders				3,433
30 June 2004				
Segment assets	1,988,958	544,645	332,152	2,865,755
Unallocated assets				1,632,752
Total assets				4,498,507
Segment liabilities	967,840	410,930	82,038	1,460,808
Unallocated liabilities				518,520
Total liabilities				1,979,328
Other segment information:				
Depreciation	9,124	279	1,161	10,564
Unallocated amounts				6,275
				16,839
Amortisation	13,702	2,832	1,112	17,646
Unallocated amounts				–
				17,646
Other non-cash expenses	1,134	(473)	(242)	419
Unallocated amounts				2,309
				2,728
Capital expenditure	3,283	–	913	4,196
Unallocated amounts				579
				4,775

Six months ended 30 June

Unaudited

(Expressed in HK\$'000)

3. Profit/(loss) from operating activities

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2004	2003
Cost of inventories sold*	1,067,154	11,408
Depreciation	16,839	5,871
Amortisation of electricity supply agreement in relation to Portland Aluminium Smelter	13,702	–
Amortisation of goodwill	2,832	–
Minimum lease payments under operating leases on leasehold land and buildings	3,264	1,521
Staff cost (excluding directors' remuneration): wages and salaries	8,202	2,328
pension scheme contributions	675	52
	8,877	2,380
Loss on disposal of fixed assets, net	3,105	163
Loss/(gain) on foreign exchange, net	(3,985)	100
Gain on trading of forward contracts, net	(3,299)	–

* The costs of inventories sold for the Period include the balances of depreciation, which are also disclosed separately above for the Period.

4. Finance costs

	Group	
	2004	2003
Interest expenses on bank loans	12,648	46
Lease charges	145	–
Other finance charges	134	–
	12,927	46

Six months ended 30 June

Unaudited

(Expressed in HK\$'000)

5. Tax

	Group	
	2004	2003
PRC:		
Hong Kong	–	–
Elsewhere	–	–
Overseas	9,430	–
Deferred tax charge	15,859	–
	25,289	–

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the Period (June 2003: Nil). The statutory tax rate of Hong Kong profits tax is 17.5% (June 2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the Period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

For the Period, the tax rate applicable to a subsidiary established and operating in the PRC is 33%. However, no provision for tax has been made for the Period as this subsidiary did not generate any assessable profits arising in the PRC during the Period.

For the Period, the tax rate applicable to subsidiaries established and operating in Australia is 30%. Provision for Australian income tax has been made on the estimated assessable profits arising in Australia for the Period.

6. Earnings/(loss) per share

The calculation of the basic earnings/(loss) per share is based on the consolidated net profit attributable to shareholders of the Company for the Period of HK\$3,433,000 (June 2003: net loss of HK\$6,473,000) and the weighted average of 3,877,588,879 (June 2003: 3,296,470,588) ordinary shares in issue during the Period.

A diluted earnings/(loss) per share amount for the six months ended 30 June 2004 and 2003 respectively has not been presented because no dilutive events existed during these periods.

Six months ended 30 June
Unaudited
(Expressed in HK\$'000)

7. Related party transactions

The Group had the following transactions with related parties during the Period.

	Group	
	2004	2003
CITIC Australia Pty Limited ("CA"): Management fee income	75	–

The management fee income was received in respect of the provision of office space and equipment to CA and other overheads.

8. Fixed assets

Group

	Freehold land	Investment properties	Leasehold improvements	Machinery, tools and equipment	Furniture and fixtures	Motor vehicles	Construction in progress	Exploration and development	Total
Cost or valuation*:									
At beginning of the Period (Audited)	–	–	3,367	113,183	900	2,499	–	–	119,949
Additions	4,111	279	17	1,049,076	348,239	428	15,749	47,050	1,464,949
Disposals/write-off	–	–	–	(3,037)	(1,353)	–	(1,032)	(1,762)	(7,184)
At 30 June 2004 (Unaudited)	4,111	279	3,384	1,159,222	347,786	2,927	14,717	45,288	1,577,714
Accumulated depreciation and impairment:									
At beginning of the Period (Audited)	–	–	786	26,154	751	726	–	–	28,417
Provided during the Period	–	–	309	320,909	99,069	290	–	8,227	428,804
Disposals/write-off	–	–	–	(535)	(214)	–	–	–	(749)
At 30 June 2004 (Unaudited)	–	–	1,095	346,528	99,606	1,016	–	8,227	456,472
Net book value:									
At 30 June 2004 (Unaudited)	4,111	279	2,289	812,694	248,180	1,911	14,717	37,061	1,121,242
At 31 December 2003 (Audited)	–	–	2,581	87,029	149	1,773	–	–	91,532

* Valuation of fixed assets:

In August 1998, following the acquisition of the additional 12.5% interest in the Portland Aluminium Smelter, CA reviewed the carrying value of the various classes of assets making up the aggregate 22.5% participating interest. On 31 December 1998, CA revalued joint venture buildings and structures, plant and equipment and the electricity supply agreement in relation to Portland Aluminium Smelter on a basis that brought the aggregate carrying value of the CA's 22.5% participating interest into line with the acquisition cost of the additional 12.5% interest.

(Expressed in HK\$'000)

9. Investment in securities

	Group	
	30 June 2004	31 December 2003
	Unaudited	Audited
Non-current listed equity investments outside Hong Kong, at cost	170,151	–
Non-current unlisted equity investments outside Hong Kong, at cost	360	–
	170,511	–
Current unlisted equity investments outside Hong Kong, at fair value	2,815	–
Market value of listed equity investments outside Hong Kong stated at cost above	195,700	–

10. Accounts receivable

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

	Group	
	30 June 2004	31 December 2003
	Unaudited	Audited
Within one month	241,507	2,600
One to two months	25,893	556
Two to three months	22,517	384
Over three months	37,933	306
	327,850	3,846

The normal credit terms granted to debtors range from 30 to 45 days.

11. Accounts payable

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

	Group	
	30 June 2004	31 December 2003
	Unaudited	Audited
Within one month	140,330	2,436
One to two months	3,941	808
Two to three months	2,485	163
Over three months	2,369	–
	149,125	3,407

(Expressed in HK\$'000)

12. Bank and other loans

	Notes	Group	
		30 June 2004 Unaudited	31 December 2003 Audited
Bank loans:			
Secured	(a)	812,184	13,735
Unsecured	(b)	241,680	7,000
		1,053,864	20,735
Other loans:			
Unsecured	(c)	440,862	11,862
		1,494,726	32,597
Bank and other loans repayable:			
Within one year		323,432	20,735
In the second year		97,663	11,862
In the third to fifth years, inclusive		257,403	–
Beyond the fifth year		816,228	–
		1,494,726	32,597
Portion classified as current liabilities		323,432	20,735
Portion classified as non-current liabilities		1,171,294	11,862

Notes:

- (a) The bank loans were secured as follows:
- (i) HK\$19,350,000 was secured by the Group's pledged bank deposits of HK\$20,492,000 and corporate guarantees of Wing Lam (International) Timber Limited ("Wing Lam"), an indirect wholly-owned subsidiary of the Company; and
 - (ii) HK\$792,834,000 was secured by a pledge of the 22.5% participating interest in the Portland Aluminium Smelter, a pledge of the 7% participating interest in the Coppabella and Moorvale coal mines and corporate guarantees executed by CRA, an indirect wholly-owned subsidiary of the Company.
- (b) The unsecured bank loan represented the banking facilities available to CITIC Australia Trading Limited ("CATL"), an indirect subsidiary of the Company.
- (c) There were (i) loans totalling US\$55,000,000 (about HK\$429,000,000) due from CRA to CITIC Group ("CITIC Group"), the substantial shareholder of the Company, and (ii) loans totalling HK\$11,862,000 due to the former shareholders of Wing Lam (which are unsecured, interest-free and have no fixed terms of repayment).

(Expressed in HK\$'000)

13. Share capital**Shares**

	Note	Number of ordinary shares	HK\$'000
Authorised:			
Ordinary shares of HK\$0.05 each at 1 January 2004 and 30 June 2004		6,000,000,000	300,000
Issued and fully paid:			
Ordinary shares of HK\$0.05 each at 1 January 2004		3,296,470,588	164,824
Issue of shares	(a)	1,020,413,793	51,021
Ordinary shares of HK\$0.05 each at 30 June 2004		4,316,884,381	215,845

Note:

- (a) In February 2004, the Company completed a placing and subscription of 270,000,000 new shares for a total cash consideration, before expenses, of about HK\$391.5 million. In March 2004, the Company issued 750,413,793 new shares in satisfaction of the payment of the consideration of US\$139.5 million (about HK\$1,088.1 million) in respect of the acquisition of a number of interests in the natural resources and commodities sectors in Australia (the "Australian Interests").

14. Contingent liabilities

As at the balance sheet date, the Group had the following material contingent liabilities:

	30 June 2004 Unaudited	31 December 2003 Audited
Guarantee given by bank in relation to mining tenements of service contracts	17,002	—
Other guarantee and contingencies	5,529	—
Irrevocable letter of credit which has been discounted by the issuing bank with full recourse to CRA	2,928	—
	25,459	—

(Expressed in HK\$'000)

15. Commitments

(1) Operating lease commitments

At 30 June 2004, the Group had total future minimum lease payments under non-cancellable operating leases in respect of leasehold land and buildings falling due as follows:

	30 June 2004 Unaudited	31 December 2003 Audited
Within one year	10,215	2,950
In the second to fifth years, inclusive	24,630	9,081
Beyond the fifth year	6,903	7,964
	41,748	19,995

(2) Capital expenditure commitments

At 30 June 2004, the Group had total capital commitments related to the Group's interest in the property, plant and equipment in the Portland Aluminium Smelter as follows:

	30 June 2004 Unaudited	31 December 2003 Audited
Within one year	2,703	–

At 30 June 2004, the Group had total capital commitments related to the Group's interest in the property, plant and equipment in the Coppabella and Moorvale coal mines as follows:

	30 June 2004 Unaudited	31 December 2003 Audited
Within one year	790	–
In the second to fifth years, inclusive	5,433	–
Beyond the fifth year	5,433	–
	11,656	–

(Expressed in HK\$'000)

(3) Other commitments

At 30 June 2004, the Group had total commitments in respect of forward contracts entered into in the normal course of business in order to hedge exposure to fluctuations of interest rates, foreign exchange rates and commodity prices as follows:

	30 June 2004 Unaudited	31 December 2003 Audited
Interest rates	77,372	–
Foreign exchange rates	54,001	–
Commodity prices	135,269	–

Save as aforesaid, at 30 June 2004, the Group did not have any other significant commitments (June 2003: Nil).

Interim Dividend

The Directors resolved not to pay an interim dividend for the Period (June 2003: Nil).



Business Review and Outlook

The Group has achieved a turnaround in its financial performance for the Period by recording a net profit of HK\$3.4 million (June 2003: net loss of HK\$6.5 million).

This financial result is encouraging and supports the decision undertaken by the Directors to diversify the Group's business activities and reduce its reliance on the manufacture and sale of plywood.

The stated strategy of the Directors is to position the Group as an integrated provider of key commodities and strategic natural resources to the PRC market, starting with base metals and crude oil. In this regard, significant steps have been taken recently by the Group.

In March 2004, the Group completed the acquisition of the Australian Interests, which provides the Group with exposure to established and profitable operations in the commodities and energy industries in Australia. It also provides the Group with interests in three companies listed on the Australian Stock Exchange. Today, the Group is involved in aluminium smelting, commodities trading, coal mining and mineral exploration which have helped drive the Group's positive financial performance for the Period.

As recently approved by shareholders of the Company, the Group expects to complete in October 2004 the acquisition of a 40% participating interest in the Kongnan Block within the Dagang Oilfield, PRC, which is anticipated to generate positive cash flows for the Group in the future. This acquisition will extend the Group's business portfolio in line with its stated business strategy and provide the Group with an exposure to the development, production and sale of oil, another important natural resource for the PRC market.

The Directors expect to continue with its strategy to establish a unified business platform ranging from production to delivery of commodities and resources of which the PRC is currently a net importer – from upstream operations to mid-stream processing and to distribution of the final products. The Group will make appropriate investments as and when suitable opportunities arise.

The Group is financially sound, able and well positioned to sustain its business strategy through its strong cash position and the support of its major shareholders. CITIC Group has designated the Company as the principal holding company for its entire group's business in the natural resources sector.

(Expressed in HK\$'000)

Financial Review

GROUP'S FINANCIAL RESULTS:

Operating results and ratios	Six months ended 30 June	
	2004 Unaudited	2003 Unaudited
Turnover	1,135,871	7,116
Gross profit/(loss)	68,717	(4,292)
Net profit/(loss) attributable to shareholders	3,433	(6,473)
Earnings/(loss) per share	HK0.09 cent	HK(0.20 cent)
Gross profit/(loss) margin *1	6.0%	(60.3%)
Financial position and ratios	30 June 2004 Unaudited	31 December 2003 Audited
Cash and bank balances	1,769,104	1,100,153
Total assets	4,498,507	1,230,038
Bank and other loans	1,494,726	32,597
Shareholders' equity	2,500,525	1,170,490
Current ratio *2	3.7 times	23.8 times
Gearing ratio *3	44.2%	4.8%

*1 gross profit/(loss) / turnover x 100%

*2 current assets / current liabilities

*3 liabilities / (shareholders' equity + liabilities) x 100%

On 31 March 2004, the acquisition of the Australian Interests was completed and that the financial results of the Australian Interests were consolidated into the Group's financial results as from the second quarter of 2004. As expected, the Australian Interests have been enhancing the earnings potential of the Group, which the Directors believe will strengthen the financial position of the Group. The gearing was sustained at a reasonable level.

The acquisition of the Australian Interests was consistent with the Group's long-term business objectives and policies and was implemented for the purpose of enhancing the Group's long-term prospects.

Liquidity, Financial Resources and Capital Structure

At 30 June 2004, the Group had, excluding the pledged bank deposits, a cash balance of HK\$1,769.1 million.

The Group had outstanding borrowings of HK\$1,494.7 million, which comprised secured bank loans of HK\$812.2 million, unsecured bank loans of HK\$241.6 million and unsecured other loans of HK\$440.9 million. The bank loans of HK\$812.2 million were secured by the Group's pledged bank deposits of HK\$20.5 million and corporate guarantees.

Of the total outstanding borrowings, HK\$323.4 million was repayable within one year. The gearing ratio of the Group was 44.2%.

As a result of the completion of the acquisition of the Australian Interests in March 2004, the Group has an exposure to foreign exchange rate fluctuations. Currently, those companies holding the Australian Interests are adopting a specific hedging policy to cope with the foreign exchange, interest rate and commodity price fluctuations, which allows them to set off the foreign exchange liabilities against the sales that were denominated in foreign currencies. So far, the hedging policy has been proved effective.

In February 2004, the Company completed a placing and subscription of 270,000,000 new shares for a total cash consideration, before expenses, of about HK\$391.5 million. The proceeds from the issue of the new shares has enhanced the Group's ability to make investments and acquisitions.

In March 2004, the Company issued 750,413,793 new shares in satisfaction of the payment of the consideration of US\$139.5 million (about HK\$1,088.1 million) in respect of the acquisition of the Australian Interests. Therefore, the cash resources of the Group were not affected by the acquisition. Those companies holding the Australian Interests have been predominantly self sustaining in terms of cashflow requirements.

As a whole, the Directors are of the view that after taking into the account the Group's internal resources and available borrowing facilities, the Group has sufficient resources to meet its foreseeable working capital requirements.

Employees and Remuneration Policies

At 30 June 2004, the Group had around 150 full time employees, including the management and administrative staff and production workers. Most of them are employed in the PRC and Australia while the remainder are employed in Hong Kong.

The employees' remuneration, promotion and salary increment are assessed based on an individual's performance, professional and working experience and by reference to prevailing market practice and standards. Rent-free quarters are provided to the PRC employees. The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme.

In Australia, the Group operates a defined contribution retirement benefits scheme (the "RB Scheme") under the superannuation legislation of the Australian government for all of its employees in Australia. Contributions are made based on a percentage of the employee's basic salaries. The Group's contributions as an employer vest fully with the employees when contributed to the RB Scheme.

Share Option Scheme

On 30 June 2004, a new share option scheme (the "New Scheme") was adopted by the Company to replace the share option scheme which was adopted by the Company on 21 August 1997 (the "Old Scheme"). The Old Scheme was terminated on 30 June 2004. During the Period, no share option was granted, exercised, lapsed or cancelled under the Old Scheme. No share option was outstanding under the Old Scheme as at 1 January 2004 and 30 June 2004.

The Company operates the New Scheme for the purpose of attracting and retaining the best quality personnel for the development of the Group's business and to provide incentives and rewards to eligible participants who contribute positively to the future growth and success of the Group.

Eligible participants of the New Scheme include the directors and other employees of the Group. The New Scheme, unless otherwise cancelled or amended, will remain in force for 10 years until 29 June 2014.

During the Period and up to date of this report, no option has been granted by the Company under the terms of the New Scheme.

CATL, in which the Group holds an indirect interest of 81%, is a company listed on the Australian Stock Exchange. It operates a pre-IPO share option scheme for directors and other employees (the "Pre-Scheme"). The purpose of the Pre-Scheme is to provide an incentive for employees to remain in their employment in the long term. CATL had granted share options under the Pre-Scheme to its employees and directors to subscribe for a total of 4,700,000 shares at a subscription price ranging from A\$0.20 to A\$0.30 per share.

No consideration is payable by participants on the grant of the options.

As at 30 June 2004, the following share options were outstanding under the Pre-Scheme:

Participant	Number of share options			Exercise period of share options	Exercise price per share A\$
	At date of grant up to 1 January 2004	Exercised during the Period	At 30 June 2004		
Directors of CATL	966,666	–	966,666	19 June 2003 to 18 June 2007	0.20
	966,667	–	966,667	19 June 2004 to 18 June 2007	above 0.20 and subject to approval by CATL's shareholders
	966,667	–	966,667	19 June 2005 to 18 June 2007	above 0.20 and subject to approval by CATL's shareholders
	2,900,000	–	2,900,000		
Other employees of CATL	600,000	(50,000)	550,000	19 June 2003 to 18 June 2007	0.20
	600,000	–	600,000	19 June 2004 to 18 June 2007	0.25
	600,000	–	600,000	19 June 2005 to 18 June 2007	0.30
	1,800,000	(50,000)	1,750,000		
	4,700,000	(50,000)	4,650,000		

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 June 2004, 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 the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") and which have been notified to the Company and the Stock Exchange were as follows:

Long position in ordinary shares of the Company

Name of director	Nature of Interest	Number of ordinary shares of HK\$0.05 each held	Percentage of the total issued share capital of the Company
Mr. Kwok Viem, Peter (Note)	Corporate	612,000,000	14.18
Mr. Ma Ting Hung (Note)	Corporate	612,000,000	14.18
Mr. Zhang Jijing	Family	28,000	0.00

Note: The shares disclosed above are held by United Star International Inc. ("USI"), a company incorporated in the British Virgin Islands, which is beneficially owned as to 50% by Mr. Kwok Viem, Peter and 50% by Mr. Ma Ting Hung. Accordingly, each of them is deemed to be interested in 612,000,000 shares.

In addition to the above, one of the directors has non-beneficial personal equity interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, as at 30 June 2004, none of the directors or chief executive of the Company had any 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 the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were deemed or taken to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Directors' Rights to Acquire Shares or Debentures

Save as disclosed under the heading "Share Option Scheme" above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors or their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2004, according to the register kept by the Company pursuant to Section 336 of the SFO and, so far as is known to the directors, the persons or entities who had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital were as follows:

Name of shareholder	Number of ordinary shares of HK\$0.05 each held	Percentage of the total issued share capital of the Company
CITIC Group	2,610,594,381 (a)	60.47
CITIC Projects Management (HK) Limited ("CITIC Projects")	1,860,180,588 (b)	43.09
Keentech Group Limited ("Keentech")	1,860,180,588	43.09
CITIC Australia Pty Limited ("CA")	750,413,793	17.38
Mr. Kwok Viem, Peter	612,000,000 (c)	14.18
Mr. Ma Ting Hung	612,000,000 (c)	14.18
USI	612,000,000	14.18

Notes:

- (a) This figure represents an attributable interest of CITIC Group through its interest in CITIC Projects, Keentech and CA. CITIC Projects and CA are direct wholly-owned subsidiaries of CITIC Group. CITIC Group was incorporated in the PRC and CA was incorporated in the State of Victoria, Australia.
- (b) This figure represents an attributable interest of CITIC Projects through its interest in Keentech. Keentech is a direct wholly-owned subsidiary of CITIC Projects. Both companies were incorporated in the British Virgin Islands.
- (c) This figure represents an attributable interest of Mr. Kwok Viem, Peter and Mr. Ma Ting Hung respectively as the beneficial owner of 50% of USI. These interests are also included as corporate interests of Mr. Kwok Viem, Peter and Mr. Ma Ting Hung, as disclosed under the heading "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above.

Save as disclosed herein, so far as is known to the directors, as at 30 June 2004, no person had an interest or a short position in the shares or the underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or no person was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company, or of any other company which is a member of the Group, or in any options in respect of such share capital.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Period.

Post Balance Sheet Event

On 26 August 2004, the Company's shareholders approved the acquisition of the entire issued share capital of Richfirst Holdings Limited ("Richfirst"), which will, on completion, benefit the Company as it allows the Company to participate in the development and production of petroleum at Kongnan Block within the Dagang Oilfield, PRC.

Richfirst holds an interest representing 40% of the contractor's rights and obligations in a 30-year petroleum development and production sharing contract relating to the Kongnan Block.

Code of Best Practice

In the opinion of the Directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules throughout the Period, except that the non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the Company's bye-laws.

Audit Committee

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

The audit committee has reviewed this interim report with the management of the Company.

Publication of Interim Report

This 2004 Interim Report containing all information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules (in force prior to 31 March 2004, which remain applicable to results announcement in respect of the accounting periods commencing before 1 July 2004 under the transitional arrangements) will be published on the respective websites of the Stock Exchange and the Company in due course.

On behalf of the board

Peter Kwok Viem

Chairman

Hong Kong, 17 September 2004