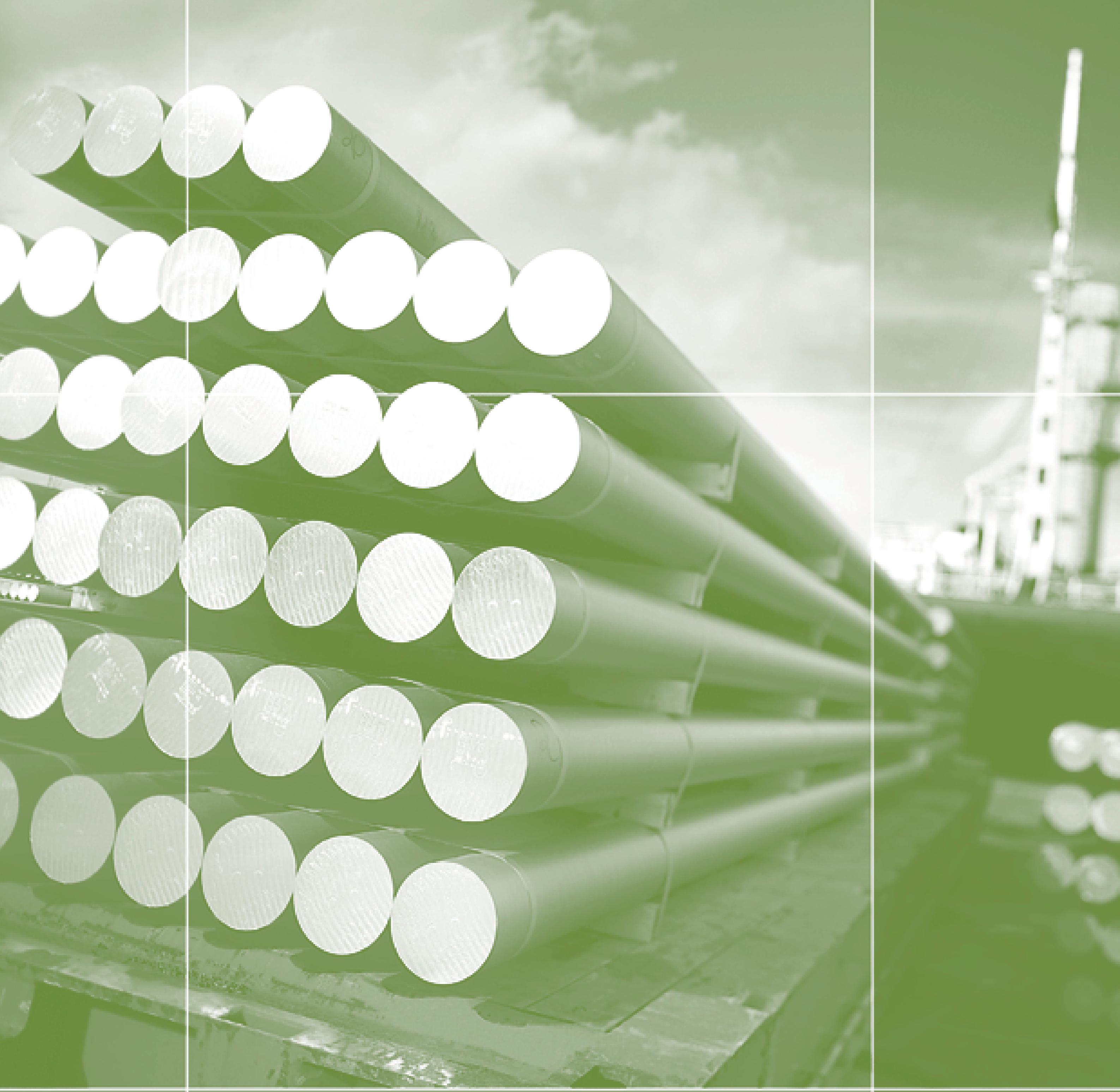

Management's discussion and **analysis**

Base metals

(Expressed in HK$'000)

FINANCIAL REVIEW

GROUP'S FINANCIAL RESULTS:

Operating results and ratios	Year ended 31 December	
	2004	2003
Turnover	**3,610,791**	24,535
Gross profit/(loss)	**250,685**	(16,376)
Net profit/(loss) attributable to shareholders	**49,862**	(52,005)
Earnings/(loss) per share	**HK 1.22 cents**	HK (1.58 cents)
Gross profit/(loss) margin *1	**6.9%**	(66.7%)
Stock turnover *2	**9.2 times**	6.8 times

Financial position and ratios	31 December	
	2004	2003
Cash and bank balances	**1,606,833**	1,100,153
Total assets	**5,375,208**	1,230,038
Bank and other loans	**2,074,324**	32,597
Shareholders' equity	**2,682,925**	1,170,490
Current ratio *3	**2.2 times**	23.8 times
Total borrowings to total capital *4	**43.6%**	2.7%

*1 gross profit/(loss) / turnover x 100%
*2 cost of sales / [(opening inventories + closing inventories) / 2]
*3 current assets / current liabilities
*4 bank and other loans / (shareholders' equity + bank and other loans) x 100%

The Group has recorded a net profit of HK$49.9 million for the year ended 31 December 2004. This financial result is encouraging and principally follows the decision taken by the Directors to adopt a business strategy to diversify the Group's activities and position the Group as an integrated provider of key energy resources and commodities of which the People's Republic of China (the "PRC") is a net importer, involved in upstream operations to mid-stream processing and downstream distribution.

During the course of 2004, the management of the Company was able to take significant steps to implement the Company's business strategy.

In March 2004, the Company completed the acquisition of the entire issued share capital of CITIC Resources Australia Pty Limited from CITIC Australia Pty Limited (a direct wholly-owned subsidiary of CITIC Group) in consideration of the allotment and issue of 750,413,793 new shares in the capital of the Company. Through this acquisition, the Group has acquired interests in aluminium smelting through an indirect interest in the Portland Aluminium Smelter in Australia, import and export of commodities through CITIC Australia Trading Limited (now a 79.69% indirect subsidiary listed on the Australian Stock Exchange ("ASX")), coal mining through indirect interests in the Coppabella and Moorvale coal mines in Australia and a shareholding interest in Macarthur Coal Limited (listed on the ASX), and minerals exploration through a shareholding interest in Aztec Resources Limited (listed on the ASX) (collectively, the "Australian Interests"). As the acquisition was completed on 31 March 2004, the performance of the Australian Interests was consolidated into the Group's financial results as from the second quarter of 2004.

Additionally, in October 2004, the Company completed the acquisition of the entire issued share capital of Richfirst Holdings Limited ("Richfirst") which gives the Group a 40% participating interest in the development and production of petroleum in the Kongnan Block within the Dagang Oilfield in the PRC. Though the acquisition was completed on 12 October 2004, the performance was taken into the Group's financial results as from 18 June 2004 in accordance with the relevant agreements.

Each of the acquisitions described above has helped to extend the Group's business portfolio in line with the Company's business strategy.

The acquisitions by the Group in 2004 have been followed by the Company's recent agreement with Caltex Asia Limited, a wholly-owned subsidiary of ChevronTexaco Corporation, to acquire a majority shareholding in a joint venture to further develop the Caltex-branded service stations in the Guangdong and Fujian provinces of the PRC. This acquisition was approved by shareholders of the Company on 21 March 2005 and, subject to regulatory approval, is expected to complete in the first half of 2005.

As part of the Group's diversification of its business portfolio, the Group has ceased to rely on the manufacture and sale of plywood and the related products as its principal business. Given the increasingly difficult operating environment in the timber industry through ever more competitive pricing and practices, the Directors believe that the Group's focus away from the plywood sector is in the interests of the Company.

The acquisitions by the Group in 2004 have helped to improve the earnings potential of the Group significantly and this is reflected in the Group's performance for the financial year ended 31 December 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

At 31 December 2004, the Group had a cash balance of HK$1,606.8 million.

The Group had outstanding borrowings of HK$2,074.3 million, which comprised secured bank loans of HK$748.2 million, unsecured bank loans of HK$907.5 million and unsecured other loans of HK$418.6 million. The secured bank loans were secured by the interest in the Portland Aluminium Smelter joint venture, interest in the Coppabella and Moorvale coal mines joint venture and the Group's corporate guarantees.

Of the total outstanding borrowings, HK$987.5 million was repayable within one year. The total borrowings to total capital of the Group was 43.6%.

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 net proceeds from the issue of the new shares have 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) for the acquisition of the Australian Interests. The cash position of the Group was therefore not affected by the acquisition. Those companies holding the Australian Interests have been predominantly self sustaining in terms of cashflow requirements.

In October 2004, the Company paid US$21.2 million (about HK$165.4 million) to acquire the entire issued share capital of Richfirst and the benefit of a shareholder's loan advanced by CITIC Group to Richfirst. A term loan facility will be arranged to part fund the budgeted expenditure required for the development of the oilfield.

The Group has exposure to fluctuations in exchange rates, interest rates and commodity prices. Currently, those companies holding the Australian Interests are adopting a hedging policy to cope with the fluctuations. So far, the hedging policy has proved effective.

The Directors are of the opinion that after taking into the account, the existing available borrowing facilities and the internal resources, the Group has sufficient resources to meet its foreseeable working capital requirements.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2004, the Group had around 120 full time employees, including the management and administrative staff and production workers. Most 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. It operates a defined contribution retirement benefits scheme (the "RB Scheme") under the superannuation legislation of the Australian government for those employees in Australia who are eligible to participate.

Contributions are made based on a percentage of the employees' basic salaries. The assets of the MPF Scheme and the RB Scheme are held separately from those of the Group in an independently administered fund. The Group's contributions as an employer vest fully with the employees when contributed into the MPF Scheme and the RB Scheme.