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CITIC Australia Trading Limited

ABN 84 092 595 741

ASX Release **19 November 2008**

Selective Capital Reduction Proposal – Explanatory Memorandum

On 3 November 2008, CITIC Australia Trading Limited (***CAL***) announced a proposal to undertake a selective capital reduction of all the shares held by its shareholders other than CITIC Resources Australia Pty Limited (***CRA***) in return for a cash payment of A$0.75 per CAL share (***Proposed Capital Return***).

Details of the meetings to approve the Capital Return are as follows:

- a special meeting of all CAL shareholders except CRA (***Minority Shareholders***) to be held on Friday, 19 December 2008 commencing at 11:00 am; and
- a general meeting of all CAL shareholders to be held on Friday, 19 December 2008 commencing at 1:00 pm or the conclusion or adjournment of the special meeting,

to be held at CITIC House, Level 7, 99 King Street, Melbourne, Victoria.

Attached is a copy of the explanatory memorandum (***Explanatory Memorandum***) which includes a copy of the Independent Expert's Report and Tax Adviser's Report. The Explanatory Memorandum explains the effect of the Proposed Capital Return and provides information material to CAL shareholders in making a decision whether or not to vote in favour of the Proposed Capital Return. The Explanatory Memorandum can also be found on CAL's website at www.citictrading.com.au. A copy of the Explanatory Memorandum, which includes the relevant notices of meeting, will be sent to shareholders shortly.

If you have questions about the Proposed Capital Return, please call the information line on 1800 095 654 (within Australia) or +61 2 8280 7114 (outside Australia) or visit CAL's website at www.citictrading.com.au.

Proposed Capital Return

Under the terms of the Proposed Capital Return, all Minority Shareholders will receive a total consideration of A$0.75 per CAL share, which comprises a capital component of A$0.17 and a fully franked dividend of A$0.58. Depending on individual circumstances, Minority Shareholders may therefore receive additional value in the form of franking credits. CAL has applied for a Class Ruling from the Australian Taxation Office to confirm the tax consequences of the Proposed Capital Return for the Minority Shareholders and anticipates receiving a definitive response shortly. Further information about the tax consequences for Minority Shareholders is also included in the Tax Adviser's Report, a copy of which is included in the Explanatory Memorandum.

All CAL shares held by the Minority Shareholders at the record date, expected to be 13 January 2009, will be cancelled. If CAL shareholders approve the Proposed Capital Return, CAL will become a wholly owned subsidiary of CRA and will de-list from the ASX.

Independent Expert's Report

The Independent Expert, Deloitte Corporate Finance Pty Limited, has considered the Proposed Capital Return and has concluded that the Proposed Capital Return is "fair and reasonable to the Minority Shareholders as a whole". However Minority Shareholders on a marginal tax rate of 45% may be able to realise a superior outcome by selling their Shares on market, as CAL shares have traded above A$0.70 on the ASX since the announcement of the Capital Return.

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Independent Directors' Recommendation

CAL's independent directors, Bruce Foy and Roger Marshall, recommend that Minority Shareholders vote in favour of the Proposed Capital Return.

CAL shareholders are encouraged to read the Explanatory Memorandum in its entirety, including the Independent Expert's Report and the Tax Adviser's Report, and to vote at the meetings.

For further information contact:

Mr. Irwin Kam
Company Spokesman
+61 3 9614 8000

Or visit: www.citictrading.com.au

CITIC Australia Trading Limited

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EXPLANATORY MEMORANDUM

for the proposed selective capital reduction offering Minority Shareholders A$0.75 per Share

This is an important document and requires your immediate attention. You should read this document in its entirety. If you are in doubt as to what you should do, please consult your investment or other professional adviser.

The Independent Expert, Deloitte Corporate Finance Pty Limited, has concluded that the Capital Return is "fair and reasonable to the Minority Shareholders as a whole" however Minority Shareholders on a marginal tax rate of 45% may be able to realise a superior outcome by selling their Shares on market, as Shares have traded above A$0.70 on the ASX since the announcement of the Capital Return.

Details of the Meetings to approve the Capital Return are as follows:

- an extraordinary meeting of all Shareholders of CITIC Australia Trading Limited (***Company***) other than CITIC Resources Australia Pty Ltd (***CRA***) to be held on Friday, 19 December 2008 commencing at 11:00 am (***Special Meeting***); and
- an extraordinary general meeting of all Shareholders of the Company to be held on Friday, 19 December 2008 commencing at 1:00 pm or the conclusion or adjournment of the Special Meeting, whichever is earlier (***General Meeting***).

The Independent Directors recommend that Minority Shareholders vote in favour of the Capital Return at the Special Meeting.

Legal advisers

BAKER & MCKENZIE

Contents

Key dates

Event	Expected date
Date of this Explanatory Memorandum	19 November 2008
Date and time for determining eligibility to vote at the Special Meeting	11:00 am on 17 December 2008
Date and time for determining eligibility to vote at the General Meeting	1:00 pm on 17 December 2008
Deadline for lodgement of Special Meeting Proxy Forms	11:00 am on 17 December 2008
Deadline for lodgement of General Meeting Proxy Forms	1:00 pm on 17 December 2008
Special Meeting of Minority Shareholders	19 December 2008 at 11:00 am
General Meeting of all Shareholders	19 December 2008 at 1:00 pm or the conclusion or adjournment of the Special Meeting, whichever is earlier
Company lodges resolutions approving the Capital Return with ASIC	22 December 2008*
Company notifies ASX that the resolutions approving the Capital Return have been passed at the applicable Meetings	22 December 2008*
Last day of trading of Shares on ASX	6 January 2009*
Record Date for determining entitlement to consideration	7:00 pm on 13 January 2009*
Shares held by the Minority Shareholders are cancelled	20 January 2009*
Despatch of cheques to the Minority Shareholders for payment of the consideration to which they are entitled	20 January 2009*
Delisting of the Company from ASX	20 January 2009*

* All dates subsequent to the Special Meeting and General Meeting are subject to the passing of the resolutions to approve the Capital Return at those Meetings.

The above dates are indicative only and are subject to change.

All references in this document to time relate to the time in Melbourne, Australia.

Important notices

General

Shareholders should read this documentation in its entirety before making a decision as to how to vote on the resolutions to be considered at the Meetings.

No consideration of personal circumstances

This is an important document and requires your immediate attention. In providing you with information to evaluate the Capital Return the Company has not taken into account your personal objectives, financial situation or needs. Therefore, before considering the information contained in this document and voting on the Capital Return you should consider the appropriateness of the information having regard to your personal objectives, financial situation and needs . If you have any questions in relation to the Capital Return or what you should do, please consult your investment or other professional adviser.

Responsibility statement

The information concerning CRA and its Associates (not including the Company), including information contained in sections 1.2(d) and (i), 1.5(e) and (f), 5.4(d), and 8 of this Explanatory Memorandum (including information as to the views and intentions of CRA and its Associates (not including the Company) but not including any views of the Independent Directors in those sections), has been provided by and is the responsibility of CRA. CRA has confirmed to the Company that the information in this Explanatory Memorandum about CRA is accurate. The Company does not assume any responsibility for that information, nor has it engaged in any procedures to independently verify the accuracy of that information.

Role of ASIC and ASX

A copy of this Explanatory Memorandum has been lodged with ASIC and ASX. Neither ASIC nor ASX nor any of their respective officers takes any responsibility for the contents of this Explanatory Memorandum.

Future statements

Certain statements in this Explanatory Memorandum relate to the future or are forward-looking statements. Future statements may be identified by words such as "expects, anticipates, intends, believes, seeks, estimates, will" or words of similar meaning and include, without limitation, forward-looking statements regarding the Company's financial position, business strategy, plans and objectives of management for future operations (including development plans and objectives) which have been based on the Company's current expectations about future events.

Shareholders are cautioned not to place undue reliance on forward-looking statements. By its nature, forward-looking information involves numerous assumptions, inherent risks and uncertainties both general and specific that contribute to the possibility that predictions, forecasts, projections and other forward-looking statements will not occur. Those statements involve known and unknown risk, uncertainties, estimates, assumptions and other important factors, both specific to the Company and businesses in which it has investments and relating to the general business environment, and as such actual performance, results or events may be materially different to those expressed or implied in those statements. Such risks, uncertainties, assumptions and other important factors include, among other things, general economic conditions, investor sentiment, competitive pressures, and changes in those factors. Statements in this Explanatory Memorandum are made and reflect views held by and only as at the date of this Explanatory Memorandum.

All forward-looking statements attributable to the Company, or persons acting on its behalf, are expressly qualified in their nature by the cautionary statements in this section. Except as expressly required by the Corporations Act, the Company undertakes no obligation to publicly update or revise any forward-looking statements provided in this Explanatory Memorandum, whether as a result of new information, future events or otherwise, or the list of risks affecting this information. None of the Company's officers or any person named in this Explanatory Memorandum with their consent or any person involved in the preparation of this Explanatory Memorandum makes any representation or warranty (express or implied) as to the accuracy or likelihood of fulfilment of any forward-looking statement, except to the extent required by law.

Taxation matters

The Capital Return may have taxation implications for Minority Shareholders. In that regard, this Explanatory Memorandum refers to the potential advantages and disadvantages of capital gains or losses from the Capital Return. However, Minority Shareholders should note that the implications may vary for different Minority Shareholders including individuals, corporate entities, partnerships and limited partnerships, superannuation or other pension funds, trusts, life insurance companies, share traders or any entity that acquired their share on revenue account, and residents and non-residents. Therefore, this Explanatory Memorandum does not seek to provide taxation advice to the Minority Shareholders. Minority Shareholders should consult their investment or other professional adviser.

Reference to time and currency

Unless otherwise stated a reference to time in this Explanatory Memorandum is a reference to AEDT. Reference to (A$) dollars in this Explanatory Memorandum are to Australian dollars, unless otherwise stated.

Consents

The entities set out below have given and as at the date of this Explanatory Memorandum not withdrawn their written consent:

- Deloitte Corporate Finance Pty Limited as the Independent Expert; and
- Baker & McKenzie as legal and tax advisers.

Privacy

The Company may collect personal information in the process of implementing the Capital Return. This information may include the names, contact details and share holdings of Minority Shareholders and the names of persons appointed by the Minority Shareholders to act as proxy, corporate representative or attorney at the applicable Meetings. The primary purpose of collecting this information is to assist the Company in conducting the Meetings and to enable the Capital Return to be implemented by the Company in the manner described in this Explanatory Memorandum.

Personal information may be disclosed to the Company's share registry, print and mail service providers, authorised securities brokers and to related bodies corporate of the Company. Minority Shareholders have the right to access personal information that has been collected. A Minority Shareholder who wishes to access personal information should contact the Company's Share Registry. Minority Shareholders who appoint a named person to act as their proxy, corporate representative or attorney at the Meetings should inform that person of the matters outlined above.

Defined terms

Certain capitalised terms used in this Explanatory Memorandum are defined in Section 15.

Date of document

This document is dated 19 November 2008.

CITIC Australia Trading Limited

ABN 84 092 595 741

Chairman's letter

19 November 2008

Dear Shareholder

As your Chairman, on behalf of CITIC Australia Trading Limited (***Company***), I present to you the information and documentation that will allow you to vote on the proposed selective reduction of capital in the Company (***Capital Return***) that the Company is offering to its Minority Shareholders.

The Company is offering Shareholders, other than CITIC Resources Australia Pty Ltd (***CRA***), A$0.75 per Share in cash (a total of approximately A$15.1 million). The Company will manage its working capital and cash position so that it has sufficient cash on hand at the relevant time to fund the Capital Return.

CRA is the Company's largest shareholder, owning approximately 76.35% of the Company's Shares. There are two Directors on the Board of the Company, including myself and Mr Tinghu Guo, who are nominated by CRA. It is these Directors that have asked that the Minority Shareholders in the Company be given the opportunity to consider the Capital Return. However, this is an offer that is being made by the Company and one that is being funded by the Company.

The Capital Return will only proceed if at least 75% of the votes cast by the Minority Shareholders at the Special Meeting are in favour. To prevent any conflict of interest, I and Mr Tinghu Guo, will not be making recommendations on the Capital Return.

To ensure that Shareholders are provided with all information required to consider the Capital Return and that due process is followed, the Board established a committee independent of the interests of CRA (***Independent Board Committee***). That Independent Board Committee comprises two Directors, being Mr Roger Marshall and Mr Bruce Foy.

This Explanatory Memorandum has been prepared under the supervision of the Independent Board Committee and provides you with the information you need to assess the Capital Return on its merits having regard to your own financial circumstances. It includes:

- A letter from the Independent Board Committee;
- A summary of the Capital Return highlighting key issues for your consideration and answers to questions you may have;
- An Explanatory Memorandum which gives full details of the Capital Return and all relevant information on the Company;
- An Independent Expert's Report on the fairness and reasonableness of the Capital Return to the Minority Shareholders;
- A Tax Adviser's Report which highlights key tax issues for you to consider; and

- Notices of the Meetings at which the vote will take place and details of how to vote at the Meetings.

Your vote is important and the Directors of the Company urge you to vote, in accordance with your voting eligibility. In deciding how to vote you have a clear choice:

- At the Special Meeting, you can vote *in favour* of the Capital Return which, if approved by at least 75% of votes cast by the Minority Shareholders, will see you receive A$0.75 per Share for your Shares and your Shares will be cancelled. The Capital Return is expected to include a fully franked dividend of A$0.58 and A$0.17 of capital. You will no longer have a shareholding in the Company.

OR

- At the Special Meeting and / or the General Meeting, you can vote *against* the Capital Return, which if defeated will see you retain your shareholding in the Company and there will be no payment to the Minority Shareholders. However, notwithstanding your vote, if the Capital Return is approved at the Special Meeting and the General Meeting, then your Shares will be cancelled and you will receive A$0.75 per Share.

OR

- You can nominate a proxy, including myself or any other Director of the Company, to vote on your behalf at the Special Meeting.

OR

- You can sell your Shares prior to the suspension of trading in the Shares. Minority Shareholders on a marginal tax rate of 45% may be able to realise a superior outcome to the Capital Return by selling their Shares on market as Shares have traded above A$0.70 on the ASX since the announcement of the Capital Return.

OR

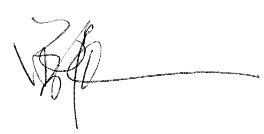
- You can abstain from voting at the Special Meeting.

For the reasons set out in the Meeting Documentation, the Independent Directors have unanimously recommended that you vote in favour of the resolutions required to implement the Capital Return at the Special Meeting.

If you have queries about the Capital Return please call the information line within Australia on 1800 095 654 and for overseas callers +61 2 8280 7114 or visit the Company's website at www.citictrading.com.au. If you are in any doubt as to how to vote, you should consult your investment or other professional adviser.

I look forward to your participation at the Meetings on Friday, 19 December 2008.

Yours sincerely



Mr Chen Zeng
Chairman

Independent Directors' letter

19 November 2008

Dear Shareholder

As your Chairman has explained, the purpose of this Explanatory Memorandum is to provide you with the information you need to assess the proposed selective reduction of capital by the Company which offers Minority Shareholders A$0.75 per Share, expected to comprise a capital amount of A$0.17 and a fully franked dividend of A$0.58. The Company will manage its working capital and cash position so that it has sufficient cash on hand at the relevant time to fund the Capital Return.

A committee of Independent Directors has been established to consider the merits of the Capital Return. The Independent Board Committee is comprised of Mr Roger Marshall and Mr Bruce Foy. The Independent Board Committee's role is to oversee the process for Minority Shareholders and to satisfy itself that you are provided with the information you require to make an informed decision.

To that end the Independent Board Committee, acting on behalf of the Company, appointed Deloitte Corporate Finance Pty Limited to prepare an Independent Expert's Report to assess whether the proposed selective reduction of capital is fair and reasonable to the Minority Shareholders. We note their finding that the Capital Return is fair and reasonable to the Minority Shareholders as a whole. However, for Minority Shareholders on a marginal tax rate of 45%, technically the Capital Return is not fair. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market, and should refer to section 1.2(a) of the Explanatory Memorandum and the Independent Expert's Report. A copy of the Independent Expert's Report is set out in Annexure A.

Where a director has a financial interest in the outcome of a resolution s/he may ordinarily refrain from making a recommendation. However, as the only Independent Directors on the Board we believe it is appropriate for us to make a recommendation to Shareholders (despite Mr Roger Marshall holding 600,000 Shares). Accordingly, for the reasons set out in this Explanatory Memorandum, we recommend that Minority Shareholders approve the Capital Return by voting in favour of the resolution proposed in the Notice of Special Meeting

We encourage you to read this Explanatory Memorandum in its entirety. In particular, the Explanatory Memorandum, the Independent Expert's Report, and the Tax Adviser's Report, contain important information to assist in your consideration of whether or not to support the Capital Return.

This Capital Return affects your shareholding in the Company and it can only proceed if at least 75% of votes cast by the Minority Shareholders at the Special Meeting are in favour of the Capital Return and CRA votes in favour of the resolution at the General Meeting. We encourage you to vote at the Special Meeting either in person or by proxy. If you are unsure as to how to vote, we recommend that you speak with your investment or other professional adviser.

Yours sincerely

Mr Roger Marshall
Director

Mr Bruce Foy
Director

Section 1 - Summary of Capital Return

This section is a summary only and is not intended to provide complete information about the Capital Return. Shareholders should read this Explanatory Memorandum in its entirety before making a decision on how to vote on the Capital Return.

1.1 The Capital Return

The Capital Return (as defined in this document) involves a selective capital reduction of the Company. Under the Capital Return, all Shares which are not held or beneficially owned by CRA will be cancelled in return for payment of A$0.75 cash per Share (a total of approximately A$15.1 million).

The Capital Return can only proceed if:

(a) a Special Resolution is passed at a General Meeting of Shareholders, with no votes being cast in favour of the Special Resolution by any Minority Shareholders; and

(b) a Special Resolution is passed at a Special Meeting of those Shareholders whose Shares are to be cancelled under the Capital Return (i.e. the Minority Shareholders).

If the Capital Return is approved:

(a) the Company will pay to each Minority Shareholder A$0.75 for each of their Shares, in cash, on or around Tuesday, 20 January 2009;

(b) the Company will cancel all of the Shares of Minority Shareholders on or around Tuesday, 20 January 2009;

(c) the Company will implement the Capital Return without the need for any further notice to the Minority Shareholders; and

(d) the Company will then become 100% owned by CRA.

1.2 Reasons for the Capital Return

The Board of the Company, including the Independent Board Committee, considers the following reasons to be the advantages of the Capital Return for the Company and the Minority Shareholders :

(a) ***Shareholders will receive fair value for their Shares***

The proposed Capital Return will have the effect of returning A$0.75 per Share to the Minority Shareholders. This represents a premium of approximately 56.3% to the closing market price of the Shares as at 3 November 2008.

The Independent Expert has concluded that the amount proposed to be distributed to the Minority Shareholders as a whole is "fair and reasonable". The Independent Expert has also noted that for Minority Shareholders on a marginal tax rate of 45%, technically the Capital Return is not fair, as the low end of the value of the consideration offered to these Minority Shareholders is below the range of their estimate of the fair market value of a Share. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market. For further information regarding the Independent Expert's conclusions see section 5.4(f) and the Independent Expert's Report set out in Annexure A.

(b) ***Low liquidity of the Company Shares***

Approximately 76.35% of the Shares are owned by CRA with the Minority Shareholders holding the remaining approximately 23.65%. CRA's holding is stable (that is, it does not trade its Shares) and, accordingly, only the Shares held by the Minority Shareholders are available to be traded.

The result is a limited free float of the Company's Shares and relatively low market liquidity. Low levels of liquidity may constrain the ability of Shareholders to acquire and dispose of Shares.

(c) ***Opportunity for Minority Shareholders to realise the value of their investment***

Over the past 18 months, there has been increased volatility in the Australian share market. This volatility has been a result of a number of factors including changing interest rates, exchange rate fluctuations, rising inflation, weakening earnings growth and the effects of the sub-prime lending problems in the United States of America.

If the Capital Return does not proceed, the Minority Shareholders retaining their Shares may be affected by further volatility in the Australian share market.

The Capital Return enables Minority Shareholders to realise immediate and certain value for their Shares in the form of a cash payment which provides them with the freedom to apply the funds they receive as they wish. By realising their investment Minority Shareholders are no longer exposed to any residual liabilities which will remain in the Company post implementation of the Capital Return.

(d) ***Increased future costs for the Company***

The Company's operations require significant levels of working capital (which, at present, are heavily reliant upon CRA's trade finance facility guarantee, which is currently provided at no charge to the Company).

In the current economic climate, it is becoming difficult for companies to raise capital for their operations (and furthermore, cost of funding (if it can be obtained) is higher). These factors are relevant to the Company's ability to raise funds for its operations.

In light of the current financial and economic conditions, CRA's financial guarantee for the Company's trade finance facility has been reviewed by CRA and CRA has advised the Company that this guarantee may be terminated by CRA. If the financial guarantee is withdrawn by CRA, the Company will have to meet the cost of credit support for its trading activities itself or pay an appropriate market based fee to CRA for the guarantee facility if a replacement support cannot be obtained.

It is CRA's current intention, should the Capital Return not be approved, to either withdraw the guarantee or restructure the basis on which this guarantee is provided so that the Company itself bears the full cost of its trade finance facilities. Given this intention of CRA, the Independent Directors consider that, if the Capital Return is not approved, the Company may have difficulty supporting its own working capital requirements.

(e) ***Reduction in costs***

One of the Company's key objectives in listing on ASX was to obtain access to the Australian debt and equity capital markets. In practice, this access has been limited (and any such future access is likely to be insufficient to support its operations, on a stand alone basis).

The costs of being an ASX listed company and complying with both the Listing Rules and the sections of the Corporations Act that pertain to listed companies are substantial (particularly in light of lack of significant access to the Australian capital markets). These costs (and management time) will be saved as a result of the Company no longer being listed on the ASX.

(f) ***Independent Expert concluded the Capital Return is fair and reasonable***

The Independent Expert's Report concludes the Capital Return is fair and reasonable to the Minority Shareholders as a whole. The value of the consideration offered to the Minority Shareholders for their Shares is predominantly within and above the Independent Expert's assessed range of fair market value for a Share.

The Independent Expert has also noted that technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45%. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market. For further information regarding the Independent Expert's conclusions see section 5.4(f) and the Independent Expert's Report set out in Annexure A.

(g) ***No brokerage costs associated with the proposed Capital Return***

As the Capital Return involves the cancellation of the Shares held by the Minority Shareholders (rather than the sale of those Shares), it will provide Minority Shareholders with the opportunity to dispose of their Shares without incurring brokerage fees.

(h) ***Ability to sell non-marketable parcels***

A number of Minority Shareholders hold parcels of shares worth less than A$500 in total. This means that they do not hold a marketable parcel of Shares. As such they cannot sell those Shares on the ASX where that transfer would result in the purchaser holding a non-marketable parcel of shares in total. The Capital Return would give those Minority Shareholders an opportunity to divest their shareholding without incurring any brokerage costs.

(i) ***No alternative transaction likely in respect of Minority Shareholders***

It is considered highly unlikely that a third party will make a higher offer for the Shares held by the Minority Shareholders given that CRA has a controlling interest of 76.35% in the Company and the Shares are relatively illiquid. To date, there have not been any alternative offers made for the Company. In addition, CRA has informed the Company that it has no intention of disposing of its holding of Shares.

(j) ***In the absence of the Capital Return, the Shares may trade below current levels***

In the absence of the Capital Return or an alternative transaction, the Shares may trade below the prices achieved since the announcement of the Capital Return.

All of the reasons for the Capital Return are set out in more detail in Section 5.4 of the Explanatory Memorandum.

1.3 Summary of the Independent Expert's Report

The Independent Expert's Report is enclosed with this Explanatory Memorandum at Annexure A. We recommend that you read it in full.

The Independent Expert has concluded that the Capital Return is fair and reasonable to the Minority Shareholders as a whole.

In order to assess whether the Capital Return is fair and reasonable to the Minority Shareholders, the Independent Expert has:

- assessed whether the Capital Return is fair by estimating the fair market value of a Share on a control basis and comparing that value to the estimated fair market value of the consideration to be received by the Minority Shareholders pursuant to the Capital Return; and
- assessed the reasonableness of the Capital Return by considering other advantages and disadvantages of the Capital Return to the Minority Shareholders.

Fairness

The Independent Expert notes that in accordance with ASIC Regulatory Guide 111 an offer is "fair" if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer.

The Independent Expert has estimated the fair market value of a Share using the capitalisation of maintainable earnings method, which estimates the value of CATL by capitalising its maintainable earnings with an appropriate earnings multiple.

The Independent Expert has valued the consideration offered to Minority Shareholders in the range of A$0.63 per Share to A$1.00 per Share and estimated the fair market value of a Share to be in the range of A$0.66 to A$0.84.

Accordingly, the value of the consideration offered to the Minority Shareholders for their Shares is predominantly within and above the Independent Expert's assessed range of fair market value for a Share. Therefore the Independent Expert has concluded that the Capital Return is fair to the Minority Shareholders as a whole. However, the Independent Expert has noted that technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45%. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market. For further information regarding the Independent Expert's conclusions see section 5.4(f) and the Independent Expert's Report set out in Annexure A.

Reasonableness

The Independent Expert also notes that in accordance with ASIC Regulatory Guide 111, an offer is reasonable if it is fair. On this basis, the Independent Expert has concluded that the Capital Return is reasonable.

The Independent Expert has also identified the following *advantages* to the Minority Shareholders if the Capital Return proceeds, as relevant to assessing the reasonableness of the proposal:

- Minority Shareholders are receiving a premium to the Share price prior to the announcement of the Capital Return;
- unless a takeover offer was received for the whole Company, Minority Shareholders are unlikely to receive a premium similar to that offered under the Capital Return; and
- in the absence of the Capital Return, Shares may trade below current levels.

The Independent Expert has also identified the following *disadvantages* to the Minority Shareholders if the Capital Return proceeds as relevant to assessing the reasonableness of the proposal:

- Minority Shareholders will have no participation in future growth of the Company's business;
- the Minority Shareholders may incur a taxation liability for income tax upon cancellation of their Shares; and
- the consideration offered under the Capital Return is lower for Minority Shareholders with higher marginal tax rates because a high proportion of the consideration is a fully franked dividend.

1.4 Taxation considerations

The Australian tax consequences will depend on each Minority Shareholder's particular circumstances, including whether they hold their shares on capital or revenue account, their tax residency status and the type of tax payer they are.

A Class Ruling has been requested from the ATO in relation to the Australian tax implications of the Capital Return. The Class Ruling is expected to be issued shortly.

Minority Shareholders should read this Explanatory Memorandum and the Tax Adviser's Report set out in this Explanatory Memorandum and consult their own investment or other professional adviser.

1.5 Implications if the Capital Return is not approved

The Capital Return will not proceed if it is not approved, and:

(a) Minority Shareholders will not receive A$0.75 per Share;

(b) Minority Shareholders will continue to retain all their Shareholder rights and will continue to be exposed to future positive and negative fluctuations in the Share price, as well as the future risks facing the Company;

(c) the Share price may continue to be constrained by the existing ownership structure and the current relatively low liquidity of the Shares;

(d) in the absence of the Capital Return (or an alternative transaction), Shares may trade below the prices achieved since the announcement of the Capital Return;

(e) CRA intends to restructure the basis on which it provides the US$245[1] million trade finance facility guarantee to the Company, so that it is either withdrawn or the Company itself bears the full cost of its trade finance facilities. In this event, the cost of fully supporting the necessary levels of trade finance may affect the Company's net profit;

(f) CRA will continue to be a majority Shareholder of the Company; and

(g) the Company will remain listed on the ASX.

Further details on the implications of the Capital Return not proceeding are included in Section 5 of this Explanatory Memorandum.

1.6 Directors views and Independent Directors' recommendation

Each Independent Director has formed the view that the Capital Return:

(a) is in the best interests of the Minority Shareholders; and

(b) is fair and reasonable to the Shareholders of the Company as a whole.

Each Director has formed the view that the Capital Return does not materially prejudice the Company's ability to pay its creditors.

The Independent Directors unanimously recommend that Minority Shareholders vote in favour of the Capital Return either in person or by proxy at the Special Meeting.

As noted previously, the Independent Expert has concluded that the Capital Return is fair and reasonable to the Minority Shareholders as a whole. The Independent Directors have reviewed the findings of the Independent Expert and have also formed this conclusion.

The Independent Directors have also formed the view that the Capital Return is fair and reasonable to CRA, and therefore have formed the view that the Capital Return is fair and reasonable to the Shareholders of the Company as a whole. For further details the Independent Directors' reasons for this conclusion, see Section 6.5.

[1] The amount of this guarantee is expected to reduce to US$205 million in the short term, as agreed between the Company and CRA.

Section 2 - Frequently Asked Questions

This section provides summary answers to some basic questions that Shareholders may have in relation to the Capital Return. This section should be read in conjunction with the whole Explanatory Memorandum.

What questions are Shareholders being asked to consider?	Shareholders are being asked to consider the various resolutions necessary to implement the Capital Return. If the Capital Return is implemented, it will result in the Minority Shareholders receiving cash of A$0.75 per Share, and their shareholding in the Company being cancelled.
When and where will the Meetings be held?	The Special Meeting will be held at CITIC House, Level 7, 99 King Street, Melbourne at 11:00 am on Friday, 19 December 2008. The General Meeting will be held at CITIC House, Level 7, 99 King Street, Melbourne at 1:00 pm or the conclusion or adjournment of the Special Meeting, whichever is earlier on Friday 19 December 2008.
Am I a Minority Shareholder?	All Shareholders in the Company other than CRA are Minority Shareholders.
How much will I receive under the Capital Return?	On implementation of the Capital Return, the Minority Shareholders will receive cash of A$0.75 per Share on or around Tuesday, 20 January 2009. The Capital Return offer price represents a premium of approximately 56.3% to the closing market price of A$0.48 per Share on ASX on 3 November 2008. The Capital Return is expected to include a fully franked dividend of A$0.58 and A$0.17 of capital. Please refer to Section 11 and the Tax Adviser's Report at Annexure B for information about the tax implications of the Capital Return.
How will fractions be treated?	All entitlements to cash under the Capital Return will be rounded up or down to the nearest whole number of cents, with fractions of 0.5 or more being rounded up. Entitlements will be calculated in relation to each Minority Shareholder's total shareholding in the Company.
Can I choose the form of consideration I receive under the Capital Return?	No. Minority Shareholders are not able to choose the form of consideration they will receive under the Capital Return. All Minority Shareholders are entitled to receive cash of A$0.75 per Share in the event that the Capital Return is implemented.

What will happen if the Capital Return is approved?	If the Capital Return is approved, the Company will: • cancel all of the Shares of the Minority Shareholders on or around Tuesday, 20 January 2009; • pay each Minority Shareholder A$0.75 per Share in cash, on or around Tuesday, 20 January 2009; • de-list from ASX; and • become 100% owned by CITIC Resources Australia Pty Ltd. The last day for trading of Shares on ASX is expected to be Tuesday, 6 January 2009.
What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Capital Return is fair and reasonable to the Minority Shareholders as a whole. You should read the Independent Expert's Report attached to this Explanatory Memorandum in full. The Independent Expert has noted that technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45%. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market. For further information regarding the Independent Expert's conclusions see section 5.4(f) and the Independent Expert's Report set out in Annexure A.
Am I entitled to vote at the General Meeting?	All Shareholders (including Minority Shareholders) may vote on the Capital Return at the General Meeting. Under the Corporations Act, the Company is not permitted to take account of votes cast in favour of the Capital Return at the General Meeting by the Minority Shareholders and their Associates. However, Minority Shareholders wishing to vote against the Capital Return at the General Meeting may do so, and the Company must take account of their votes.
Am I entitled to vote at the Special Meeting?	If you are registered as a Shareholder on the Company register as at 11:00 am on Wednesday 17, December 2008 and are a Minority Shareholder, then you will be entitled to vote at the Special Meeting. You may vote in person at the Meeting or by completing and lodging the appropriate Proxy Form accompanying this Explanatory Memorandum.

What voting majority is required to approve the Capital Return?	The Capital Return can only proceed if: • a Special Resolution is passed at the Special Meeting by the Minority Shareholders whose Shares are to be cancelled under the Capital Return. This Special Resolution will require at least 75% of the votes cast (whether in person or by proxy) at the Special Meeting; and • a Special Resolution is passed at the General Meeting of Shareholders. In order to pass a special resolution of the Shareholders, at least 75% of the votes cast (whether in person or by proxy) at the General Meeting must be in favour of the Special Resolution (not including any votes cast by any Minority Shareholders in favour of the Capital Return). CRA has indicated to the Company that it intends to vote in favour of the Capital Return at the General Meeting.
Should I vote?	You do not have to vote, however the Independent Directors: • unanimously recommend that Minority Shareholders vote in favour of the resolution to approve the Capital Return at the Special Meeting; and • intend to vote their Shares, if any, or open proxies they hold in favour of the resolutions to the extent that they are not excluded from doing so.
When will the result of the Meetings be known?	The result of the Meetings will be available shortly after the conclusion of the Meetings and will be announced to the ASX once available.
What happens if the Capital Return is not approved?	If the Capital Return is not approved: • subject to any alternative proposals, the Company will remain in its current form and listed on the ASX; • Minority Shareholders will not receive A$0.75 per Share; • Minority Shareholders will continue to retain all their Shareholder rights and will continue to be exposed to future positive and negative fluctuations in the Share price; • the Share price may continue to be constrained by the existing ownership structure and the current relatively low liquidity of the Shares;

	• CRA intends to restructure the basis on which it provides the US$245[2] million trade finance facility guarantee to the Company, so that it is either withdrawn or the Company itself bears the full cost of its trade finance facilities; • in the absence of the Capital Return (or an alternative transaction), Shares may trade below the prices achieved since the announcement of the Capital Return; and • CRA will continue to be a majority Shareholder of the Company.

[2] The amount of this guarantee is expected to reduce to US$205 million in the short term, as agreed between the Company and CRA.

Section 3 - What you should do

3.1 Step 1 – Read this Explanatory Memorandum

This Explanatory Memorandum sets out the details of the Capital Return for Shareholders. You should read and consider this Explanatory Memorandum carefully and note the date and times of the Meetings. If you are uncertain about any information in this Explanatory Memorandum please consult your investment or other professional adviser.

3.2 Step 2 – Vote on the resolutions

Having considered the information provided to you in this Explanatory Memorandum, you should decide how you wish to vote at the relevant Meetings.

Your vote is important. Details of the relevant Meetings are set out in the Notice of Special Meeting and Notice of General Meeting enclosed in this Explanatory Memorandum. You can vote in person at the Meetings or by proxy.

Please see the Section "How to Vote" in Section 4.

3.3 Other information

If you have any questions, please call the information line within Australia on 1800 095 654 and for overseas callers +61 2 8280 7114 or visit the Company website at www.citictrading.com.au or consult your investment or other professional adviser.

Section 4 - How to vote

4.1 Venue

The Special Meeting will be held at CITIC House, Level 7, 99 King Street, Melbourne on Friday, 19 December 2008 commencing at 11:00 am.

The General Meeting will be held at CITIC House, Level 7, 99 King Street, Melbourne on Friday, 19 December 2008 commencing at 1:00 pm or the conclusion or the adjournment of the Special Meeting, whichever is earlier.

4.2 Take action

The Capital Return affects your shareholding and your vote is important. Please take action by voting in person or by proxy.

4.3 Voting in person

If you wish to vote in person you should attend the Meetings.

4.4 Voting by Proxy

If you are unable to attend either of the Meetings, please vote by completing and signing the relevant Proxy Form included with this Explanatory Memorandum as soon as possible but so that it is received by the Company's share registry, Computershare Investor Services Pty Ltd, either by post to GPO Box 242, Melbourne, Victoria 3001 or by facsimile to Computershare Investor Services Pty Ltd on (within Australia) 1800 783 447 or (outside Australia) + 61 3 9473 2555 by no later than:

- in relation to the Special Meeting, 11:00 am on Wednesday, 17 December 2008 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the meeting); and
- in relation to the General Meeting, 1:00 pm on Wednesday, 17 December 2008 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the meeting).

Proxy Forms received later than these times will be invalid.

Section 5 - Capital Return

5.1 Purpose

This Explanatory Memorandum has been prepared to provide all information known to the Company that is material to Shareholders' decisions on how to vote on the proposed resolutions at the relevant Meetings, in conjunction with information previously disclosed by the Company. As such, this Explanatory Memorandum is intended to satisfy the Company's obligations under section 256C(4) of the Corporations Act.

As the Company is legally required to provide periodic reporting and to comply with ASX's continuous disclosure obligations, you can also find further relevant information about the Company on the ASX's website, on ASIC's website and on the Company's website.

We recommend you read this Explanatory Memorandum in its entirety before making a decision as to how to vote on the proposed resolutions at the Meetings.

5.2 Details of the Capital Return

The Company is proposing to undertake a selective reduction of capital of the Company including the cancellation of all Shares other than the Shares held by CRA, subject to the required approvals from the Shareholders of the Company (***Capital Return***). Under the Capital Return, all Shares not owned by CRA will be cancelled in return for payment of A$0.75 per Share (a total of approximately A$15.1 million).

The Capital Return applies to all Shares on issue at 7:00 pm on Tuesday, 13 January 2009.

The Capital Return can only proceed if:

(a) a Special Resolution is passed at a General Meeting of Shareholders, with no votes being cast in favour of the special resolution by any Minority Shareholders; and

(b) a Special Resolution is passed at a Special Meeting of those Shareholders whose Shares are to be cancelled under the Capital Return (i.e. Minority Shareholders).

If the Capital Return is approved:

(a) the Company will pay to each Minority Shareholder A$0.75 per Share in cash on or around Tuesday, 20 January 2009;

(b) the Company will cancel all of the Shares of Minority Shareholders on or around Tuesday, 20 January 2009;

(c) the Company will implement the Capital Return without the need for any further notice to the Minority Shareholders; and

(d) the Company will then become 100% owned by CRA.

5.3 How has the consideration for the Capital Return been calculated?

In assessing the amount of the Capital Return to be paid to the Minority Shareholders, the Independent Directors have carefully considered all material matters relevant to the fair value that might be attributed to the outstanding Shares not owned by CRA, including but not limited to:

- the assets and liabilities of the Company;
- the historic and projected financial performance of the Company (which is difficult to project);
- the potential volatility and risks attaching to the trading activities of the Company and, in particular, the contractual arrangements CACT has with Mt Gibson Iron Ore Limited (***Mt Gibson***) in relation to the 15 year iron ore supply agreement related to Mt Gibson's Koolan Island iron ore project;
- the costs and risks associated with the potential restructure of certain business lines;
- the Company's dependency on CRA for financial support in the form of the trade finance facility guarantee it currently provides for the Company without charge;
- the Company's relatively small market capitalisation, limited free float, lack of liquidity and lack of broker / research coverage; and
- CRA's current controlling shareholding in the Company of approximately 76.35% (this shareholding makes it extremely unlikely that a third party control proposal will ever emerge or could succeed without CRA's support).

After taking into account all of the above factors, the Independent Directors have concluded that an aggregate sum of A$0.75 per Share would be a fair amount to distribute to the Minority Shareholders and that such a sum represents fair value for the Shares held by the Minority Shareholders.

5.4 Rationale for the Capital Return

The following is a summary of all of the reasons underlying the Company's decision to put forward the Capital Return for consideration by the Shareholders:

(a) ***Shareholders will receive fair value for their Shares***

The Capital Return, if approved, would have the effect of returning A$0.75 per Share to each Minority Shareholder.

The cash component represents a premium before tax of approximately 56.3% to the closing market price of A$0.48 per Share on ASX on 3 November 2008.

Depending on individual taxation circumstances, Minority Shareholders may receive additional value over and above the Capital Return offer price in the form of franking credits. Minority Shareholders are expected to receive a fully franked dividend of A$0.58 per Share. Shareholders should refer to Section 11 and the Tax Adviser's Report for further information.

The table below shows the comparison of the consideration payable as against the volume weighted average share price (***VWAP***) for the Company for the last 30, 60 and 90 days up to the close of trading on 3 November 2008:

Cash Consideration[1] A$ per Share	**30 Day VWAP[2] A$ per Share**	**60 Day VWAP A$ per Share**	**90 Day VWAP[3] A$ per Share**
0.75	0.571	0.595	0.640

1. *The highest price paid for Shares in the 12 months to and including 3 November 2008 was A$1.02 per Share and in intraday trade the lowest price paid for Shares in the 12 months to and including 3 November 2008 was A$0.43 per Share.*
2. *The total volume of Shares traded over the 30, 60 and 90 days prior to the announcement of the Capital Return has been 921,816, 1,089,092, 1,445,156 respectively. These volumes represent (based on 20,139,970 Shares not held by CRA) 4.6%, 5.4%, 7.2% respectively of the total number of Shares not held by CRA.*

Additional information regarding Share price and trading volume history are set out in Section 7 of this document and Section 4.7 of the Independent Expert's Report.

The Independent Expert has concluded that the Capital Return is "fair and reasonable" to the Minority Shareholders as a whole. In reaching its conclusion, the Independent Expert has valued the consideration offered to Minority Shareholders in the range of A$0.63 per Share to A$1.00 per Share and estimated the fair market value of a Share to be in the range of A$0.66 to A$0.84.

Accordingly, the value of the consideration offered to the Minority Shareholders for their Shares is predominantly within and above the Independent Expert's assessed range of fair market value for a Share . Please refer to the Independent Expert's Report for details of the qualifications and assumptions underlying its assessment.

(b) ***Low liquidity of the Company Shares***

Approximately 76.35% of the Shares are owned by CRA with the Minority Shareholders holding the remaining approximately 23.65%. CRA's holding is stable (that is, CRA does not trade its Shares) and, accordingly, only the shares held by the Minority Shareholders are traded.

The result is a limited free float of the Company's Shares and relatively low market liquidity. Low levels of liquidity constrain the ability of Shareholders to acquire and dispose of Shares.

(c) ***Opportunity for Minority Shareholders to realise the value of their investment***

Over the past 18 months, there has been increased volatility in the Australian share market. This volatility has been a result of a number of factors including changing interest rates, exchange rate fluctuations, rising inflation, weakening earnings growth and the effects of the sub-prime lending problems in the United States of America.

If the Capital Return does not proceed, the Minority Shareholders retaining their Shares may be affected by further volatility in the Australian share market.

The Capital Return enables Minority Shareholders to realise certain value for the Shares in the form of a cash payment which provides them with the freedom to apply the funds they receive as they wish.

Furthermore, realising their investment via the Capital Return means that Minority Shareholders are no longer exposed to any residual liabilities which will remain in the Company post implementation of the Capital Return.

(d) ***Costs to the Company***

The Company's operations require significant levels of working capital (which, at present, are heavily reliant upon CRA's trade finance facility guarantee, which is presently provided at no charge to the Company).

In the current economic climate, it is becoming difficult for companies to raise capital for their operations (and furthermore, cost of funding (if it can be obtained) is higher). These factors are relevant to the Company's ability to raise funds for its operations.

In light of the current financial and economic conditions, CRA's financial guarantee for the Company's trade finance facility has been reviewed by CRA and CRA has advised the Company that this guarantee may be terminated by CRA. If the financial guarantee is withdrawn by CRA, the Company will have to meet the cost of credit support for its trading activities itself or pay an appropriate market based fee to CRA for the guarantee facility if a replacement support cannot be obtained.

It is CRA's current intention, should the Capital Return not be approved, to either withdraw the guarantee or to restructure the basis on which this guarantee is provided so that the Company itself bears the full cost of its trade finance facilities. Given this intention of CRA , the Independent Directors consider that, if the Capital Return is not approved, the Company may have difficulty supporting its own working capital requirements.

(e) ***Reduction in costs***

One of the Company's key objectives in listing on ASX was to obtain access to the Australian debt and equity capital markets. In practice, this access has been limited (and any such future access is likely to be insufficient to support its operations, on a stand alone basis).

The costs of being an ASX listed company and complying with both the Listing Rules and the sections of the Corporations Act that pertain to listed companies are substantial (particularly in light of lack of significant access to the Australian capital markets). These costs (and management time) will be saved as a result of the Company no longer being listed on the ASX.

(f) ***Independent Expert concluded the Capital Return is fair and reasonable***

The Independent Expert's Report concludes the Capital Return is fair and reasonable to the Minority Shareholders as a whole.

In reaching its conclusion, the Independent Expert has valued the consideration offered to Minority Shareholders in the range of A$0.63 per Share to A$1.00 per Share and estimated the fair market value of a Share to be in the range of A$0.66 to A$0.84.

Accordingly, the value of the consideration offered to the Minority Shareholders for their Shares is predominantly within and above the Independent Expert's assessed range of fair market value for a Share. Please refer to the Independent Expert's Report for details of the qualifications and assumptions underlying its assessment.

The Independent Expert has noted that technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45%. This is because the low end of the value of the consideration offered to these Minority Shareholders, as assessed by the Independent Expert, is below the Independent Expert's estimated range of the fair market value of a Share.

Shareholders on a marginal tax rate of 45% may be able to realise a superior outcome by selling their Shares on market, as Shares have traded above A$0.70 on the ASX since the announcement of the Capital Return.

(g) ***No alternative transaction***

The Board considers that it is highly unlikely that an alternative third party will make a higher offer or put forward an alternative proposal for the Shares held by the Minority Shareholders, given that CRA has a controlling interest in the Company and the Shares are relatively illiquid. To date, there have not been any alternative offers made for the Company. In addition, CRA has informed the Company that it has no current intention to dispose of its holding of Shares.

(h) ***No brokerage costs associated with the Capital Return***

As the Capital Return involves the cancellation of Shares (rather than a sale of those Shares) it will provide Minority Shareholders with the opportunity to dispose of their Shares without incurring brokerage fees.

(i) ***Ability to sell non-marketable parcels***

A number of Minority Shareholders hold parcels of Shares worth less than A$500 in total. This means that they do not hold a marketable parcel of Shares. As such they cannot sell those Shares on the ASX where that transfer would result in the purchaser holding a non-marketable parcel of Shares in total. The Capital Return provides an opportunity for those Minority Shareholders who hold non-marketable parcels of Shares to realise their investment in the Company for fair value.

(j) ***In the absence of the Capital Return, the Shares may trade below current levels***

In the absence of the Capital Return or an alternative transaction, the Shares may trade below the prices achieved since the announcement of the Capital Return.

5.5 Potential key advantages and disadvantages to the Minority Shareholders

There are a number of matters that Minority Shareholders need to consider when making a decision on how to vote on the proposed resolutions at the Meetings. These include a number of advantages and disadvantages, some of which are contingent on the individual financial and taxation position of a Minority Shareholder.

For further details, please see the Independent Expert's Report included in this Explanatory Memorandum.

Potential key advantages and disadvantages to the Minority Shareholders if the Capital Return is APPROVED

Advantages	Disadvantages
Shareholders will receive fair value	***Inability to consider better offer in the future***
On implementation of the Capital Return, the Minority Shareholders will receive a cash payment of A$0.75 per Share on or around Tuesday, 20 January 2009. The Capital Return offer price represents a premium of approximately 56.3% to the closing market price of A$0.48 per Share on ASX on 3 November 2008.	If the Capital Return is approved, the Minority Shareholders will not be able to consider any potentially superior offer that might emerge in the future. However, the Independent Directors note that, in light of CRA's controlling interest of approximately 76.35% in the Company and the fact that

Advantages	Disadvantages
The Independent Expert has concluded that the Capital Return is "fair and reasonable" to the Minority Shareholders as a whole. In reaching its conclusion, the Independent Expert has valued the consideration offered to Minority Shareholders in the range of A$0.63 per Share to A$1.00 per Share. Accordingly, the value of the consideration offered to the Minority Shareholders for their Shares is predominantly within and above the Independent Expert's assessed range of values for a Share (see section 5.4(f) and the Independent Expert's Report for further details).	historically trading in the Shares has been relatively illiquid, it is considered highly unlikely that a third party will make a higher offer or put forward an alternative proposal for the Shares held by the Minority Shareholders.
Franking credits may provide additional value Depending on individual taxation circumstances, Minority Shareholders may be able to realise additional value over and above the Capital Return offer price in the form of franking credits. Minority Shareholders are expected to receive a fully franked dividend of A$0.58 per Share. Shareholders should refer to Section 11, the Tax Adviser's Report and seek independent taxation advice.	***Consideration is lower for shareholders with higher marginal tax rates*** Due to the high proportion of the consideration which is a fully franked dividend, the after tax outcome for shareholders will depend on each shareholder's marginal tax rate. The Independent Expert has noted that technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45% as the low end of the value of the consideration offered to these Minority Shareholders is below the range of their estimate of the fair market value of a Share. Shareholders should refer to Section 5.4(f), the Independent Expert's Report and the Tax Adviser's Report.
No exposure to residual liabilities of the Company The Capital Return provides Minority Shareholders with the opportunity to dispose of their Shares. Realising their investment in this manner means that Minority Shareholders are no longer exposed to any residual liabilities which remain in the Company post implementation of the Capital Return.	***No further exposure to potential future growth associated with the Company*** If the Capital Return is approved, the Minority Shareholders will no longer have any investment or other interest in the Company. Accordingly, they will not participate in the potential future growth associated with their investment in the Company. Minority Shareholders who wish to maintain the same portfolio risk profile for their investments may find it difficult to find an investment with a similar risk profile to that of the Company.

Advantages	Disadvantages
No brokerage costs associated with Capital Return As the Capital Return involves the cancellation of Shares (rather than a sale of those Shares) it will provide Minority Shareholders with the opportunity to dispose of their Shares without incurring brokerage fees.	***Taxation issues*** Under the Capital Return, the Minority Shareholders may incur a taxation liability for income tax upon cancellation of their Shares. Minority Shareholders should consult their tax advisers in relation to their personal circumstances.

Potential key advantages and disadvantages to the Minority Shareholders if the Capital Return is NOT APPROVED

Advantages	Disadvantage
Ability to consider better offer in the future If the Capital Return is not approved, the Minority Shareholders will be able to consider any potentially superior offer that might emerge in the future. However, the Independent Directors note that, in light of CRA's controlling interest of approximately 76.35% in the Company and the fact that historically trading in the Shares has been relatively illiquid, it is considered highly unlikely that a third party will make a higher offer or put forward an alternative proposal for the Shares held by the Minority Shareholders. To date, there have not been any alternative offers made for the Company. In addition, CRA has informed the Company that it has no current intention to dispose of its holding of Shares. In addition, in the absence of the Capital Return or an alternative transaction, the Shares may trade below the prices achieved since the announcement of the Capital Return.	***Opportunity for Minority Shareholders to realise the fair value of their investment will be lost*** If the Capital Return is not approved, the Minority Shareholders will forego an opportunity to realise fair value for their Shares in the form of a cash payment (including any potential franking credits) as outlined above in Section 5.4(a). Furthermore, Minority Shareholders will forego the opportunity to exit their investment in the Company quickly and efficiently at fair value and at a premium to the current market price. Instead, Minority Shareholders may be exposed to a potential discount due to the lack of liquidity that affects the Shares traded on the ASX. Further, the Independent Expert notes that, in the absence of the Capital Return (or an alternative transaction), Shares may trade below the prices achieved since the announcement of the Capital Return.
Voting rights in the Company If the Capital Return is not approved, Minority Shareholders will maintain their shareholding and associated rights including voting rights, in the Company.	***Sale of non-marketable parcels at a fair value*** A number of Minority Shareholders hold parcels of Shares worth less than A$500 in total. This means that they do not hold a marketable parcel of Shares. As such, they cannot sell those Shares on the ASX where that transfer would result in the purchaser holding a non-marketable parcel of Shares in total. This situation would remain unchanged if the Capital Return is not approved

Advantages	Disadvantage
Continued exposure to the Company If the Capital Return is not approved, the Minority Shareholders will continue to be exposed to the potential growth and future investments associated with their investment in the Company for so long as they remain shareholders in the Company.	***Continued exposure to the Company*** If the Capital Return is not approved, the Minority Shareholders will continue to be exposed to the potential risks associated with their investment in the Company for so long as they remain shareholders in the Company. Furthermore, CRA presently provides the Company with financial support in the form of the financial guarantee for US$205 million of the Company's trade finance facility. The result is that the overall cost of the Company's trade finance facility is reduced materially. It is CRA's current intention, should the Capital Return not be approved, to restructure the basis on which this guarantee is provided so that it is either withdrawn or the Company itself bears the full cost of its trade finance facilities.

5.6 Considerations for CRA

CRA has concluded that the Company, as a separate listed entity, no longer meets its corporate objectives and that privatisation of the Company by CRA via the Capital Return would be in the best interests of both CRA and the Minority Shareholders.

If the Capital Return is approved, CRA will become owner of 100% of the issued capital of the Company and will be fully exposed to the potential risks or rewards associated with its investment in the Company for so long as it remains a shareholder in the Company.

In addition, CRA will realise a number of immediate benefits including:

- elimination of the costs incurred by the Company in relation to its ASX listing;
- removal of the "subsidy" provided to the Company in the form of the US$205 million trade finance financial guarantee CRA currently provides to the Company without charge; and
- elimination of other costs associated with having a partially owned listed subsidiary in Australia.

5.7 Implications of not proceeding with the Capital Return

If the Capital Return is not approved, the Company will continue to conduct its business in a manner broadly similar to that pursued over the last 12 months (subject to the potential restructure of certain business lines and ultimately without the trade finance guarantee that CRA currently provides to the Company continuing without charge).

Furthermore, if the Capital Return is not implemented Shareholders should be aware that the return of capital of A$0.75 per Share to the Minority Shareholders will not occur and Minority Shareholders will not have any of their Shares cancelled.

The Independent Expert has also noted that, in the absence of an alternative transaction. the Shares may trade below the prices achieved since the announcement of the Capital Return if the Capital Return is not approved by the Minority Shareholders.

The potential advantages and disadvantages to the Minority Shareholders if the Capital Return is not implemented are described in Section 5.5 of this Explanatory Memorandum.

The potential advantages and disadvantages to the Minority Shareholders are also summarised in the summary of the Capital Return section in this Explanatory Memorandum.

5.8 Implications for creditors

The Directors have considered the effect of the Capital Return on the creditors of the Company. The Directors consider that the implementation of the Capital Return will not materially prejudice the Company's ability to pay its creditors.

5.9 Treatment of foreign Shareholders

If the Capital Return is approved, all Minority Shareholders, including foreign shareholders, will receive the cash component of A$0.75 per Share.

Shareholders should refer to Section 11, the Tax Adviser's Report and consult their own investment or other professional adviser.

5.10 Approval process

Under the Corporations Act*,* the Company can only implement the Capital Return if:

(a) it is fair and reasonable to the Company's Shareholders as a whole;

(b) does not materially prejudice the Company's ability to pay its creditors; and

(c) it obtains Shareholder approval by Special Resolution at the Special Meeting and at the General Meeting.

Two meetings are required because the Capital Return involves a selective capital reduction and the cancellation of Shares.

- **Special Meeting**

Only the Minority Shareholders may vote on the Capital Return at the Special Meeting because only their Shares are to be cancelled if the Capital Return is approved. For the Capital Return to be approved at the Special Meeting, it must be approved by Special Resolution of the Minority Shareholders (i.e. at least 75% of the votes cast either in person or by proxy). All votes cast by the Minority Shareholders at the Special Meeting, whether for or against the Capital Return, will be counted in this vote.

- **General Meeting**

At the General Meeting, all Shareholders may vote on the Capital Return and for the Capital Return to be implemented, it must be approved by Special Resolution of the Shareholders (i.e. at least 75% of the votes cast whether in person or by proxy). Under the Corporations Act any votes cast in *favour* of the Capital Return by the Minority Shareholders at the General Meeting will not be taken into account as these Shareholders will receive consideration under the Capital Return. However, votes cast against the Capital Return by the Minority Shareholders at the General Meeting will be taken into account.

CRA owns approximately 76.35% of the Shares and has stated that it will vote its Shares in favour of the Capital Return at the General Meeting. Accordingly, if the Capital Return is approved at the Special Meeting, it will also be approved at the General Meeting.

Both of the Meetings will be held on Friday, 19 December 2008.

5.11 Proxy voting intentions

Mr Bruce Foy, as the intended chairperson of the Meetings, intends to vote undirected proxies in favour of the Capital Return at the Special Meeting and at the General Meeting, noting that votes cast by the Minority Shareholders in favour of the Capital Return at the General Meeting must be disregarded by the Company for the reasons set out above.

If any of CRA's nominated Directors (Mr Chen Zeng and Mr Tinghu Guo) are appointed as an undirected proxy for any Minority Shareholder, then that Director will vote in respect of the Shares held by that Minority Shareholder in accordance with the chairperson's vote on undirected proxies.

Section 6 - Directors' disclosures

6.1 Directors of the Company

The Directors of the Company as at the date of this Explanatory Memorandum are:

(a) Chen Zeng;

(b) Bruce Foy;

(c) Tinghu Guo; and

(d) Roger Marshall.

6.2 Directors' shares held in the Company and CRH

Directors' Shares in the Company

The Directors of the Company and the number of Shares held by or on behalf of each of the Directors and their related parties are set out below.

Name	Number of the Company Ordinary Shares Held (directly or indirectly)	% of Issued Capital
Chen Zeng*	385,402	0.45%
Bruce Foy	Nil	Nil
Tinghu Guo*	278,000	0.33%
Roger Marshall	600,000**	0.70%

**Mr Chen Zeng and Mr Tinghu Guo are also directors of CRA and Mr Chen Zeng is also a director of CRH. These Shares are held by the directors' spouses.*
*** These Shares are held by an associated superannuation fund.*

Directors' shares in CRH

Details of the CRA held Shares, including those issued under the CRH Executive Share Plan (***ESP***), and details of derivative call options over CRH held Shares held by or on behalf of Directors, or in respect of which Directors have an interest, as at the date of this Explanatory Memorandum are as follows:

Director	Number of shares held	Number of ESP shares held	Number of CRH shares over which derivative call options are held
Chen Zeng	Nil	Nil	10,000,000

6.3 Director interests

No Director has any interest in any arrangement or contract entered into with CRA or an Associate of CRA (including any member of CITIC Group) or the Company.

6.4 Directors' statement

The Directors have each, where applicable, declared their interest as detailed above to the Board and, with the Board's permission, following the disclosure have taken part in Board deliberations and voted in relation to the Capital Return.

6.5 Directors' recommendation

Mr Chen Zeng and Mr Tinghu Guo are also directors/officers of CRA and Mr Zeng is a director of CRH. Each of these individuals do not consider it appropriate to make a recommendation to the Minority Shareholders concerning the Capital Return, particularly as they have been involved in CRA's decision to support the Capital Return. Accordingly, those directors do not propose to make a recommendation in respect of the Capital Return.

As the holder of 600,000 Shares, Mr Roger Marshall has a financial interest in the outcome of the Capital Return.

On the basis of Mr Marshall's financial interests in the outcome of the Capital Return (which is fully disclosed in Section 6.3), he would normally refrain from making a recommendation to Shareholders on the Capital Return, although there is no legal requirement to do so. This, however, would leave Minority Shareholders with the recommendation of only one Independent Director on the Capital Return.

As a result, Mr Roger Marshall (together with Mr Bruce Foy) has elected to make a recommendation. In doing so, they rely on the opinion of the Independent Expert, noting that the Independent Expert has concluded that:

- the Capital Return is fair and reasonable to the Minority Shareholders as a whole;
- technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45%. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market (see section 5.4(f) and the Independent Expert's Report for further details); and
- in the absence of the Capital Return (or an alternative transaction), Shares may trade below the prices achieved since the announcement of the Capital Return.

In these circumstances, the Independent Directors support the Capital Return and have formed the view that the Capital Return:

(a) is in the best interests of the Minority Shareholders;

(b) is fair and reasonable to the Shareholders of the Company as a whole; and

(c) does not materially prejudice the Company's ability to pay its creditors.

As noted previously, the Independent Expert has concluded that the Capital Return is fair and reasonable to the Minority Shareholders as a whole. The Independent Directors has reviewed the findings of the Independent Expert and have also formed this conclusion.

The Independent Directors have also formed the view that the Capital Return is fair and reasonable to CRA, and, therefore have formed the view that the Capital Return is fair and reasonable to the Shareholders of the Company as a whole.

In considering whether the Capital Return is fair and reasonable to CRA, the Independent Directors have had regard to the following:

(a) level of debt could be increased and therefore the gearing ratio of the Company could, in turn, increase the risk associated with the Company's business and operations. However, it is reasonable to expect that from the point of view of CRA, this risk has been assessed and considered reasonable relative to the additional benefit gained; and

(b) CRA, through its major interest in CATL, has knowledge of the financial performance of the Company and factors impacting the market in which it operates.

The Independent Directors also consider that if the Capital Return is approved, CRA will no longer have to consider the interests of the Minority Shareholders and will have:

(a) the ability to alter the Company's constitution without regard to the interests of the Minority Shareholders;

(b) the unfettered ability to acquire and dispose of assets of the Company;

(c) the ability to fully integrate the Company's business and operations with its and its related entities' other business and operations;

(d) the benefit of the Company incurring reduced costs as a result of no longer being a listed company on the ASX; and

(e) the ability to enter into a tax consolidated group with the Company.

The Independent Directors recommend that Minority Shareholders approve the Capital Return by voting in favour of the resolutions proposed in the Notice of Special Meeting.

Section 7 - About the Company

7.1 Background

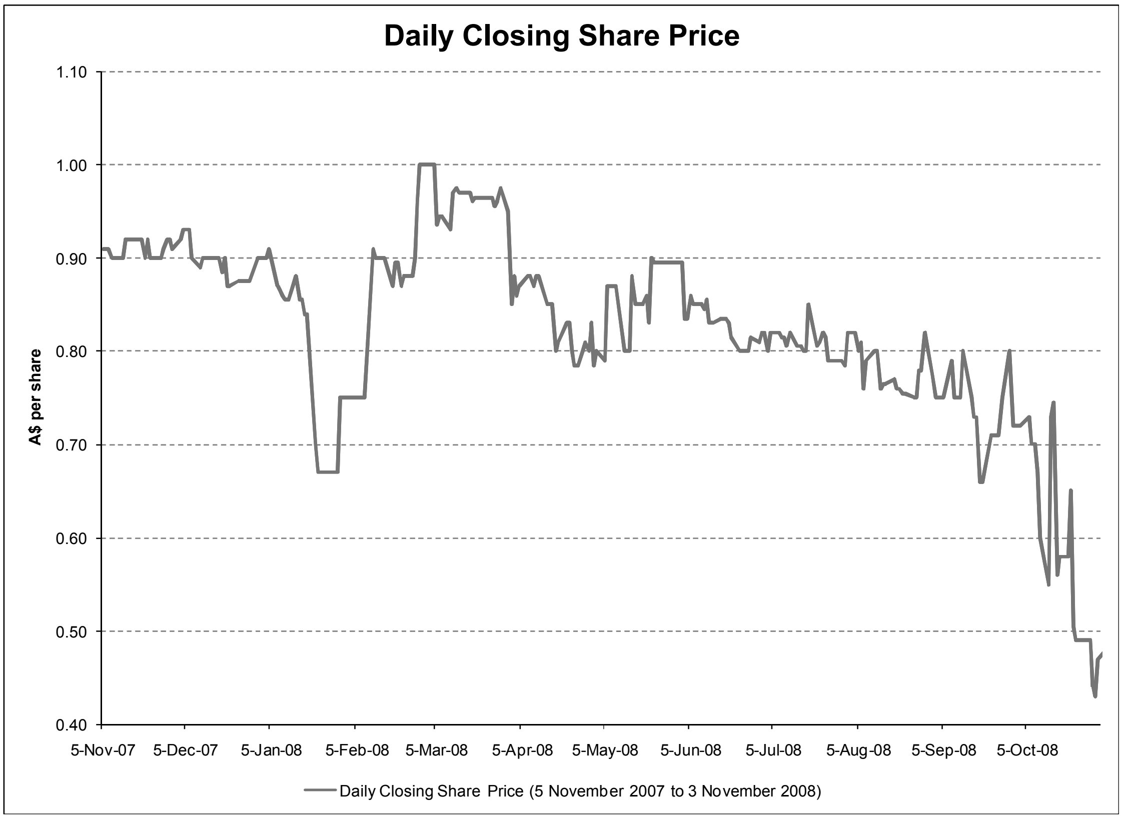
The Company is an international commodity trading company, which focuses on trade between China and Australia.

The Company is a significant exporter of bulk commodities, in particular, it exports base metals and mineral resources, including alumina, aluminium ingots, iron ore and steel. The Company also imports manufactured products, such as tyres and wheels, batteries, steel and aluminium products. The Company actively seeks to enter into strategic arrangements complementary to current and potential new trading lines in order to generate long-term profitable growth.

CITIC Australia Commodity Trading Pty Ltd (***CACT***) is the Company's sole underlying business. CACT has been operating for over 14 years, since it was established as the commodity trading arm of the Company's Australian operations in late 1994. In June 2002, the commodity trading operations of CACT listed on the ASX, when the Company conducted a capital raising and acquired CACT, immediately prior to its listing. The Company had no other business operations at that time.

7.2 Share price history

The Company's Share price performance from 5 November 2007 to 3 November 2008 (the last trading day prior to the announcement of the Capital Return) is set out in the chart below.



In the 12 months prior to the announcement of the Capital Return the Shares reached a high of A$1.02 per Share on 3 March 2008.

7.3 Review of financial performance – 2007 full year

(a) Overall Review

This analysis of the 2007 results covering alumina exports, iron ore exports, steel imports and battery imports is based on the Managing Director's Report included in the Annual Report for the year ended 31 December 2007.

The Company achieved a net profit after tax of A$12.4 million, which represents a 43% increase over the 2006 profit of A$8.6 million. Sales increased 26% to A$898 million, from A$714 million in 2006. The growth in sales primarily came from expanding iron ore shipments and generally higher commodity prices.

Both sales and profit set new company records. It is worth noting that the 2007 after-tax profit was achieved despite an adverse impact of an A$2.0 million net foreign exchange loss caused by significant strengthening of the Australian dollar during 2007.

Iron ore sales nearly doubled in 2007 and pre-tax profit increased five times to A$6.3 million, replacing alumina line as the largest contributor to the Company's final result. The alumina division achieved an excellent A$5.5 million pre-tax profit despite reduced volumes. The Company's imports recorded steady and sound growth in 2007. Together they generated a total of A$5.3 million pre-tax profit on sales of A$229 million.

(b) Alumina Exports

Alumina sales and volume during 2007 continued to decline, confirming the trend that alumina producers and end-users have increased direct trading thereby bypassing the role of traders such as the Company. Moreover, with China's domestic alumina supply rapidly rising, the demand for imported alumina has also weakened.

Despite the drop in volumes, the alumina division achieved an excellent pre-tax result of A$5.5 million, nearly one-third of the Company's total pre-tax profit.

During the year, spot alumina prices experienced considerable fluctuations. While depressed for most of the first half, the spot price strengthened significantly from the fourth quarter. The Company's five-year contract with a major supplier and a Chinese end-user operated smoothly in 2007, the third year of the contract.

(c) Iron Ore Exports

The Company exported a total of 4.1 million tonnes of iron ore to Chinese steel mills, 52.9% higher than 2006, while sales revenue reached A$446 million, 87.2% higher year-on-year reflecting higher iron ore unit price.

Profit margins improved dramatically, resulting in a pre-tax profit of A$6.3 million, an increase of more than five times the 2006 result. While the Company benefited from increasing spot prices during the 2007 year relative to contracted prices, the Company could be penalised in circumstances where spot prices are falling. Iron ore exports replaced the alumina line as the biggest contributor to the Company's earnings.

The Company maintained its ties with major suppliers in Australia, Brazil and South Africa as well as the company's major customer CITIC Metals. Shipments sourced from India and other non-major suppliers accounted for approximately 50 percent of the Company's total tonnage.

(d) Import Operations Review

The Company's import operation as a whole continued to grow in 2007. The Company's total import sales rose 60.1% to A$229.2 million and pre-tax profit rose 30.6% to A$5.3 million, maintaining its contribution of over thirty percent of the Company's total pre-tax profit.

Battery import sales increased 52% to A$25.8 million and pre-tax profit increased 73% year-on-year to A$1.6 million. This result was achieved despite lead prices increasing to US$3,800 per tonne in the second half of 2007, forcing the Chinese supplier and the Company to increase prices. The steel import division built upon its previous year's good result in 2007.

The Company is planning the potential restructure of certain business lines.

7.4 Review of financial performance – 2008 first half

The Company's consolidated net profit after tax for the 2008 first-half was A$8.5 million, a 29.6% increase over the 2007 first-half profit of A$6.6 million.

Revenues for the period were A$668 million, which was 50% higher than revenues of A$446 million for the same period last year. This significant growth came mainly from increased sales of iron ore and alumina.

Iron ore exports earned a pre-tax profit of A$8.6 million (2007 first-half: A$1.2 million), from sales of A$447 million (2007 first-half: A$204 million). The strong growth in revenues and profit is driven by increased sales of iron ore sourced from India and shipments from Mount Gibson's Koolan Island project.

Alumina exports earned a pre-tax profit of A$1.6 million, down 58% year-on-year notwithstanding that revenues for the period were 72% higher than same last period. The gross margin for spot transactions decreased as the rapid expansion of Chinese alumina production has reduced that industry's demand for imports.

Exports of Chinese steel to Europe and Asia decreased by 47% to A$30 million in sales and 52% to A$0.4 million in pre-tax profit. This new trading line, which commenced in 2006 , has not performed satisfactorily and management is reviewing this business line.

Import operations did not perform as well as the same period last year earning a pre-tax profit of A$2.4 million (2007 first-half: A$3.8 million) on sales of A$93.4 million (2007 first-half: A$129 million). The drop in both revenues and profit is mainly due to the tight supply of steel. Although battery sales increased by 24% to A$14.7 million, the margin on battery sales was lower due to higher purchase costs resulting in a decrease in profit by 24%. Import operations may be expected to encounter increasing pressure in an environment of a decreasing US$:A$ exchange rates.

7.5 Historical financial statements

The income statement, balance sheet and statement of cash flows for the full years ended 31 December 2006 and 2007 and the half year ended 30 June 2008 are extracted in the tables below. These statements should be read in conjunction with the notes included in the Annual Report for the 2007 year and the full 30 June 2008 half year results.

Consolidated income statement for the years ended 31 December 2006 and 2007 and the half year ended 30 June 2008.

	Half year ended 30 June 2008 A$'000	Full year ended 31 December 2007 A$'000	Full year ended 31 December 2006 A$'000
Sales Revenue from Goods Sold	**667,507**	**897,788**	**713,847**
Cost of goods sold	(645,153)	(863,050)	(686,710)
Gross Profit	**22,354**	**34,738**	**27,137**
Other income	2,258	6,898	6,963
Employee benefits expense	(2,427)	(4,762)	(4,367)
Depreciation	(134)	(258)	(237)
Borrowing costs expense	(4,849)	(9,087)	(10,476)
Net foreign exchange gain / (loss)	-	(4,324)	(1,326)
Other expenses	(5,648)	(5,890)	(4,790)
Profit Before Income Tax	**11,554**	**17,315**	**12,904**
Income Tax Expense	**(3,036)**	**(4,950)**	**(4,271)**
Net Profit	**8,518**	**12,365**	**8,633**

Sources: CITIC Australia Trading Limited, Annual Report for the year ended 31 December 2007 and CITIC Australia Trading Limited, Half Year Report: 30 June 2008

Consolidated balance sheets at 31 December 2006 and 2007 and at 30 June 2008.

	30 June 2008 A$'000	31 December 2007 A$'000	31 December 2006 A$'000
Current Assets			
Cash assets	6,355	5,077	2,697
Receivables	196,214	139,789	159,528
Inventories	26,002	41,105	58,578
Derivative financial instruments	1,160	102	-
Other	662	1,435	583
Total Current Assets	**230,393**	**187,508**	**221,386**
Non-current Assets			
Property, plant and equipment	835	969	874
Investments	-	-	-
Deferred tax assets	846	1,911	944
Tax related receivables	-	-	-
Total Non-current Assets	**1,681**	**2,880**	**1,818**
Total Assets	**232,074**	**190,388**	**223,204**
Current Liabilities			
Payables	42,411	22,366	39,610
Borrowing	149,962	129,809	154,218
Current tax liabilities	883	2,248	416
Provisions	962	1,044	793
Derivative financial instruments	-	-	1,369
Other	264	521	45
Total Current Liabilities	**194,482**	**155,988**	**196,451**
Non-current Liabilities			
Deferred tax liabilities	-	-	-
Provisions	56	49	126
Total Non-current Liabilities	**56**	**49**	**126**
Total Liabilities	**194,538**	**156,037**	**196,577**
Net Assets	**37,536**	**34,351**	**26,627**
Equity			
Share capital	8,134	8,134	7,717
Reserves	868	1	270
Retained profits	28,534	26,216	18,640
Total Equity	**37,536**	**34,351**	**26,627**

Sources: CITIC Australia Trading Limited, Annual Report for the year ended 31 December 2007 and CITIC Australia Trading Limited, Half Year Report: 30 June 2008.

Consolidated statement of cash flows for the years ended 31 December 2006 and 2007, and the half year ended 30 June 2008.

	Half year ended 30 June 2008 A$'000	Full year ended 31 December 2007 A$'000	Full year ended 31 December 2006 A$'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of goods and services tax)	598,694	989,930	763,274
Payments to suppliers and employees (inclusive of goods and services tax)	(611,936)	(955,674)	(792,575)
Net Receipts	**(13,242)**	**34,256**	**(29,301)**
Management fee received	-	66	66
Marketing fee received	-	463	452
Dividend received	-	-	-
Income taxes paid	(3,707)	(3,971)	(4,957)
Interest received	1,584	5,089	5,392
Interest paid	(4,849)	(11,268)	(10,476)
Other revenue	246	1,248	1,053
Net Cash (Outflow) / Inflow from Operating Activities	**(19,968)**	**25,883**	**(37,771)**
Cash Flows from Investing Activities			
Payments for property, plant and equipment	-	(435)	(314)
Proceeds from sale of property, plant and equipment	-	82	-
Net Cash (Outflow) / Inflow from Investing Activities	**-**	**(353)**	**(314)**
Cash Flows from Financing Activities			
Proceeds from issue of shares	-	417	151
Proceeds from borrowings	501,065	809,188	669,510
Repayment of borrowings	(473,105)	(824,994)	(645,335)
Loan repayments received	-	-	-
Dividend paid	(6,200)	(4,789)	(4,407)
Net Cash Inflow / (Outflow) from Financing Activities	**21,760**	**(20,178)**	**19,919**
Net (decrease) / increase in cash held	1,792	5,352	(18,166)
Cash at the beginning of the financial year	5,077	2,697	21,824
Effects of exchange rate changes on cash	(514)	(2,972)	(961)
Cash at End of Financial Year	**6,355**	**5,077**	**2,697**

Sources: CITIC Australia Trading Limited, Annual Report for the year ended 31 December 2007 and CITIC Australia Trading Limited, Half Year Report: 30 June 2008.

7.6 Pro-forma financial position

The table below sets out the Company's consolidated statement of financial position as at 30 June 2008 on a pro-forma basis assuming: (i) the Company has 85,164,970 Shares on issue; (ii) 20,139,970, Shares are cancelled; and (iii) that payment for the cancellation of Shares of A$15.1 million has been financed through its working capital .

Pro-forma balance sheet as at 30 June 2008.

	30 June 2008 A$'000
Current Assets	
Cash assets	6,355
Receivables	196,214
Inventories	26,002
Derivative financial instruments	1,160
Other	662
Total Current Assets	**230,393**
Non-current Assets	
Property, plant and equipment	835
Deferred tax assets	846
Total Non-current Assets	**1,681**
Total Assets	232,074
Current Liabilities	
Payables	42,411
Borrowing	165,067
Current tax liabilities	883
Provisions	962
Other	264
Total Current Liabilities	209,587
Non-current Liabilities	
Provisions	56
Total Non-current Liabilities	**56**
Total Liabilities	**209,643**
Net Assets	**22,431**
Equity	
Share capital	**4,710**
Reserves	868
Reserves – Selective Capital Reduction	(11,681)
Retained profits	28,534
Total Equity	**22,431**

As at the date of this Explanatory Memorandum, the Company has 85,164,970 Shares on issue. 20,139,970 of the Shares are held by the Minority Shareholders. Assuming the Capital Return is approved by Shareholders, the issued capital would be reduced by a total of A$3,423,795 by returning A$0.17 per Share to the Minority Shareholders. Reserves would be reduced by a total of A$11,681,183 by returning A$0.58 per Share to the Minority Shareholders. The Company's current liabilities will increase by A$15,104,978 as a result of paying the Minority Shareholders from its working capital.

7.7 Business outlook

The Company is facing an unprecedented and challenging operating environment and it is difficult to predict what the longer term business outlook might hold for the Company. There are a number of significant factors at play that create an uncertain environment and outlook for the Company.

Both the developed and developing global economies are expected to experience substantially slower economic growth or recession for their respective economies over the next 12 to 24 months with the result that this slowing in growth, including in the Chinese economy, will result in potentially lower trade volumes which will diminish the opportunities available for the Company. The reduced liquidity arising from the current global credit crisis and the resulting increased price for debt will also likely adversely impact the Company going forward. The volatility that we have seen recently in the Australian currency has been unparalleled and it is not possible to predict when the currency is likely to stabilise. This currency volatility adds significantly to the risks being confronted by the Company.

Furthermore, the Company's two main export products (iron ore and alumina) face particularly challenging outlooks. Steel mills and aluminium smelters (to which the Company supplies iron ore and alumina, respectively) have indicated that production going forward is likely to decline as a result of the current economic climate. These factors have a direct effect upon demand for iron ore and alumina which in turn are likely to impact upon the Company's future sales volume and profit margin.

Notwithstanding the strong financial performance in the year to 31 December 2007 and the first six months of 2008, the Company's near to medium term earnings-outlook is likely to be adversely affected by the trading conditions created by the current economic downturn. The global credit crisis continues to place the Company's bulk commodity trading model under pressure:

- the margins the Company achieves risk being eroded due to rising financing costs, deteriorating economic conditions and slowing regional economic growth and spot commodity prices; and
- the profitability of the Company's import businesses are expected to be reduced by the falling US$:A$ exchange rate and rising costs of production in China.

The Company is continuing discussions with Mount Gibson Iron in relation to a number of issues arising under the iron ore off-take agreement between the two parties. In light of, among other factors, the recent unusual market conditions, the Company and Mount Gibson Iron have made alternative arrangements for the short term. There can be no assurance that the Company will reach a mutually acceptable position with Mount Gibson Iron in the longer term with the potential for adverse impact to the Company. At this point in time, it is not possible to estimate the level of any such adverse impact. The Company expects that the profitability of its iron ore trading business will reduce from its 2008 half-year results.

In relation to alumina trading, the outlook is also deteriorating. Not only are traded volumes expected to decline, the current outlook for LME aluminium prices (the benchmark price against which alumina prices are typically set) has experienced a sharp decline in recent months with a corresponding erosion of trading margins for the company over the near and medium term.

In relation to steel, tyres and battery imports, the Company expects its trading operations to encounter increasing pressure in an environment of a decreasing US$:A$ exchange rate over the near and medium term.

CRA's financial support for the Company in the form of the financial guarantee for the Company's trade finance facility is under review and may be terminated due to current financial conditions. If the financial guarantee is withdrawn, the Company will have to meet the cost of credit support for its trading activities itself or pay an appropriate market based fee for the guarantee facility if a replacement support cannot be obtained.

7.8 Company Shares

Top 20 Shareholders

As at 4 November 2008 the top 20 Shareholders were as follows:

Top 20 Shareholders the Company Shareholdings

Top 20 Shareholders	Number of Shares
CITIC Resources Australia Pty Ltd	65,025,000
Barnaby Colman Caddick	466,440
Yan Guo	400,000
Xiaojing Tian	385,402
De Sensi Investment Pty Ltd	368,899
Meng Zeng	360,303
Impala Superannuation Nominees Pty Ltd	350,467
Myrtlemont Pty Ltd	343,167
Mr Robert Joseph & Mrs Lianne Kathryn Joseph	300,000
Fang Qi	278,000
Myrtlemont Pty Ltd	256,833
UBS Wealth Management Australia Nominees Pty Ltd	251,780
Jianxia Wang	200,000
Bissland Pastoral Company Pty Ltd	195,500
Yuheng Wu	181,500
Douglas Hinkler Dayman	180,704
Rolstun William Patterson	180,000
RBC Dexia Investor Services Australia	176,000
Argento Fodera Pty Ltd	175,000
Mr Anhi Truong and Mrs Hue Khanh Hoang	165,500

Distribution of Shares

As at 31 October 2008 the distribution of shareholders was as follows:

Distribution of the Company Shareholdings

Distribution	Number of Shareholders
1 – 500	378
501 – 1,000	193
1,001 - 5,000	330
5,001 - 10,000	228
10,001 - 100,000	310
> 100,000	34
Total number of shareholders	1,473

Section 8 - CRA and CITIC Group

8.1 Overview of CRA and CITIC Group

CITIC Group indirectly holds an aggregate 53.53% interest in the issued shares of CITIC Resources Holdings Limited (***CRH***) which wholly owns CRA.

CITIC Group, the ultimate controller of the CRA Group, is a state-owned enterprise of the People's Republic of China (***PRC***) (and was formerly known as China International Trust and Investment Corporation). CITIC Group is a major Chinese investment company with extensive interests in commercial and investment banking, power generation, infrastructure development, real estate, telecommunications, raw materials and various industrial and trading activities.

CRA is predominately involved in aluminium smelting, coal mining and exploration, trading metals and minerals between China and Australia. Key products which CRA imports and exports include iron ore, aluminium, alumina and steel.

8.2 Details of holdings in the Company's securities

At the date of this Explanatory Memorandum, CRA is the registered holder of 65,025,000 Shares in the Company.

Details of securities in the Company held by CRA directors who are also Directors of the Company are set out in Section 6.2 of this Explanatory Memorandum.

8.3 No dealings in Shares

There have been no dealings in Shares in the Company from CRA or its Associates over the past four months.

8.4 No benefits to CRA

Except as referred to below, neither CRA nor any of its Associates proposes to make or give any payment or other benefit to any Director, secretary or executive officer of the Company or any subsidiary of the Company as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in the Company or any subsidiary in connection with or conditional upon the outcome of the Capital Return.

8.5 No other arrangement

Neither CRA nor any of its Associates has entered into any arrangements or agreements with any of the Directors of the Company in connection with or conditional upon the outcome of the Capital Return.

8.6 CRA's intentions

This section sets out CRA's intentions on the basis of facts and information concerning the Company, which are known to CRA, and which the Company has been advised of at the time of preparation of this Explanatory Memorandum, and the existing circumstances affecting the business of the Company. Accordingly, the statements set out in this section are statements of CRA's current intentions as advised to the Company, which may vary as circumstances require.

CRA has informed the Company that if the Capital Return is approved by Shareholders and becomes effective, and CRA subsequently owns all of the Shares:

- it will procure that the Company seeks to be removed from the official list of the ASX;
- save for the potential restructure of certain business lines, the existing businesses will continue to be managed in accordance with their current plans and in substantially the same manner in which they have been managed over the last 12 months;
- there are no current plans in place to effect the disposal of any of the existing businesses;
- it will procure that the Company complies with existing and future contractual obligations; and
- it will perform a review of the Company for potential cost saving opportunities in light of the de-listing from the ASX and integration into CRA.

8.7 CRA's voting intentions

CRA has informed the Company that it intends to vote in favour of the Capital Return at the General Meeting.

CRA is not entitled to vote at the Special Meeting.

8.8 Directors

Regardless of whether or not the Capital Return is approved, CRA does not propose to make any immediate changes to the Board of the Company.

Section 9 - Source of funds

The Company will manage its working capital position so that it has sufficient cash on hand at the relevant time to fund the Capital Return, being an aggregate amount of approximately A$15.1 million.

Section 10 - Financial impact on Shareholders and creditors

If the Capital Return is approved and implemented, each Minority Shareholder will receive A$0.75 per Share and their Shares will be cancelled. On cancellation of their Shares, the Minority Shareholders will cease to have any interest in the Company.

As noted above, the Independent Expert has concluded that the Capital Return is fair and reasonable to the Company's the Minority Shareholders as a whole. The Independent Expert has also noted that technically the Capital Return is not fair for Minority Shareholders on a marginal tax rate of 45%. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market (see section 5.4(f) and the Independent Expert's Report for further details).

The Board believes that the implementation of the Capital Return will not materially prejudice the Company's creditors. As at 30 June 2008, the Company has total assets of A$232.1 million and total liabilities of A$194.5 million. Its net tangible assets (***NTA***) at this date is A$36.7 million. At the completion of the implementation of the Capital Return the Company will return approximately A$15.1 million in cash to Shareholders reducing its NTA to approximately A$22.4 million. The Company will have sufficient working capital from its ongoing cash flow and bank trade facilities to enable the Company to pay its creditors and meet its debts when they fall due.

Section 11 - Tax consequences

11.1 Overview

The Company has engaged Baker & McKenzie as the Tax Adviser to report to Shareholders on the Capital Return. Attached to this Explanatory Memorandum in Annexure B is the Tax Adviser's Report. Shareholders should read the Tax Adviser's Report in full before making a decision as to how to vote on the resolutions affecting the Capital Return. If a Shareholder requires further information on the tax implications arising out of the Capital Return or is unclear as to the tax implications, that Shareholder should consult their investment or other professional adviser.

11.2 Australian Taxation Office Class Ruling

A Class Ruling has been requested from the ATO in relation to the Australian tax implications of the Capital Return. The Class Ruling is expected to be issued shortly.

11.3 Stamp Duty

There will be no stamp duty payable on the cancellation of the Shares under the Capital Return.

Section 12 -Timetable

Meetings

- **Special Meeting – Friday, 19 December at 11:00 am**: The Special Meeting will be held at CITIC House, Level 7, 99 King Street, Melbourne, Victoria on Friday, 19 December 2008 commencing at 11:00 am.
- **General Meeting – Friday, 19 December at 1:00 pm or earlier**: The General Meeting will be held at CITIC House, Level 7, 99 King Street, Melbourne, Victoria on Friday, 19 December 2008 commencing at the earlier of 1:00 pm and the conclusion or adjournment of the Special Meeting.

If the Capital Return is approved at the Meetings

- **Shares suspended from trading – Tuesday, 6 January 2009**: If the Capital Return is approved at the Meetings, the trading of Shares on the ASX will be suspended at the close of trading on or about Tuesday, 6 January 2009.
- **Determination of Shareholder consideration entitlement – Tuesday, 13 January 2009**: If the Capital Return is approved at the Meetings, the date for determining entitlements to the return of capital will be at 7:00 pm on Tuesday, 13 January 2009. Any Minority Shareholder listed on the Company's Shareholder register at that time will be entitled to a return of capital under the Capital Return and the Shares held by the Minority Shareholders will be cancelled.
- **Payment to the Minority Shareholders – Tuesday, 20 January 2009**: Payment of the consideration to the Minority Shareholders in respect of any Shares cancelled under the Capital Return will be made on or about Tuesday, 20 January 2009. The payments will be made by cheque posted to each Minority Shareholder whose Shares are cancelled under the Capital Return, at the address of the Minority Shareholder as it appears on the Company's Shareholder register.

Section 13 - Independent Board Committee

The Independent Board Committee is comprised of Mr Roger Marshall and Mr Bruce Foy. They have no shareholding or other economic interest in CRA or the CITIC Group other than as set out in this Explanatory Memorandum.

Section 14 - Independent Expert's Report

The Independent Board Committee, on behalf of the Company, has engaged Deloitte Corporate Finance Pty Limited as an independent expert to report to the Shareholders on the Capital Return.

The Independent Expert's Report has concluded that the Capital Return is fair and reasonable to the Minority Shareholders as a whole, since the value of the consideration is predominantly within and above the Independent Expert’s assessed range of fair market value for a Share.

The Independent Expert has noted that for Minority Shareholders on a marginal tax rate of 45%, technically the Capital Return is not fair. Shareholders in these circumstances may be able to realise a superior outcome by selling their Shares on market (see section 5.4(f) and the Independent Expert's Report for further details).

A copy of the Independent Expert's Report is set out in Annexure A of this Explanatory Memorandum. Shareholders should read the Independent Expert's Report in full before making a decision as to how to vote on the resolution effecting the Capital Return.

Section 15 - Definitions

The following capitalised terms, which are used in documents forming part of this Explanatory Memorandum, have the meanings set out below.

AEDT means Australian Eastern Daylight Savings Time.

ASIC means the Australian Securities and Investments Commission.

Associate has the meaning given to it by sections 10 to 17 of the Corporation Act.

ASX means ASX Limited ACN 008 624 691.

Board means the board of directors of the Company.

CACT means CITIC Australia Commodity Trading Pty Ltd ACN 063 221 509.

Capital Return means the proposed selective reduction of capital in the Company as described in the Explanatory Memorandum and other documents forming part of this Explanatory Memorandum.

Company means CITIC Australia Trading Limited ACN 092 595 741.

CITIC Group means the state owned enterprise of the PRC.

Corporations Act means the *Corporation Act 2001* (Cth).

Corporations Regulations means the *Corporations Regulations 2001* (Cth).

CRA means CITIC Resources Australia Pty Ltd ACN 107 652 817.

CRA Group means CRA and its subsidiaries.

CRH means CITIC Resources Holdings Limited.

Director means a director of the Company.

EBITDA means earnings before interest, tax, depreciation and amortisation.

ESP means the CRA Executive Share Plan.

Explanatory Memorandum means this document containing information on the resolution set out in the Notices of Meetings.

General Meeting means the proposed meeting of all Shareholders at CITIC House, Level 7, 99 King Street, Melbourne, Victoria on Friday, 19 December 2008 at the earlier of 1:00 pm and the conclusion or adjournment of the Special Meeting to consider and, if thought fit, pass the resolution set out in the Notice of General Meeting.

Independent Board Committee means the independent committee appointed by the Board comprising of the Independent Directors.

Independent Directors means any one or both of Mr Roger Marshall and Mr Bruce Foy as the case requires.

Independent Expert means Deloitte Corporate Finance Pty Limited.

Independent Expert's Report means the report by the Independent Expert and which is enclosed with this Explanatory Memorandum at Annexure A.

Listing Rules means the ASX Listing Rules.

Meetings means both the Special Meeting and the General Meeting.

Minority Shareholders means a Shareholder other than CRA.

Notice of General Meeting means the notice dated 19 November 2008, which is enclosed in this Explanatory Memorandum.

Notice of Special Meeting means the notice dated 19 November 2008, which is enclosed in this Explanatory Memorandum.

Notices of Meetings means both the Notice of Special Meeting and the Notice of General Meeting.

NTA means net tangible Assets.

PRC means the Peoples' Republic of China.

Proxy Form means the proxy form enclosed with each Notice of Meeting.

Record Date means 7.00 pm on Tuesday, 13 January 2009.

Share means a fully paid ordinary share issued in the capital of the Company.

Shareholder means a holder of Shares.

Special Meeting means the proposed meeting of the Minority Shareholders at CITIC House, Level 7, 99 King Street, Melbourne, Victoria on 11:00am on Friday, 19 December 2008 to consider and, if thought fit, pass the resolution set out in the Notice of Special Meeting.

Special Resolution means a resolution of Shareholders that has been passed by at least 75% of the votes cast by Shareholders entitled to vote on the resolution.

Tax Adviser means Baker & McKenzie.

Tax Adviser's Report means the report by the Tax Adviser and which is enclosed with this Explanatory Memorandum at Annexure B.

CITIC AUSTRALIA TRADING LIMITED
ACN 092 595 741
(*Company*)

Notice of Special Meeting

A special meeting of Minority Shareholders (as defined below) of the Company will be held at CITIC House, Level 7, 99 King Street, Melbourne, Victoria on Friday, 19 December at 11:00 am.

For the purpose of this meeting, the "Minority Shareholders" consist of all Shareholders of the Company other than CITIC Resources Australia Pty Limited.

1. BUSINESS

The business of this meeting is to consider and, if thought fit, pass the proposed resolution as a special resolution for the purposes of section 256C(2) of the *Corporations Act 2001* (Cth) (***Corporations Act***).

2. RESOLUTION

*That, subject to the resolution being passed at the General Meeting, the shareholders approve the reduction of the share capital of the Company by cancelling and extinguishing, on 20 January 2009 or such other date as the Company determines, all ordinary shares issued in the capital of the Company on issue at 7:00 pm on 13 January 2009 or such other date as the Company determines (**Record Date**) other than the ordinary shares which, at the Record Date, are registered in the name of CITIC Resources Australia Pty Limited, such reduction to be effected by returning to the holders of such ordinary shares which are cancelled the sum of A$0.75 for each ordinary share held at 7:00 pm on the Record Date.*

3. OTHER INFORMATION

Attached to this notice is an Explanatory Memorandum, Independent Expert's Report and Tax Adviser's Report which contain important explanatory and other information for Shareholders in relation to the proposed resolution. Shareholders should read and consider this information carefully in conjunction with this notice.

4. INTERDEPENDECE OF RESOLUTIONS

The selective capital reduction will not proceed and the resolution above will not take effect unless the resolution at the General Meeting is passed by the requisite majority.

5. VOTING ENTITLEMENT

The Company has determined that for the purposes of this meeting, all shares in the Company will be taken to be held by the persons who held them as registered Shareholders at 7:00 pm on 17 December 2008 (***Entitlement Time***).

All holders of shares in the Company as at the Entitlement Time will be entitled to vote at the meeting except CITIC Resources Australia Pty Limited. All votes cast by the Minority Shareholders, whether they are cast in favour or against the Proposal, will be counted for the purposes of determining whether the resolution is passed at this Special Meeting.

6. APPOINTING A PROXY

In accordance with section 249L(1)(d) of the Corporations Act, a Shareholder of the Company who is entitled to attend and vote at the General Meeting may appoint a person as the Shareholder's proxy to attend and vote for the Shareholder at the General Meeting.

The appointment may specify the proportion or number of votes that the proxy may exercise.

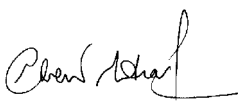
If the Shareholder is entitled to cast 2 or more votes at the meeting, the Shareholder may appoint 2 proxies. If the Shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes. If the Shareholder appoints 2 proxies, neither proxy may vote on a show of hands.

A proxy need not be a Shareholder of the Company. The Shareholder or the Shareholder's attorney must sign the enclosed proxy form. A proxy given by a corporation must be signed either under seal or by duly authorised officers or by attorney.

To be valid, completed proxies (and any accompanying powers of attorney where necessary) must be received by the Company's share registry, Computershare Investor Services Pty Ltd, either by post to GPO Box 242, Melbourne, Victoria 3001 or by facsimile to Computershare Investor Services Pty Ltd on (within Australia) 1800 783 447 or (outside Australia) + 61 3 9473 2555 by no later than 11:00 am on 17 December 2008 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the meeting).

Proxies or powers of attorney received after this time will be invalid.

By order of the Board



Andrew Metcalfe
Company Secretary

Dated: 19 November 2008

CITIC AUSTRALIA TRADING LIMITED
ACN 092 595 741
(*Company*)

Notice of General Meeting

A general meeting of the Shareholders of the Company will be held at CITIC House, Level 7, 99 King Street, Melbourne, Victoria on Friday, 19 December 2008 at the earlier of 1:00 pm and the conclusion or adjournment (whichever is earlier) of the Special Meeting of Shareholders to be held on the same date.

For the purpose of this meeting, the "Minority Shareholders" consist of all Shareholders of the Company other than CITIC Resources Australia Pty Limited.

1. BUSINESS

The business of this meeting is to consider and, if thought fit, pass the proposed resolution as a special resolution for the purposes of section 256C(2)(a) of the *Corporations Act 2001* (Cth) (***Corporations Act***).

2. RESOLUTION

*That, subject to the resolution being passed at the Special Meeting, the shareholders approve the reduction of the share capital of the Company by cancelling and extinguishing, on 20 January 2009 or such other date as the Company determines, all ordinary shares issued in the capital of the Company on issue at 7:00 pm on 13 January 2009 or such other date as the Company determines (**Record Date**) other than the ordinary shares which, at the Record Date, are registered in the name of CITIC Resources Australia Pty Limited, such reduction to be effected by returning to the holders of such ordinary shares which are cancelled the sum of A$0.75 for each ordinary share held at 7:00 pm on the Record Date.*

3. OTHER INFORMATION

Attached to this notice is an Explanatory Memorandum, Independent Expert's Report and Tax Adviser's Report which contain important explanatory and other information for Shareholders in relation to the proposed resolution. Shareholders should read and consider this information carefully in conjunction with this notice.

4. INTERDEPENDECE OF RESOLUTIONS

The selective capital reduction will not proceed and the resolution above will not take effect unless the resolution at the Special Meeting is passed by the requisite majority.

5. VOTING EXCLUSION

In accordance with section 256C(2)(a) of the Corporations Act, any votes cast in favour of the resolution by:

(a) any person who will receive consideration as part of the proposed capital reduction; or

(b) any associate (as defined under the Corporations Act) of any such person,

will be disregarded for the purposes of determining whether the special resolution is passed at the General Meeting.

As such, votes cast in favour of this resolution by the Minority Shareholders or their associates at this general meeting will be disregarded. However, the Company will not disregard any votes cast against the resolution by the Minority Shareholders.

The Company also need not disregard a vote cast in favour if:

(a) it is cast by a person as proxy for a person who is entitled to cast a vote in favour, in accordance with the directions on the relevant Proxy Form; or

(b) it is cast by the person chairing the meeting as proxy for a person who is entitled to cast a vote in favour, in accordance with a direction on the Proxy Form to vote as the proxy decides.

6. VOTING ENTITLEMENT

The Company has determined that for the purposes of the General Meeting, all shares in the Company will be taken to be held by the persons who held terms as registered Shareholders at 7:00 pm on 17 December 2008 (***Entitlement Time***). Subject to the voting exclusion noted above, all holders of shares in the Company as at the Entitlement Time will be entitled to vote at the General Meeting.

7. APPOINTING A PROXY

In accordance with section 249L(1)(d) of the Corporations Act, a Shareholder of the Company who is entitled to attend and vote at the General Meeting may appoint a person as the Shareholder's proxy to attend and vote for the shareholder at the General Meeting.

The appointment may specify the proportion or number of votes that the proxy may exercise.

If the Shareholder is entitled to cast 2 or more votes at the meeting, the Shareholder may appoint 2 proxies. If the Shareholder appoints 2 proxies and the appointment does not specify the proportion or number of the Shareholder's votes each proxy may exercise, each proxy may exercise half of the votes. If the Shareholder appoints 2 proxies, neither proxy may vote on a show of hands.

A proxy need not be a Shareholder of the Company. The Shareholder or the Shareholder's attorney must sign the Proxy Form. A proxy given by a corporation must be signed either under seal or by duly authorised officers or by attorney.

To be valid, completed proxies (and any accompanying powers of attorney where necessary) must be received by the Company's share registry, Computershare Investor Services Pty Ltd, either by post to GPO Box 242, Melbourne, Victoria 3001 or by facsimile to Computershare Investor Services Pty Ltd on (within Australia) 1800 783 447 or (outside Australia) + 61 3 9473 2555 by no later than 1:00 pm on 17 December 2008 (or if the meeting is adjourned, at least 48 hours before the resumption of the meeting in relation to the resumed part of the meeting).

Proxies or powers of attorney received after this time will be invalid.

By order of the Board

Andrew Metcalfe
Company Secretary

Dated: 19 November 2008

Annexure A

Independent Expert's Report

See attached.

Deloitte.

CITIC Australia Trading Limited

Independent expert's report

14 November 2008

Deloitte Corporate Finance Pty Limited
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Financial services guide

14 November 2008

What is a Financial Services Guide?

This Financial Services Guide (FSG) provides important information to assist you in deciding whether to use any of the general financial product advice provided by Deloitte Corporate Finance Pty Limited (Deloitte Corporate Finance, we, us or our) the holder of Australian Financial Services Licence (AFSL) No. 241457. The contents of this FSG include:

- who we are and how we can be contacted
- what services we are authorised to provide under our AFSL
- how we (and any other relevant parties) are remunerated in relation to any general financial product advice we may provide
- details of our dispute resolution systems and how you can access them.

Information about us

We have been engaged by the Independent Directors of CITIC Australia Trading Limited to give general financial product advice in the form of a report to be provided to you in connection with the offer from CITIC Resources Australia Pty Limited to increase its shareholding in CITIC Australia Trading Limited from 76.35% to 100%. You are not the party or parties who engaged us to prepare this report. We are not acting for any person other than the party or parties who engaged us. We are required to give you an FSG by law because our report is being provided to you. You may contact us using the details located above.

Deloitte Corporate Finance is ultimately owned by the Australian partnership of Deloitte Touche Tohmatsu. The Australian partnership of Deloitte Touche Tohmatsu and its related entities provide services primarily in the areas of audit, tax, consulting, and financial advisory services. Our directors may be partners in the Australian partnership of Deloitte Touche Tohmatsu.

Deloitte refers to one or more of Deloitte Touche Tohmatsu, a Swiss Verein, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com.au/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu and its member firms.

The financial product advice in our report is provided by Deloitte Corporate Finance and not by the Australian partnership of Deloitte Touche Tohmatsu, its related entities, or the Deloitte Touche Tohmatsu Verein.

Associations and relationships

We do not have any formal associations or relationships with any entities that are issuers of financial products. However, you should note that we and the Australian partnership of Deloitte Touche Tohmatsu (and its related bodies corporate) may from time to time provide professional services to financial product issuers in the ordinary course of business.

What financial services are we licensed to provide?

The AFSL we hold authorises us to provide the following financial services to retail and wholesale clients:

- provide financial product advice in respect of:
  - debentures, stocks or bonds to be issued or proposed to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities
- deal in a financial product by arranging for another person to apply for, acquire, vary or dispose of financial products in respect of:
  - debentures, stocks or bonds issued or to be issued by a government
  - interests in managed investment schemes including investor directed portfolio services
  - securities.

Information about the general financial product advice we provide

The financial product advice provided in our report is known as “general advice” because it does not take into account your personal objectives, financial situation or needs. You should consider whether the general advice contained in our report is appropriate for you, having regard to your own personal objectives, financial situation or needs.

If our advice is being provided to you in connection with the acquisition or potential acquisition of a financial product issued by another party, we recommend you obtain and read carefully the relevant offer document provided by the issuer of the financial product. The purpose of the offer document is to help you make an informed decision about the acquisition of a financial product.

How are we and our employees remunerated?

Our fees are usually determined on a fixed fee or time cost basis and may include reimbursement of any expenses incurred in providing the services.

Fee arrangements are agreed with the party or parties who actually engage us, and we confirm our remuneration in a written letter of engagement to the party or parties who actually engage us.

Our fee is $100,000 and will also be disclosed in the relevant offer document prepared by the issuer of the financial product. Deloitte Corporate Finance, its directors and officers, any related bodies corporate or associates and their directors and officers, do not receive any commissions or other benefits, except for the fees rendered to the party or parties who actually engage us.

All of our employees receive a salary. Our employees are eligible for annual salary increases and bonuses based on overall performance but do not receive any commissions or other benefits arising directly from services provided to you. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance.

We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

What should you do if you have a complaint?

If you have any concerns regarding our report, you may wish to advise us. Our internal complaint handling process is designed to respond to your concerns promptly and equitably. All complaints must be in writing addressed to:

The Complaints Officer
PO Box N250
Grosvenor Place
Sydney NSW 1220

If you are not satisfied with the steps we have taken to resolve your complaint, you may contact the Financial Ombudsman Service (FOS). FOS provides free advice and assistance to consumers to help them resolve complaints relating to members of the financial services industry. Complaints may be submitted to FOS at:

Financial Ombudsman Service Limited
GPO Box 3
Melbourne VIC 3001
Telephone: 1300 780 808
Fax: +61 3 9613 6399
Email: info@fos.org.au
Internet: http://www.fos.org.au

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Independent Directors
CITIC Australia Trading Limited
Level 7, CITIC House
99 King Street
Melbourne VIC 3000

14 November 2008

Dear Independent Directors

Independent expert's report

Introduction

On 3 November 2008, CITIC Australia Trading Limited (CATL) announced that it had received a proposal from CITIC Resources Australia Pty Limited (CRA) (the Proposed Capital Return). Under the Proposed Capital Return, CATL would cancel all of the shares held by the shareholders of CATL other than CRA (the Minority Shareholders), and in return the Minority Shareholders would receive cash consideration of $0.75 per CATL share, comprising a capital component of $0.17 and a fully franked dividend component of $0.58.

Upon completion of the Proposed Capital Return, CATL will become a wholly-owned subsidiary of CRA and would subsequently be delisted from the Australian Securities Exchange (ASX). The directors of CATL have prepared an explanatory memorandum containing the detailed terms of the Proposed Capital Return (the Explanatory Memorandum) and an overview of the Proposed Capital Return is provided in Section 1 of our report.

Purpose of the report

The directors of CATL that are unrelated to CRA (the Independent Directors) have requested Deloitte Corporate Finance Pty Limited (Deloitte) to prepare an independent expert's report in relation to the Proposed Capital Return, in order to help satisfy the information requirements under Section 256C(4) of the Corporations Act 2001 (Cwth) (Corporations Act). We have prepared our independent expert's report as if it was required under Section 640 of the Corporations Act (Section 640), for the purpose of providing the Minority Shareholders of CATL with an objective and disinterested view as to whether the Proposed Capital Return is fair and reasonable, and to provide them with sufficient information to make an effective, informed decision as to whether or not to approve the Proposed Capital Return. This independent expert's report has been prepared in a manner consistent with relevant Australian Securities and Investments Commission (ASIC) Regulatory Guides.

This report is to be included in an Explanatory Memorandum to be sent to Shareholders and has been prepared for the exclusive purpose of assisting Shareholders in their consideration of the Proposed Capital Return. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

Basis of evaluation

In order to assess whether the Proposed Capital Return is fair and reasonable we have:

- assessed whether the Proposed Capital Return is fair by estimating the fair market value of an ordinary CATL share on a control basis and comparing that value to the estimated fair market value of the consideration to be received by the Minority Shareholders pursuant to the Proposed Capital Return
- assessed the reasonableness of the Proposed Capital Return by considering other advantages and disadvantages of the Proposed Capital Return to the Minority Shareholders.

Summary and conclusion

In our opinion the Proposed Capital Return is fair and reasonable to the Minority Shareholders as a whole, however individual shareholders on the highest marginal tax rate should note that technically the Proposed Capital Return is not fair, as discussed in detail below. Shareholders in these circumstances may be able to realise a superior outcome by selling their CATL shares on-market. In arriving at this opinion, we have had regard to the factors set out below.

The Proposed Capital Return is fair

ASIC Regulatory Guide 111 defines an offer under a control transaction to be fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a CATL share on a control basis with the cash consideration offered to the Minority Shareholders.

Table 1: Evaluation of fairness

	Low value per share ($)	High value per share ($)
Estimated fair market value of a CATL share (control basis)	0.66	0.84
Cash consideration offered to the Minority Shareholders	0.75	0.75
Value of consideration offered to the Minority Shareholders	0.63	1.00

Source: Deloitte analysis

The low end of the value of the consideration offered to the Minority Shareholders is below the range of our estimate of the fair market value of a CATL share. The high end of the value of the consideration offered to the Minority Shareholders is above the range of our estimate of the fair market value of a CATL share. In relation to the Proposed Capital Return, we consider that, if the value of the consideration offered falls within or above the range of values for a CATL share, the offer is fair. As the value of the consideration is predominantly within and above our assessed range of values for a CATL share, **it is therefore our opinion that the Proposed Capital Return is fair.**

The value of the consideration takes account of the tax which individual shareholders will have to pay on the dividend component of the Proposed Capital Return, as set out in Table 2 below.

Since the low end of the consideration offered to the Minority Shareholders of $0.63 per CATL share is lower than our assessed value of a CATL share of $0.66, technically the Proposed Capital Return is not fair (by $0.03 per CATL share) to those specific shareholders who have a marginal tax rate of 45%. These shareholders may be able to achieve a superior return by selling their CATL shares on-market, as CATL shares have traded above $0.70 on the ASX since the announcement of the Proposed Capital Reduction.

Valuation of a CATL share

We have estimated the fair market value of a CATL share using the capitalisation of maintainable earnings method, which estimates the value of CATL by capitalising its maintainable earnings with an appropriate earnings multiple.

We have adopted net profit after tax (NPAT) as an appropriate measure of earnings for our capitalisation of maintainable earnings valuation of CATL. NPAT includes the effects of net interest expense, which is a key element of CATL's operations.

We have assessed CATL's maintainable NPAT to be $8.5 million, based on our consideration of the following:

- projections prepared by CATL in conjunction with CRA
- CATL's historical earnings, including earnings growth and margins
- factors likely to affect CATL's potential future earnings including the amount and cost of CATL's trade finance facilities, which are currently supported by a guarantee from CRA for no charge. We consider an arm's length cost for the guarantee would reduce future maintainable NPAT by $1.5 million per annum. We have taken this into account in determining future maintainable NPAT for CATL
- discussions with CATL management and the Independent Directors regarding the prospects for its businesses and the import and export markets in which CATL operates in general.

We have adopted an earnings multiple in the range from 5.5 times to 6.5 times on a listed portfolio basis based on our consideration of the following:

- NPAT multiples observed for companies operating in the mining, mining services, banking and financial services and wholesale distribution industries
- NPAT multiples observed for the All Ordinaries Index and the MSCI Capital Index
- our assessment of CATL's cost of capital and growth prospects.

We have also included a premium for control in the range from 20% to 30% in determining a value for a CATL share on a control basis.

Valuation of consideration

Under the Proposed Capital Return, CATL will cancel all of the shares held by the Minority Shareholders, and in return the Minority Shareholders will receive cash consideration of $0.75 per CATL share, comprising a capital return component of $0.17 and a fully franked dividend component of $0.58. The franking credit attaching to the dividend component is approximately $0.25 per share.

Given the high proportion of the consideration being received by way of dividend, we have considered the impact of taxation on the dividend component of the consideration. The value of the consideration to individual Minority Shareholders will differ depending on their individual tax profile. The following table sets out the value of the consideration under a range of common marginal tax rates.

Table 2: Valuation of the consideration

	Marginal tax rate				
	0%	15%	30%	40%	45%
Possible type of investor	Investment supporting an allocated pension	Superannuation fund	Company	Individual	Individual
Capital return	0.17	0.17	0.17	0.17	0.17
Dividend (excluding franking credit)	0.58	0.58	0.58	0.58	0.58
Franking credit	0.25	0.25	0.25	0.25	0.25
Tax payable on dividend	0.00	(0.12)	(0.25)	(0.33)	(0.37)
Total value of the consideration	**1.00**	**0.87**	**0.75**	**0.67**	**0.63**

Source: Deloitte analysis

Note:

1. The tax payable figures above do not include an allowance for the Medicare levy

We estimate the value of the consideration to be in the range from $0.63 to $1.00, depending on an individual shareholder's marginal tax rate. We note that CATL shares have traded above $0.70 on the ASX since the announcement of the Proposed Capital Reduction, indicating that shareholders on marginal tax rates above 30% may be able to achieve an outcome which is superior to the value of the consideration offered under the Proposed Capital Return by selling their shares on-market.

In assessing the value of the consideration to the Minority Shareholders, we have ignored the value of any capital loss which may accrue to the Minority Shareholders as a consequence of the capital return being lower than their initial acquisition price.

The Proposed Capital Return is reasonable

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Capital Return is reasonable. We have also considered the factors set out below in assessing the reasonableness of the Proposed Capital Return.

Advantages of the Proposed Capital Return

We have identified the following likely advantages to the Minority Shareholders of the Proposed Capital Return:

Minority Shareholders are receiving a premium to CATL's share price prior to the announcement of the Proposed Capital Return

The consideration offered under the Proposed Capital Return includes a control premium. We have assessed the value of the consideration per CATL share pursuant to the Proposed Capital Return to be in the range from $0.63 to $1.00 per share.

The one day volume weighted average price (VWAP) of CATL shares, prior to the announcement of the Proposed Capital Return, was $0.48, and the 30-day VWAP was $0.57. The low end of the value of the consideration represents a control premium to the share trading in CATL shares prior to the announcement of the Proposed Capital Return of between 11% and 31%. This is not inconsistent with control premiums paid in the Australian market.

Potential for other takeover offers

Since CRA currently holds a 76.35% interest in CATL, the likelihood of Minority Shareholders realising a similar premium through an alternative offer from another bidder is reduced. To date, there have not been any takeover offers made for CATL.

In the absence of the Proposed Capital Return CATL, shares may trade below current levels

In the absence of the Proposed Capital Return or an alternative transaction, CATL shares may trade below the prices achieved since the announcement of the Proposed Capital Return. In those circumstances, we would expect CATL shares to trade at a price consistent with our valuation of a CATL share, after adjusting our control value for an appropriate minority interest discount.

Disadvantages of the Proposed Capital Return

We have identified the following disadvantages to the Minority Shareholders of the Proposed Capital Return:

Consideration is lower for shareholders with higher marginal tax rates

Due to the high proportion of the consideration which comprises a fully franked dividend, the after tax outcome for shareholders will depend on each shareholder's marginal tax rate. As set out in Table 2, for shareholders with a marginal tax rate above 30%, the net after tax consideration will be lower than the cash consideration of $0.75 per CATL share; whilst for shareholders with a marginal tax rate below 30%, the net after tax consideration will be higher than the cash consideration of $0.75 per CATL share.

Therefore the net after tax consideration will be lower for shareholders with a higher marginal tax rate.

For shareholders in these circumstances, depending on the cost base for their shares, it may be possible to realise higher proceeds by selling their CATL shares on market rather than accepting the Proposed Capital Reduction.

Certain shareholders will receive a consideration with a value below the low end of the valuation range

Shareholders facing the highest marginal tax rate of 45% will receive a consideration valued at approximately $0.63, which is below the low end of our valuation range for a CATL share. Accordingly, for these shareholders, the Proposed Capital Reduction is not 'fair'. However, these shareholders may be able to achieve a superior return by selling their CATL shares on-market as CATL shares have traded above $0.70 on the ASX since the announcement of the Proposed Capital Reduction, indicating that shareholders on marginal tax rates above 30% may be able to achieve an outcome which is superior to the outcome achievable with Proposed Capital Return by selling their CATL shares on-market.

No participation in future growth of CATL's business

The value of a CATL share is influenced by the demand for commodities such as alumina and iron ore. Following the recent downturn in global financial markets, commodity prices have decreased compared to recent historical levels. In our assessment of future maintainable earnings we had regard to the current commodity price and demand outlook. If the Proposed Capital Return proceeds, to the extent that earnings are in excess of the levels assumed in our valuation, the Minority Shareholders will forego this potential upside.

Furthermore, our valuation of CATL recognises the potential future growth of CATL's business based on its current business operations, however, if CATL is able to generate additional cash flows, beyond those considered in our valuation, for example, by identifying additional import and export trading opportunities, the value of CATL may be enhanced, perhaps significantly, to a value that may exceed the estimated value of the CATL shares as set out in this report.

Other matters

Taxation issues

Under the Proposed Capital Return, the Minority Shareholders may incur a taxation liability for income tax upon cancellation of their CATL shares. Minority Shareholders should consult their tax advisers in relation to their personal circumstances.

We note that we have considered the potential impact of taxation on the dividend component of the consideration in our assessment of the value of the consideration. We have ignored the possible capital loss resulting from the Proposed Capital Return.

Conclusion on reasonableness

As the Proposed Capital Return is fair it is also reasonable.

Opinion

In our opinion, the Proposed Capital Return is fair and reasonable to the Minority Shareholders. An individual shareholder's decision in relation to the Proposed Capital Return may be influenced by his or her particular circumstances, including their marginal tax rates and the cost base of their CATL shares for capital gains tax purposes. If in doubt the shareholder should consult an independent adviser.

This opinion should be read in conjunction with our detailed report which sets out our scope and findings.

Yours faithfully

DELOITTE CORPORATE FINANCE PTY LIMITED

Hamish Blair

Director

Stephen Reid

Director

Note: All amounts stated in this report are subject to rounding and in Australian dollars ($) unless otherwise stated.

Contents

Appendices

1 Terms of the Proposed Capital Return

1.1 Summary

On 3 November 2008, CATL announced that it intended to undertake a selective capital reduction of all the shares held by the Minority Shareholders, under which CATL would cancel all of the shares held by the Minority Shareholders, and in return the Minority Shareholders would receive cash consideration of $0.75 per CATL share, comprising a capital return of $0.17 and a fully franked dividend of $0.58.

CRA currently holds a 76.35% equity interest in CATL. Two of the four directors of CATL (Mr Chen Zeng and Mr Tinghu Guo) are also directors of CRA, and accordingly are not independent in relation to the Proposed Capital Return. The remaining two directors of CATL (Mr Roger Marshall OBE and Mr Bruce Foy) are independent of CRA.

Upon completion of the Proposed Capital Return, CATL would become a wholly-owned subsidiary of CRA and would subsequently be delisted from the ASX.

The Proposed Capital Return is subject to and conditional upon:

- receipt of the independent expert's report confirming that the Proposed Capital Return is fair and reasonable to Minority Shareholders
- receipt of a satisfactory Class Ruling from the Australian Taxation Office
- approval of the Proposed Capital Return at a general meeting as required under Section 256C(2)(a) of the Corporations Act
- approval of the Proposed Capital Return at a meeting of the Minority Shareholders as required under Section 256C(2) of the Corporations Act.

Full details of the Proposed Capital Return are provided in the Explanatory Memorandum.

1.2 CRA's intentions

Through the Proposed Capital Return, CRA intends to gain 100% ownership of CATL and CATL would subsequently be delisted from the ASX. We have included a brief description of CRA in Section 4.2.

2 Scope of the report

2.1 Purpose of the report

The Independent Directors of CATL have requested Deloitte to prepare an independent expert's report in relation to the Proposed Capital Return, in order to help satisfy the information requirements under Section 256C(4) of the Corporations Act. We have prepared our independent expert's report as if it was required under Section 640, for the purpose of providing the Minority Shareholders of CATL with an objective and disinterested view as to whether the Proposed Capital Return is fair and reasonable, and to provide them with sufficient information to make an effective, informed decision as to whether or not to approve the Proposed Capital Return. This independent expert's report has been prepared in a manner consistent with relevant ASIC Regulatory Guides.

This report is to be included in an Explanatory Memorandum to be sent to the Shareholders and has been prepared for the exclusive purpose of assisting the Shareholders in their consideration of the Proposed Capital Return. We are not responsible to you, or anyone else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose.

2.2 Basis of evaluation

2.2.1 Regulation

In our determination as to whether the Proposed Capital Return is fair and reasonable, we have had regard to common market practice and to ASIC Regulatory Guide 111 regarding the content of expert's reports. The Regulatory Guide prescribes standards of best practice in the preparation of independent expert's reports pursuant to Section 640.

ASIC Regulatory Guide 111 provides guidance in relation to the content of independent expert's reports prepared for transactions under Chapters 5, 6 and 6A of the Corporations Act, in relation to:

- takeover bids
- schemes of arrangement
- compulsory acquisitions or buy-outs
- acquisitions approved by security holders under item 7 of Section 611 of the Corporations Act
- selective capital reductions
- related party transactions
- transactions with persons in a position of influence
- demergers and demutualisations of financial institutions
- buy-backs.

ASIC Regulatory Guide 111 refers to a 'control transaction' as being the acquisition or increase of a controlling stake in a company which could be achieved, for example, by way of a takeover offer, scheme of arrangement, approval of an issue of shares using item 7 of Section 611 of the Corporations Act and selective capital reduction or selective buy back under Chapter 2J of the Corporations Act.

Section 640 requires an independent expert's report in connection with a takeover offer to state whether, in the expert's opinion, the takeover offer is fair and reasonable. Where a proposed transaction has the same effect as a takeover, the form of analysis used by the expert should be substantially the same as for a takeover bid.

In our opinion, the Proposed Capital Reduction has substantially the same effect as a takeover offer for the shares in CATL. Consequently, we have evaluated the Proposed Capital Reduction as if it were a takeover bid.

2.2.2 Fairness

ASIC Regulatory Guide 111 defines an offer under a control transaction as being fair if the value of the offer price is equal to or greater than the value of the securities the subject of the offer. The comparison must be made assuming 100% ownership of the target company (i.e. on a control basis).

Accordingly we have assessed whether the Proposed Capital Return is fair by comparing the consideration payable under the Proposed Capital Return with the value of a CATL share on a control basis. We assessed the value of each CATL share by determining the current value of CATL, on a controlling basis, and dividing this value by the number of shares on issue.

The shares have been valued at fair market value, which we have defined as the amount at which the shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither of whom is under any compulsion to buy or sell. Special purchasers may be willing to pay higher prices to reduce or eliminate competition, to ensure a source of material supply or sales, or to achieve cost savings or other synergies arising on business combinations, which could only be enjoyed by the special purchaser. Our valuation of CATL has not been premised on the existence of a special purchaser.

2.2.3 Reasonableness

ASIC Regulatory Guide 111 considers an offer to be reasonable if either:

- the offer is fair
- despite not being fair, but considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.

To assess the reasonableness of the Proposed Capital Return we have considered the following significant factors in addition to determining whether the Proposed Capital Return is fair:

- the existing shareholding of CRA in CATL
- any other significant shareholdings in CATL
- the likely market price and liquidity of CATL shares in the absence of the Proposed Capital Return
- the likelihood of an alternative offer being made
- other implications for the Minority Shareholders of rejecting the Proposed Capital Return.

2.2.4 Individual circumstances

We have evaluated the Proposed Capital Return for the Minority Shareholders as a whole and have not considered the effect of the Proposed Capital Return on the particular circumstances of individual investors. Due to their particular circumstances, individual investors may place a different emphasis on various aspects of the Proposed Capital Return from the one adopted in this report. Accordingly, individuals may reach different conclusions to ours on whether the Proposed Capital Return is fair and reasonable. If in doubt investors should consult an independent adviser.

2.3 Limitations and reliance on information

The opinion of Deloitte is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. This report should be read in conjunction with the declarations outlined in Appendix 4.

Our procedures and enquiries do not include verification work nor constitute an audit or a review engagement in accordance with Australian Auditing Standards (AUS).

3 Commodities trading in Australia and China

3.1 Introduction

CATL is an Australian-based international commodity trading company principally engaged in trade between Australia and China. CATL exports commodities mainly to China and imports goods such as steel, batteries and tyres from China to Australia. In 2007, CATL's exports represented approximately 75% of total revenue while imports represented approximately 25%. In 2007, CATL exported mainly alumina, iron ore and steel, however management intends to discontinue its export steel business due to low profit margins. Given CATL's current focus, we present an overview of the following:

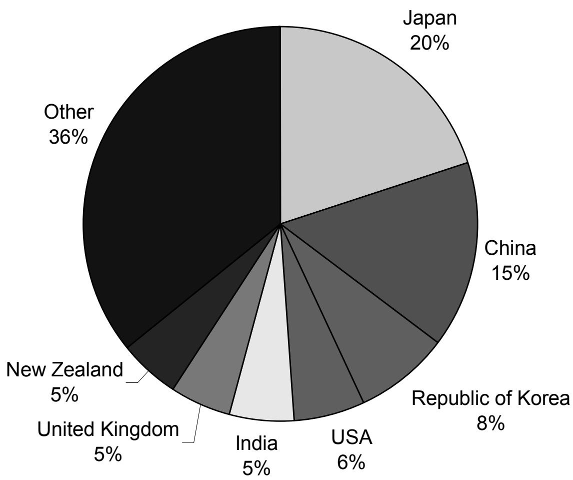
- Australian and Chinese international trade markets
- the alumina market
- the iron ore market.

3.2 Australian and Chinese international trade markets

3.2.1 Australian export markets

Australia's principal export markets comprise mainly economies in the Asia-Pacific region. Australia's major export markets for the 12 months to August 2008 are set out in the figure below.

Figure 1: Australia's export markets for the 12 months to August 2008

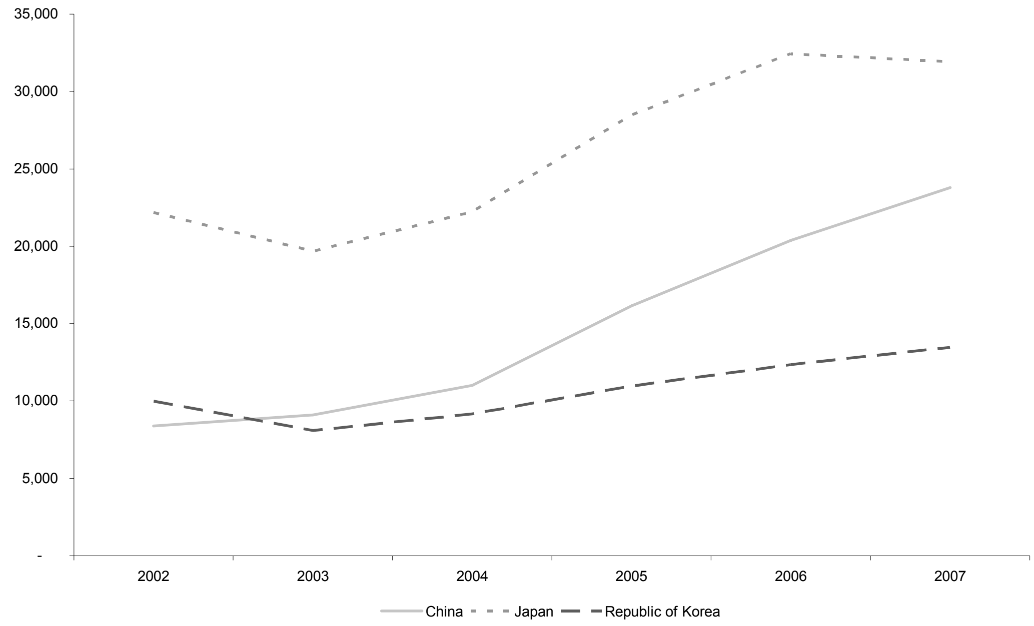


Source: Australian Bureau of Statistics (ABS)

China is Australia's second largest export market behind Japan, comprising 15% of total Australian exports for the 12 months to August 2008.

Australia's exports to China have increased significantly between 2002 and 2007, compared to a moderate growth in exports to the other major trade partners. The total value of exports to Australia's major export partners over this period is outlined in the following table.

Figure 2: Total exports to major export partners - 2002 to 2007 ($ million)



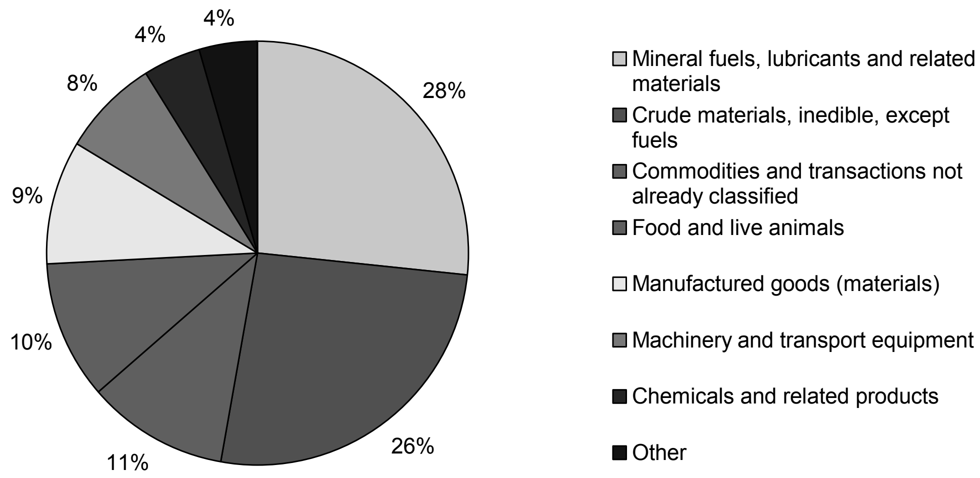
Source: ABS

The compound annual growth rate (CAGR) of exports to China between 2002 and 2007 was approximately 23% per annum, compared to a CAGR of 8% per annum and 6% per annum for exports to Japan and the Republic of Korea, respectively [1]. Economic growth in China during this period, as measured by real growth in gross domestic product, has been 10.6% per annum [2], however, in the third quarter of 2008, economic growth in China slowed slightly to 9.9% per annum [3].

[1] ABS, International Trade in Goods and Services
[2] National Bureau of Statistics of China, National Economic and Social Development
[3] National Bureau of Statistics of China, National Economy: Steady and Fast Growth in the First Three Quarters of 2008

Exports from Australia consist predominantly of raw materials and other primary sector products. Australia's major export product categories for the 12 months to August 2008 are set out in the figure below.

Figure 3: Australia's export products for the 12 months to August 2008



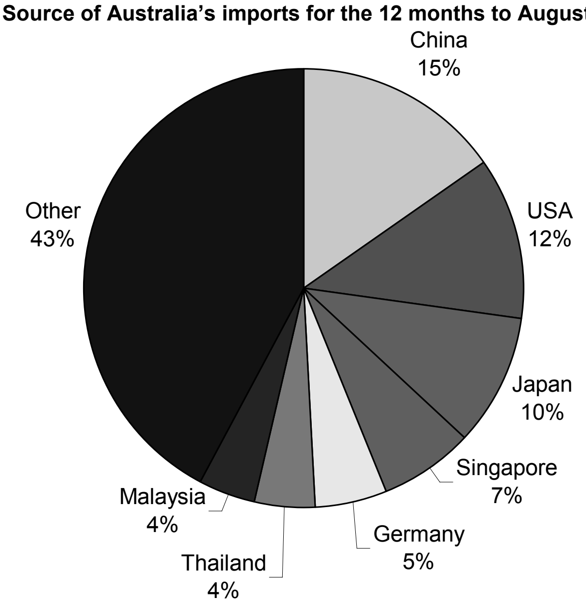
Source: ABS

For the 12 months to August 2008, total iron and steel exported was approximately $1.6 billion and non-ferrous metals exports, including aluminium, totalled approximately $12.6 billion. Iron, steel and aluminium exports are categorised as manufactured goods (materials) in the table above, which is Australia's fifth largest export product category representing approximately 9% of total exports.

3.2.2 Australian imports

The source of Australia's imports, based on value, for the 12 months to August 2008 is set out in the figure below.

Figure 4: Source of Australia's imports for the 12 months to August 2008

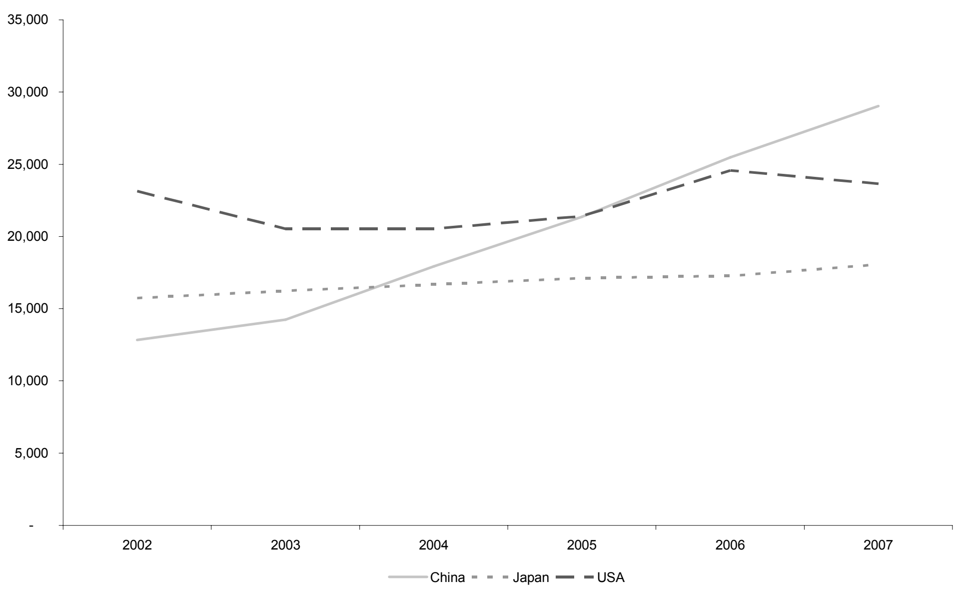


Source: ABS

For the 12 months to August 2008, the three largest supplier countries for imports to Australia were China, USA and Japan.

The growth in the value of imports from China between 2002 and 2007 has been significantly higher than for other supplier countries. The total value of imports from the largest supplier countries over this period is outlined in the following table.

Figure 5: Total imports - 2002 to 2007 ($ million)



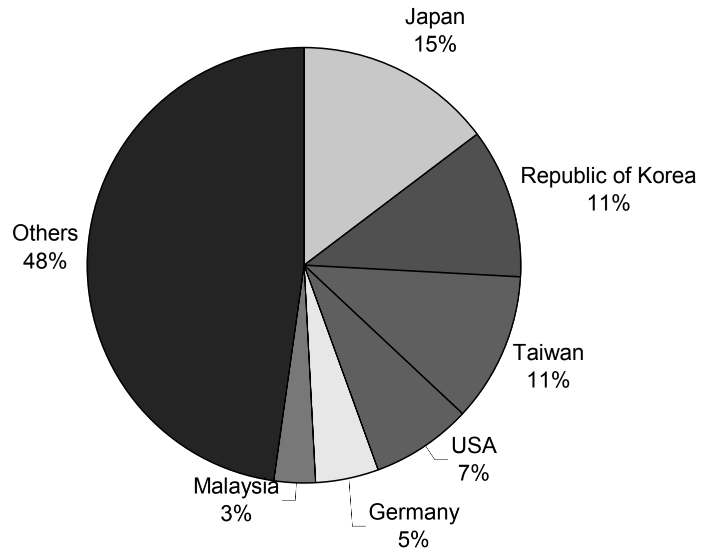
Source: ABS

The CAGR of the value of imports from China between 2002 and 2007 was approximately 18% per annum, compared to a CAGR of 3% per annum for Japan and a negligible CAGR for the USA.

3.2.3 Chinese export markets

In 2006 (latest available) China's top three export markets were Japan, the Republic of Korea and Taiwan. China's major export markets in 2006 are set out in the figure below.

Figure 6: China's export markets for 2006

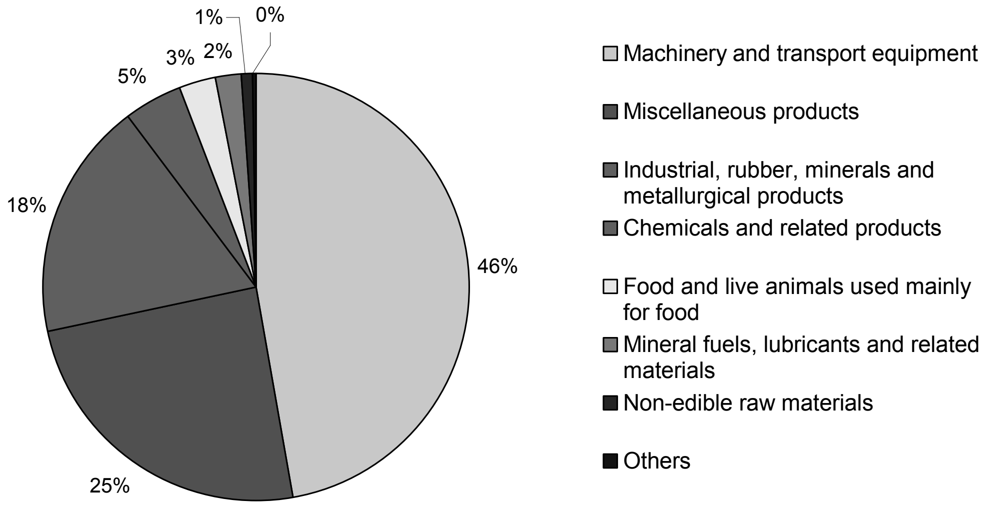


Source: National Bureau of Statistics of China

In 2006 the value of China's exports to Australia totalled approximately $19.3 billion (2.4% of total exports from China).

Exports from China consist principally of manufactured goods. The major export product categories from China in 2006 (latest available) are set out in the figure below.

Figure 7: China's export products for 2006



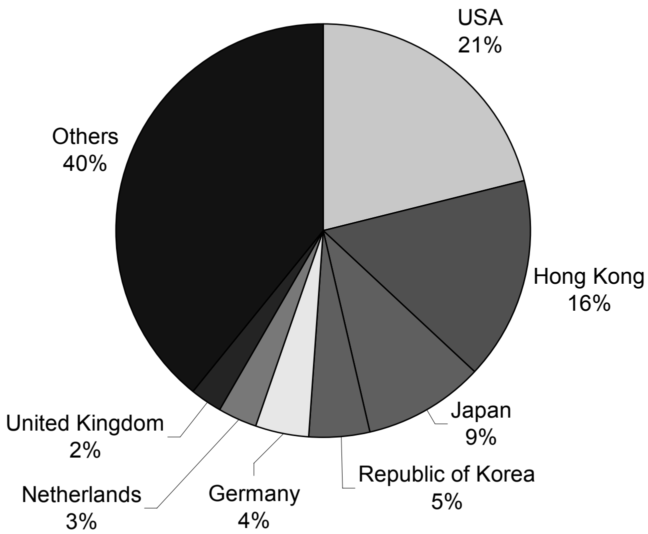
Source: National Bureau of Statistics of China

In 2006 China's largest export categories were machinery and transport equipment, miscellaneous products and industrial, rubber, minerals and metallurgical products.

3.2.4 Chinese import markets

In 2006 (latest available) the top three supplier countries to China were USA, Hong Kong and Japan. In 2006 the value of imports from Australia to China was approximately $13.6 billion (1.4% of total imports to China). The source of China's imports in 2006 is set out in the following figure.

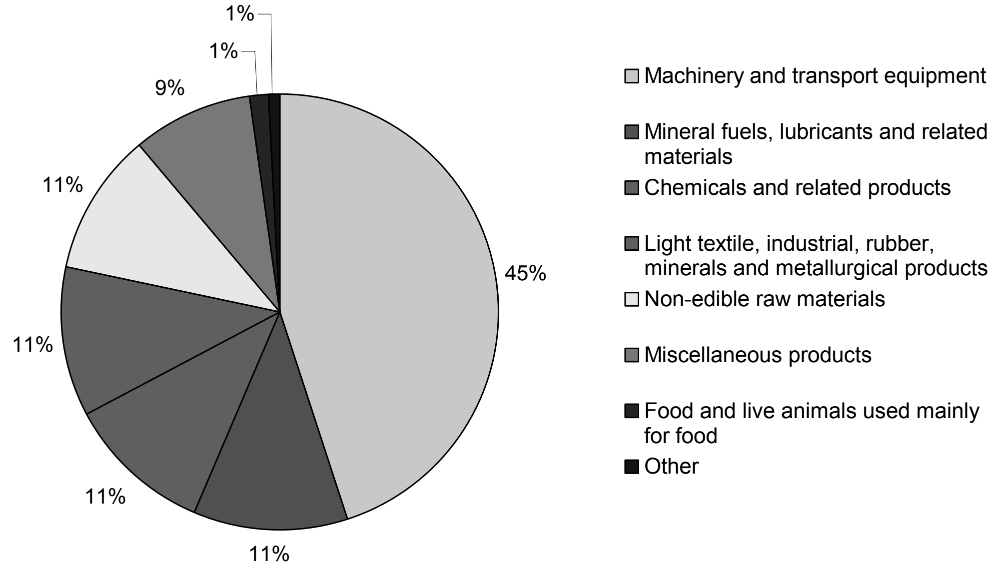
Figure 8: Source of China's imports for 2006



Source: National Bureau of Statistics of China

The top three import categories into China in 2006 were machinery and transport equipment, mineral fuels, lubricants and related materials and chemicals and related products. China's major import product categories in 2006 (latest available) are set out in the figure below.

Figure 9: China's import products for 2006



Source: National Bureau of Statistics of China

3.3 Alumina market

3.3.1 Overview

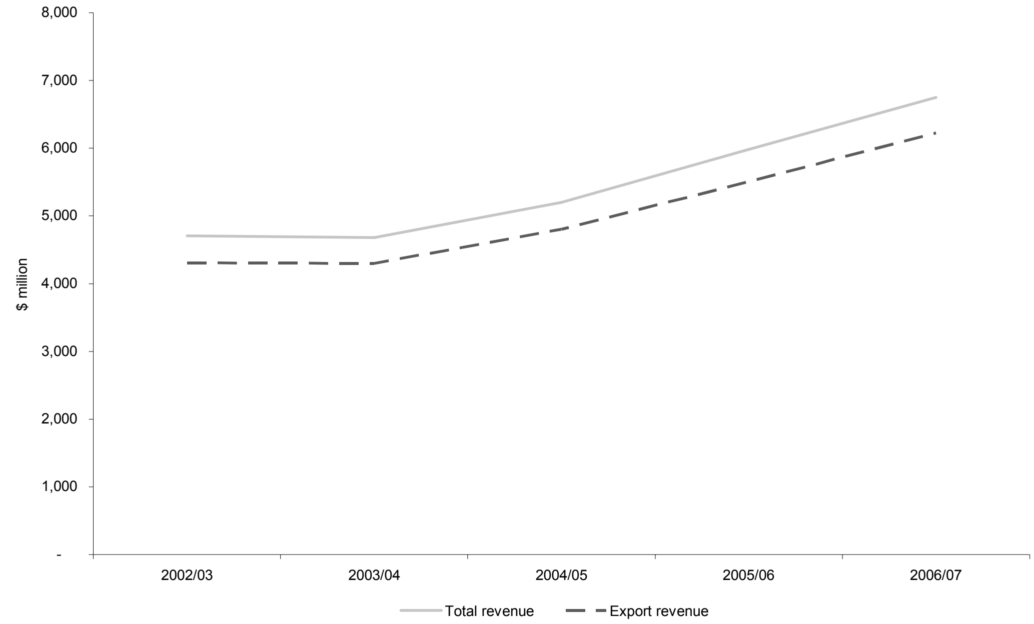
Alumina, also known as aluminium oxide, is a compound of the non-ferrous metal, aluminium. Alumina is refined from aluminium ore, bauxite, through a refining process known as the Bayer process. Alumina is purchased by aluminium smelters for the production of aluminium metal in ingot form. Aluminium metal is primarily used in the construction, packaging, automotive and aerospace industries.

3.3.2 Alumina demand

Of the total alumina produced in Australia, 90% is exported to foreign aluminium smelters while 10% is sold to domestic aluminium smelters. In the past few years, alumina production has increased mainly due to the increase in the aluminium price. Between 2002/03 and 2006/07, alumina output increased by 12.8% while alumina prices increased by approximately 100%, although prices have since declined. Over the same period alumina production revenue for Australia increased by 43% from $4.7 billion to $6.8 billion, while alumina production export revenue increased by 44% from $4.3 billion to $6.2 billion.

The following figure shows total and export revenue for the Australian alumina industry from 2002/03 to 2006/07.

Figure 10: Australian alumina industry revenue from 2002/03 to 2006/07



Source: IBISWorld

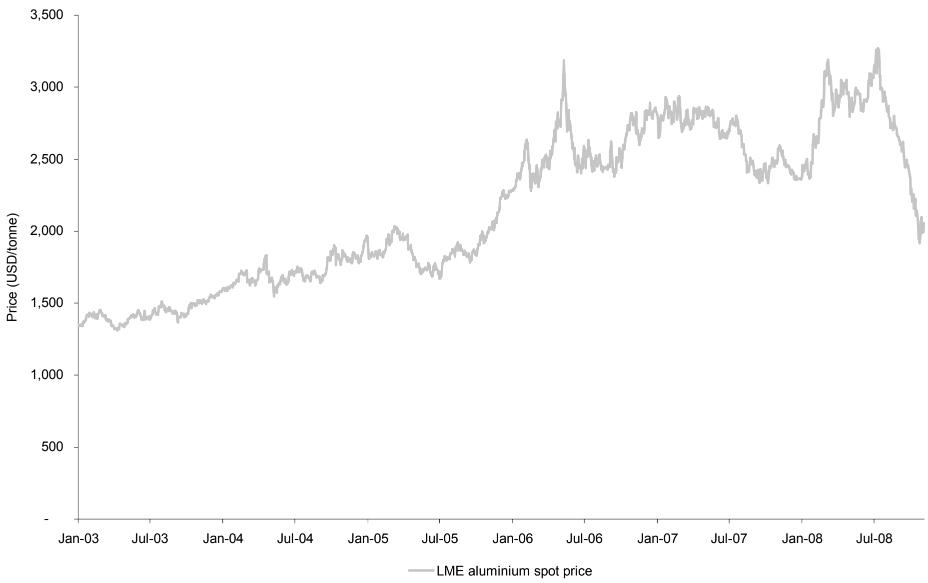
3.3.3 Alumina supply

Alumina supply is largely driven by the supply of bauxite. In Australia, bauxite resources are mainly located in Western Australia (WA). As a result, alumina production is highly concentrated in WA. In 2008, approximately 61% of alumina output came from WA, 25% from Queensland and 14% from Northern Territory. Of the seven alumina refineries in Australia, four are located in WA, two in Queensland and one in Northern Territory. From 2002/03 to 2006/07, alumina production increased by 12.8% from 16.4 megatonnes to 18.5 megatonnes.

3.3.4 Alumina pricing

Alumina prices are closely linked to aluminium prices. Aluminium is traded on the London Metals Exchange (LME) and contracts are generally based on the price quoted on the LME. From 2002 to mid-2008, the price of aluminium steadily increased, although prices have since decreased. The following graph shows the LME aluminium spot price quoted in United States dollars (USD) per tonne from 2002 to 2008.

Figure 11: LME aluminium spot price from 2002 to 2008



Source: Bloomberg

3.4 Iron ore market

3.4.1 Overview

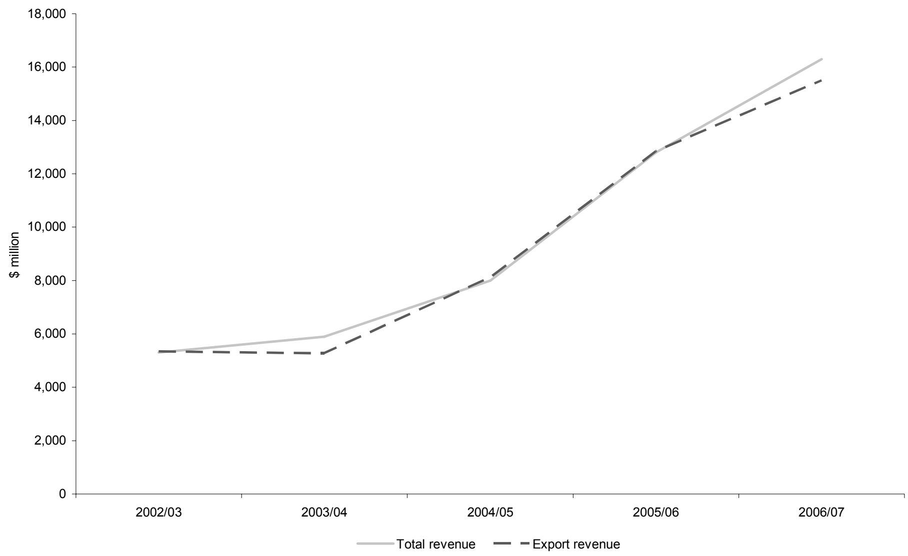
Iron ore is found in its raw form as either hematite, magnetite, limonite or siderite ores. There are principally three different types of iron ore products that are sold to customers – fines, lumps and pellets. Iron ore is primarily used for the production of steel.

3.4.2 Iron ore demand

Demand for iron ore is driven by the demand for steel which is driven by the level of economic activity. In recent years, given the high levels of activity globally, and in particular in China, demand for iron ore has increased.

Of the total iron ore produced in Australia, approximately 90% is exported to foreign steel manufacturers while 10% is sold to domestic iron and steel manufacturers. The following figure shows real revenue (based on current prices as at March 2008) for the Australian iron ore industry from 2002/03 to 2006/07.

Figure 12: Australian iron ore industry revenue from 2002/03 to 2006/07



Source: IBISWorld

Note:

1. Based on current iron ore prices as at March 2008

The iron ore industry has experienced significant growth over the past few years due to the increase in demand from Chinese steel mills. Between 2002/03 and 2006/07, the CAGR for real revenue was approximately 32% per annum, with real revenue increasing from $5.3 billion to $16.3 billion. During this period real iron ore export revenue increased from $5.3 billion to $15.5 billion, at a CAGR of 31% per annum.

3.4.3 Iron ore supply

In Australia, iron ore resources are predominantly located in WA, in particular the north-western Pilbara region of WA. At present, approximately 98% of Australia's iron ore output is sourced from WA. In Australia, iron ore supply is dominated by the two largest iron ore producers, Rio Tinto Limited (Rio) and BHP Billiton Limited (BHP). In 2007, Rio produced 49% of the total Australian iron ore production and BHP produced 38%. From 2002/03 to 2006/07, iron ore production increased from 198.1 megatonnes to 287.7 megatonnes, at a CAGR of 10% per annum.

3.4.4 Iron ore pricing

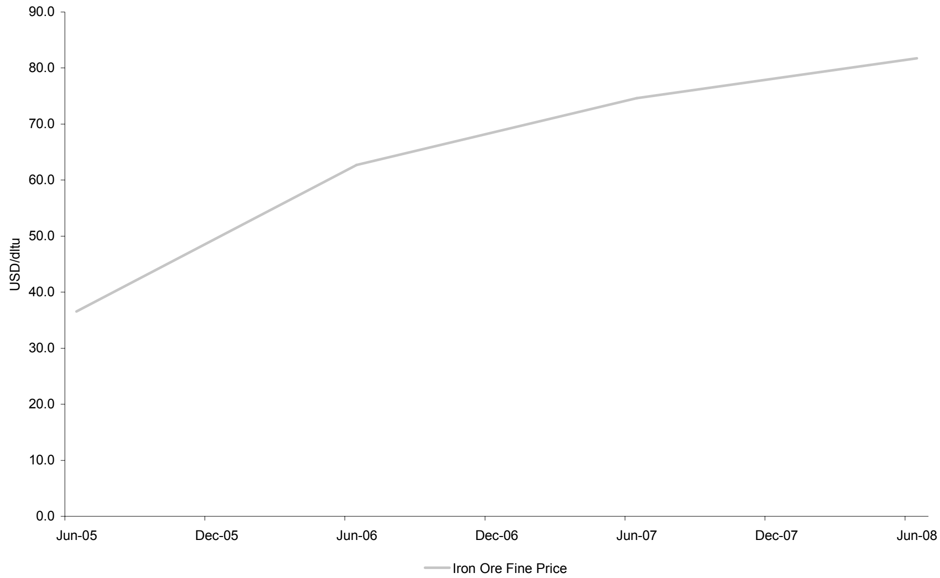
Iron ore is primarily sold under long-term contracts of between 10 and 25 years duration. These contracts bind the parties to the volume of iron ore sold but prices are set annually through an industry-wide price negotiation process.

The "benchmark" price is set on an annual basis through individual negotiations between one of the major producers (Rio, BHP and Companhia Vale do Rio Doce (Vale)) and global steel mills. Once one of Rio, BHP and Vale has agreed a price with an individual (or consortium) steel mill, this generally becomes the benchmark price for the next Japanese financial year (1 April to 31 March) and is replicated throughout the industry.

For the last several years, the iron ore spot price has been higher than the benchmark price, however recently the spot price fell below the benchmark price for the first time in six years due to reduced demand for iron ore from China.

The following figure shows the trend in iron ore fine prices from 2005 to 2008.

Figure 13: Iron ore fine prices from 2005 to 2008



Source: Australian Bureau of Agricultural and Resource Economics

Note:

1. Based on Australian hematite fines exports to Japan (free on board) for Japanese fiscal year commencing 1 April
2. dltu – dry long tonne unit

As shown in the figure above, the significant rise in the price of iron ore fine in 2008 reflects the high contract price entered into by Rio and a Chinese steel mill, Baosteel Group Corporation Limited. The iron ore price is since likely to have decreased in line with price decreases across other commodities.

4 Profile of CATL

CATL is an international commodity trading company which was established to facilitate trade, primarily between China and Australia.

CATL is focused on exporting bulk commodities such as base metals and minerals, including alumina, aluminium ingots and iron ore, mainly into China. CATL also imports manufactured products such as tyres and wheels, batteries, steel and aluminium products into Australia.

4.1 Company history

An overview of CATL's history is provided in Figure 14 below.

Figure 14: Company history

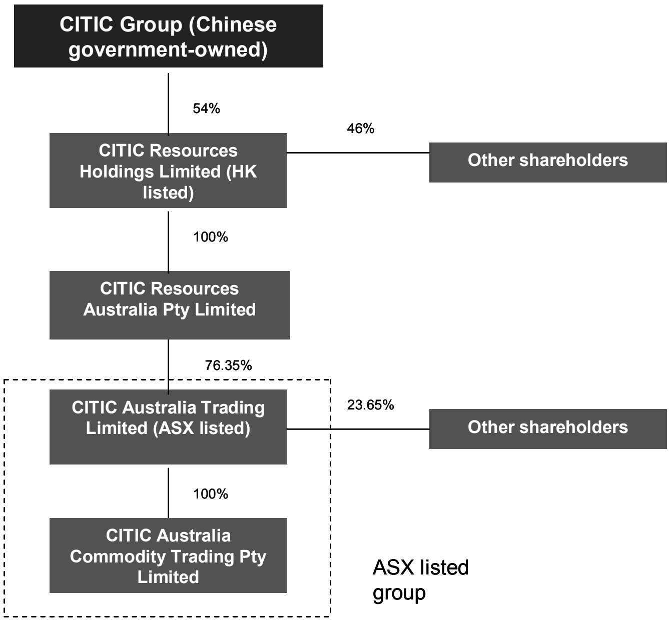
1994	• CITIC Australia Commodity Trading Pty Limited established as the commodity trading arm of CITIC Group's Australian operations
2002	• Alumina trading commenced • CATL acquires CITIC Australia Commodity Trading Pty Ltd (CACT) from CITIC Australia Group • in June 2002, CATL lists on the ASX
2004	• commences iron ore exporting
2006	• commences steel exporting • secures long term off-take agreement with Mount Gibson Iron Limited (previously Aztec Resources Limited). Under the off-take agreement, CATL will purchase 1.5 million tonnes of iron ore per annum over the lesser of 15 years or the life of the Koolan Island mine
2007	• pre-tax profits from iron ore exports exceed those for alumina exports for the first time with 4.13 million tonnes of iron ore exports recorded for year ended 31 December 2007
2008	• CACT signs an off-take agreement with Queensland Ores Limited (QOL) for wolframite and molybdenum • CACT signs off-take agreement with Thor Mining Plc to take 100% of the molybdenum and tungsten concentrates produced from the Molyhill Tungsten-Molybdenum Project in the Northern Territory • in November 2008, CATL announced the Proposed Capital Return.

Source: CATL

4.2 Legal structure

Figure 15 below sets out a simplified group structure for CATL.

Figure 15: CATL group structure



Source: CATL

Note:

1. HK – Hong Kong

An overview of each of the companies in the CATL group is provided below.

CITIC Group

CATL's ultimate parent is the Chinese multinational, CITIC Group. CITIC Group was formed by the Chinese Government in 1979 and was originally known as China International Trust and Investment Corporation. CITIC owns 54% of CITIC Resources Holdings Limited.

CITIC Resources Holdings Limited

CITIC Resources Holdings Limited is a Hong Kong-listed company responsible for CITIC Group's worldwide resources operations. CITIC Resources Holdings Limited's operations are in base metals, mineral resources, energy and associated commodity trading. CITIC Resources Holdings Limited owns 100% of CITIC Resources Australia Pty Limited.

CITIC Resources Australia Pty Limited

CITIC Resources Australia Pty Limited is a wholly owned subsidiary of CITIC Group's resources vehicle, CITIC Resources Holdings Limited, and holds a 76.35% interest in CATL.

CITIC Australia Commodity Trading Pty Limited

CACT is CATL's key trading business, and was established as the commodity trading arm of CITIC Group's Australian operations in 1994. CATL acquired CACT in 2002, prior to listing on the ASX.

4.3 Operations

CATL operates a trading business and earns a margin through purchasing products from suppliers and on-selling them to customers. CATL's primary business segments consist of:

- *alumina exports* – export of alumina from Australia and other countries into China
- *iron ore* – export of iron ore from Australia and other countries into China. Pricing of contracts are generally in line with iron ore benchmark prices and iron ore spot prices
- *steel exports* – export of steel products from China into Europe. We note that management intend to discontinue this business in the near future
- *other exports* – includes export of ferrous and non-ferrous metals from various countries into China and other countries
- *imports* – includes the import to Australia of manufactured goods from China including tyres, alloy wheels, batteries, aluminium extrusions, aluminium and steel (imported from Taiwan, China and Korea). Steel comprises the majority of CATL's revenue from imports.

4.4 Related party transactions

The following is an overview of the related party transactions between CATL and CRA.

- *the Corporate Services Agreement between CATL and CRA* – CRA guarantees CATL's bank trade finance facilities through the Corporate Services Agreement. CRA does not charge CATL a guarantee fee but can do so on arm's length rates with 12 months written notice. CRA can terminate the Corporate Services Agreement and guarantee by giving CATL 12 months notice and in certain situations with immediate effect, including if CRA ceases to hold, directly or indirectly, a minimum of 51% of CATL's issued shares
- *the Portland Metal Sales Agency Agreement between CATL and CITIC Australia (Portland) Pty Limited* – CATL entered into a Sales Agency Agreement with CITIC Australia (Portland) Pty Limited, a wholly-owned subsidiary of CRA, to exclusively market and sell CITIC Australia (Portland) Pty Limited's share of aluminium from the Portland Aluminium Smelter. CITIC Australia (Portland) Pty Limited can terminate the agreement by giving 12 months notice to CATL. The agreement is on arm's length terms.
- *directors' and officers' liability insurance policy* – CRA pays the insurance premium for the directors' and officers' liability insurance policy for its subsidiaries. The insurance policy insures directors and officers for those liabilities incurred in the performance of their duties that are specifically permitted to be indemnified by the company under the Corporations Act
- *remuneration of certain directors* – excluding the Managing Director and independent non-executive directors, directors of CATL do not receive any remuneration directly from CATL or its subsidiaries. These directors are employed, and their remuneration paid, by either CITIC Group or CRA.

- *QOL* – on 5 December 2007, QOL announced that it had reached an agreement with CACT under which CACT had agreed to purchase all of the wolframite and molybdenite concentrates produced at the Wolfram Camp mine. Mr Roger Marshall OBE, is a Director of CATL, the parent entity of CACT, and the Chairman of QOL. During the year to 30 June 2008, no sales transactions between QOL and CACT had been completed.

4.5 Customers

In 2007, CATL's top ten customers contributed approximately 75% of its revenue, with CITIC Metals Company Limited, a member of the CITIC Group, contributing approximately 33% of CATL's revenue.

4.6 Capital structure and shareholders

As at 25 August 2008, CATL had 85.2 million ordinary shares on issue, of which CITIC Resources Australia Pty Limited holds approximately 76.35%. There are no other major shareholders. There are currently no options to acquire shares in CATL on issue.

4.7 Share price performance

A summary of CATL's recent share price performance is provided in Table 3 below.

Table 3: CATL's quarterly share price information

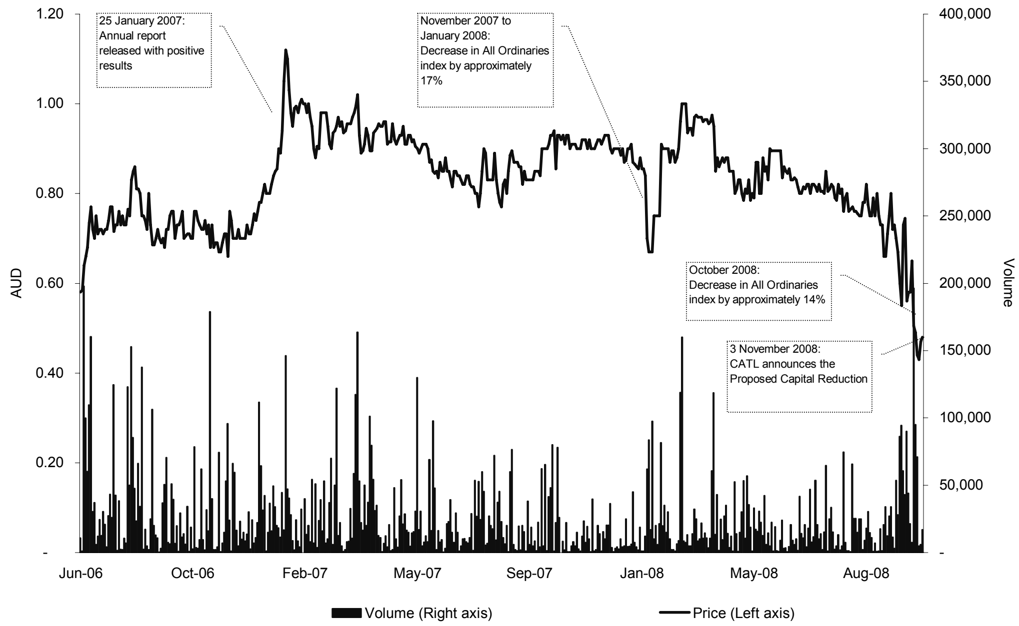
Quarter end date	High ($)	Low ($)	Last Trade ($)	Volume ('000s)	Volume (% of total issued capital)
31 March 2007	1.12	0.74	0.93	2,012	2.40%
30 June 2007	0.96	0.83	0.83	1,370	1.62%
30 September 2007	0.90	0.77	0.85	993	1.17%
31 December 2007	0.94	0.84	0.90	843	0.99%
31 March 2008	1.00	0.67	0.95	1,289	1.51%
30 June 2008	0.90	0.79	0.81	896	1.05%
30 September 2008	0.85	0.66	0.72	888	1.04%
31 October 2008 (one month)	0.75	0.43	0.47	905	1.06%

Source: Bloomberg

Given that the CITIC Group holds 76.35% of the CATL shares on issue, only 23.65% of CATL's shares are held by other investors who may trade their CATL shares on the ASX (the free float). As a result CATL's shares are thinly traded and its share price experiences relatively high levels of volatility. For example, since January 2007, less than 11% (under half of CATL's free float) has changed hands.

These daily share price movements and trading volumes are presented graphically in the figure below.

Figure 16: CATL stock activity on ASX



Source: Bloomberg

Since the announcement of the Proposed Capital Return on 3 November 2008 CATL shares have traded above $0.70 on the ASX.

4.8 Financial performance

The audited income statement of CATL for the years ended 31 December 2006 and 31 December 2007, and the unaudited income statement for the 6 months ended 30 June 2008 are summarised in the table below.

Table 4: Financial performance

	Audited 2006 ($'000)	Audited 2007 ($'000)	Unaudited HY1 2008 ($'000)
Trading revenue	713,847	897,788	667,507
Cost of goods sold	(686,710)	(863,050)	(645,153)
Gross profit	**27,137**	**34,738**	**22,354**
Gross margin	***3.80%***	***3.87%***	***3.35%***
Other income	1,571	1,809	2,258
Operating expenses	(9,635)	(14,976)	(8,075)
EBITDA	**19,073**	**21,571**	**16,537**
Margin	***2.67%***	***2.40%***	***2.48%***
Depreciation	(237)	(258)	(134)
EBIT	**18,836**	**21,313**	**16,403**
Margin	***2.64%***	***2.37%***	***2.46%***
Net interest expense	(5,932)	(3,998)	(4,849)[1]
PBT	***12,904***	***17,315***	***11,554***
Margin	*1.81%*	***1.93%***	***1.73%***
Income tax expense	(4,271)	(4,950)	(3,036)
NPAT	**8,633**	**12,365**	**8,518**
Margin	***1.21%***	***1.38%***	***1.28%***

Source: CATL

Notes:

1. Interim accounts do not provide detailed break down of interest expense
2. EBIT – Earnings before interest and tax
3. EBITDA – Earnings before interest, tax, depreciation and amortisation
4. PBT – Profit before tax
5. HY1 – First half year

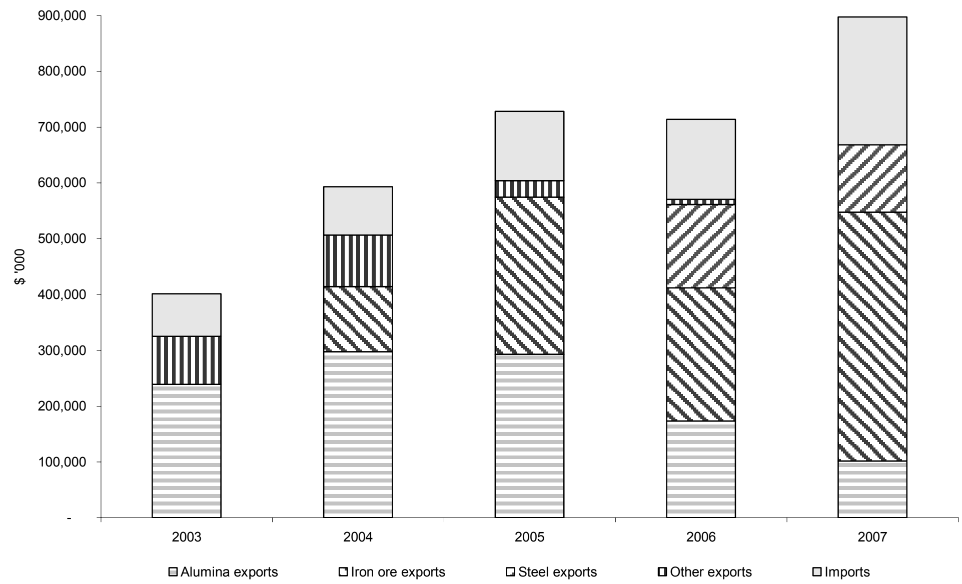
The following commentary is provided in relation to CATL's overall financial performance:

- CATL's functional currency for its export business is USD, with the majority of CATL's revenue and expenditure denominated in USD. CATL's imports into Australia are purchased in USD, but sold in Australian dollars. Foreign exchange exposures are managed by CATL through the use of natural hedges and currency futures contracts

- revenue increased by 26% in 2007 largely due to an increase in iron ore shipments and high commodity prices during the period. In 2006, alumina exports represented 54% of total profit before tax while iron ore exports represented 10% of total profit before tax. In 2007, alumina exports represented 30% of total profit before tax while iron ore exports represented 34%
- gross margin and net profit margin remained relatively steady from 2006 to 2007 and in the HY1 2008
- CATL has historically achieved a stronger financial performance in the first half of the financial year than the second half. For the six months to 30 June 2006, CATL's NPAT was $5.7 million, which was 66% of NPAT for the year ended 31 December 2006 of $8.6 million. For the six months to 30 June 2007, CATL's NPAT was $6.6 million, which was 53% of NPAT for the year ended 31 December 2007 of $12.4 million
- overall profit before tax increased by 34% in 2007 as a result of the increase in revenues. Overall revenue and net profit for the six months to 30 June 2008 were significantly ahead of budgeted figures, however, results in the second half of the year are likely to be affected by the recent global economic downturn.
- as discussed in Section 4.4, CRA provides a guarantee for bank trade finance facilities for CATL. As a consequence, the cost of debt capital sourced by CATL is significantly lower than would be possible in the absence of the guarantee. The total size of CATL's trade finance facilities are also larger than would be possible in the absence of the guarantee. CATL management has estimated the arm's length cost of the guarantee would be significant
- the level of loan facilities drawn down by CATL during a given period will depend on the level of operating activity during that period. Consequently, CATL's interest expense reflects both the cost of debt capital and the level of operating activity during a period.

CATL's trading revenue from 2003 to 2007, by principal business segment, was as follows:

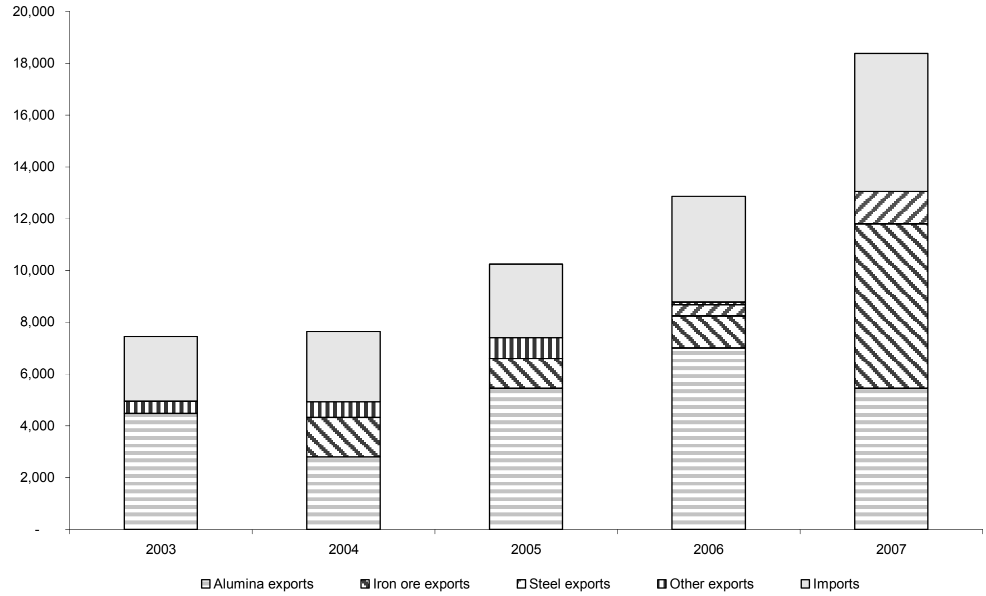
Figure 17: Revenue by segment from 2003 to 2007



Source: CATL

CATL's segment results from 2003 to 2007 at the profit before income tax level (excluding unallocated revenue and expenses) were as follows:

Figure 18: Profit before income tax by segment from 2003 to 2007



Source: CATL

The EBIT, EBITDA, profit before tax and net profit after tax figures presented in Table 4 above are affected by a number of non-recurring items. In Table 5 we have removed these items and made other normalisation adjustments to present normalised earnings figures for 2006 and 2007.

Table 5: Adjusted financial performance

	Actual 2006 ($'000)	Actual 2007 ($'000)
EBITDA	**19,073**	**21,571**
Normalisation adjustments		
Asset write downs	143	414
Foreign exchange loss/(gain)	1,326	4,324
Segment result of discontinued operations [1]	(429)	(1,255)
Normalised EBITDA	**20,113**	**25,054**
Depreciation and amortisation	(237)	(258)
Adjusted EBIT	**19,876**	**24,796**
Adjusted net interest expense [1]	(5,460)	(6,328)
Normalised PBT	**14,416**	**18,468**
Adjusted income tax expense	(4,583)	(5,995)
Normalised NPAT	**9,833**	**12,473**

Source: CATL

Note:

1. Net interest expense has been adjusted for foreign exchange gains and losses

We note the following in relation to normalisation adjustments we have made:

- asset write downs relate to write downs of inventory to their net realisable value. We have removed the impact of the inventory write downs
- foreign exchange gains and losses arise due to currency fluctuations between the date at which a foreign currency transaction is completed and the balance date. For the purposes of determining an appropriate future maintainable earnings figure, we have removed the effect of gains and losses due to currency fluctuations.

4.9 Financial position

The audited balance sheet of CATL as at 31 December 2006 and 31 December 2007, and the unaudited balance sheet of CATL as at 30 June 2008 are summarised in the table below.

Table 6: Financial position

	December 2006 audited ($'000)	December 2007 audited ($'000)	June 2008 unaudited ($'000)
Cash	2,697	5,077	6,355
Receivables	159,528	139,789	196,214
Inventories	58,578	41,105	26,002
Other	583	1,537	1,822
Total current assets	**221,386**	**187,508**	**230,393**
Property, plant and equipment	874	969	835
Deferred tax assets	944	1,911	846
Total non-current assets	**1,818**	**2,880**	**1,681**
Total assets	**223,204**	**190,388**	**232,074**
Payables	39,610	22,366	42,411
Interest bearing liabilities	154,218	129,809	149,962
Current tax liabilities	416	2,248	883
Provisions	793	1,044	962
Other	1,414	521	264
Total current liabilities	**196,451**	**155,988**	**194,482**
Provisions	126	49	56
Total non-current liabilities	**126**	**49**	**56**
Total liabilities	**196,577**	**156,037**	**194,538**
Net assets	**26,627**	**34,351**	**37,536**
Share capital	7,717	8,134	8,134
Reserves	270	1	868
Retained profits	18,640	26,216	28,534
Total equity	**26,627**	**34,351**	**37,536**

Source: CATL

The following commentary is provided in relation to CATL's financial position:

- the majority of CATL's export activities are financed via short term trade financing facilities for which CRA provides a guarantee (refer to Section 4.4)
- CATL's level of gearing is extremely high, with ratio of interest bearing liabilities to the book value of total equity as at 30 June 2008 of approximately 400%, however this debt is secured against trade receivables
- the terms of payment with suppliers are generally shorter than those provided to customers, hence accounts receivable are higher than interest bearing liabilities
- CATL's inventory mainly relates to its importing activities, and comprises batteries, alloy wheels and tyres
- deferred tax assets relate to unrealised foreign exchange losses incurred during the year. These unrealised foreign exchange losses arise from exchange rate fluctuations between the date of a transaction and the balance date
- CATL engages in foreign currency hedging for its import business segment because transactions are conducted in both USD and Australian dollars.

5 Valuation methodology

5.1 Valuation methodologies

To estimate the fair market value of a shares in CATL we have considered common market practice and the valuation methodologies recommended by ASIC Regulatory Guide 111, which deals with the content of independent expert's reports. These are discussed below.

5.1.1 Market based methods

Market based methods estimate a company's fair market value by considering the market price of transactions in its shares or the market value of comparable companies. Market based methods include:

- capitalisation of maintainable earnings
- analysis of a company's recent share trading history
- industry specific methods.

The capitalisation of maintainable earnings method estimates fair market value based on the company's future maintainable earnings and an appropriate earnings multiple. An appropriate earnings multiple is derived from market transactions involving comparable companies. The capitalisation of maintainable earnings method is appropriate where the company's earnings are relatively stable.

The most recent share trading history provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

Industry specific methods estimate market value using rules of thumb for a particular industry. Generally rules of thumb provide less persuasive evidence of the market value of a company than other valuation methods because they may not account for company specific factors.

5.1.2 Discounted cash flow methods

Discounted cash flow methods estimate market value by discounting a company's future cash flows to a net present value. These methods are appropriate where a projection of future cash flows can be made with a reasonable degree of confidence. Discounted cash flow methods are commonly used to value early stage companies or projects with a finite life.

5.1.3 Asset based methods

Asset based methods estimate the market value of a company's shares based on the realisable value of its identifiable net assets. Asset based methods include:

- orderly realisation of assets method
- liquidation of assets method
- net assets on a going concern basis.

The orderly realisation of assets method estimates fair market value by determining the amount that would be distributed to shareholders, after payment of all liabilities including realisation costs and taxation charges that arise, assuming the company is wound up in an orderly manner.

The liquidation method is similar to the orderly realisation of assets method except the liquidation method assumes the assets are sold in a shorter time frame. Since wind up or liquidation of the company may not be contemplated, these methods in their strictest form may not necessarily be appropriate. The net assets on a going concern basis method estimates the market values of the net assets of a company but does not take account of realisation costs.

These asset based methods ignore the possibility that the company's value could exceed the realisable value of its assets as they ignore the value of intangible assets such as customer lists, management, supply arrangements and goodwill. Asset based methods are appropriate when companies are not profitable, a significant proportion of a company's assets are liquid, or for asset holding companies.

5.2 Selection of valuation methodologies

We are of the opinion that the most appropriate methodology to value CATL is the capitalisation of maintainable earnings method due to the following factors:

- CATL is a diversified trading company. Earnings for the individual business divisions within CATL have historically fluctuated from year to year, however combined the individual business divisions of CATL have demonstrated a relatively consistent pattern of historical earnings which is expected to continue in future
- CATL does not have a finite lifespan nor is it required to undertake significant capital expenditure in the near future
- there are no reliable long-term cash flow forecasts thus the discounted cash flow method is not appropriate as a primary valuation methodology.

We have cross checked our valuation of a share in CATL by using a high-level discounted cash flow valuation. In addition, we have also considered recent share market trading in CATL to provide additional evidence of the fair market value of the shares in CATL. The share trading history of a listed company provides evidence of the fair market value of the shares in a company where they are publicly traded in an informed and liquid market.

6 Valuation of CATL

6.1 Valuation of CATL before the Proposed Capital Return

Deloitte has estimated the fair market value of a CATL share on a control basis to be in the range from $0.66 to $0.84.

For the purpose of our opinion fair market value is defined as the amount at which the shares would be expected to change hands between a knowledgeable willing buyer and a knowledgeable willing seller, neither being under a compulsion to buy or sell. We have not considered special value in this assessment.

In determining this amount, we estimated the fair market value of CATL under the capitalisation of maintainable earnings method, using NPAT as a measure of earnings.

We have cross checked our valuation of a share in CATL by using a high-level discounted cash flow valuation. In addition, we have also considered recent share market trading in CATL to provide additional evidence of the fair market value of the shares in CATL.

These are discussed in Sections 6.2 to 6.4 respectively.

6.2 Capitalisation of maintainable earnings

The capitalisation of maintainable earnings method estimates fair market value by capitalising future earnings using an appropriate control multiple and adding any surplus or non-operating assets, as appropriate. To value CATL using the capitalisation of maintainable earnings requires the determination of the following:

- an estimate of future maintainable earnings
- an appropriate earnings multiple
- an appropriate premium for control.

Our considerations on each of these are discussed separately below.

6.2.1 Future maintainable earnings

Future maintainable earnings represent the level of maintainable earnings that the existing operations could reasonably be expected to generate.

Future maintainable NPAT

We have considered the value of CATL based on the capitalisation of maintainable earnings using NPAT as a measure of earnings for CATL. NPAT includes the effects of net interest income or expense, which are not included in an analysis of value using earnings measures such as EBIT and EBITDA. Due to the nature of CATL's business, the effect of interest is fundamental to an analysis of value. International trading companies such as CATL are able to generate a return by assuming trade finance to purchase goods, selling the goods at a margin and the repaying then trading finance facilities. As a consequence, the net interest expense is effectively an operating cost to the business, which can be expected to vary with business activity.

We have estimated future maintainable NPAT to be $8.5 million. In determining future maintainable earnings we have considered the following:

- projections prepared by CATL in conjunction with CRA
- discussions with CATL management and the Independent Directors regarding the prospects for its businesses and the import and export markets in which CATL operates in general
- CRA currently does not charge a fee to CATL for the guarantee offered in respect of CATL's trade finance facilities. We have estimated the commercial cost of the guarantee extended to CATL by CRA to be equivalent to approximately 100 basis points. We have estimated that the commercial cost of the guarantee would reduce CATL's future maintainable NPAT by approximately $1.5 million. We have taken account of the commercial cost of the guarantee in our assessment of future maintainable NPAT for CATL
- CATL is a diversified trading company. Earnings for the individual business divisions within CATL have historically fluctuated from year to year, however combined, the individual business divisions of CATL have demonstrated a relatively consistent pattern of historical earnings which is expected to continue in future
- as mentioned in Section 4.8 above, CATL has historically achieved a stronger financial performance in the first half of the financial year than the second half. For the six months to 30 June 2006, CATL's NPAT was $5.7 million which was 66% of NPAT for the year ended 31 December 2006 of $8.6 million. For the six months to 30 June 2007, CATL's NPAT was $6.6 million which was 53% of NPAT for the year ended 31 December 2007 was $12.4 million
- for HY1 2008, CATL's normalised NPAT was $8.3 million. This represents an NPAT margin of 1.24%. If the arm's length cost of the guarantee mentioned above were included for HY1 2008, it would reduce NPAT to approximately $7.5 million
- due to the recent economic downturn and its impact on the demand for iron ore from China, CATL and Mount Gibson Iron Limited have agreed to a short-term alternative agreement to the iron ore off-take agreement between the two parties. This is expected to reduce profitability from this contract
- demand for alumina which is exported by CATL has decreased due to reduced demand from alumina smelters globally
- due to the recent decreases in the AUD against the USD, the cost of CATL's imports has increased, thereby reducing margins
- as a result of these various factors, CATL management have indicated that they expect the NPAT for the second half of the year to be relatively low
- we consider the synergies available to a potential purchaser of CATL are not likely to be significant due to the relationship CATL has with CRA, including shared facilities such as offices. In addition, the low margins currently earned by CATL indicate that there may be limited additional cost savings available to a potential purchaser of CATL

- the normalised historical revenue, PBT and NPAT, growth rates and margins for CATL before considering the impact of the potential cost of guarantee, are set out in Section 4.8 and summarised below:

Table 7: Normalised earnings

	Actual 2006 ($'000)	Actual 2007 ($'000)	Actual HY1 2008 ($'000)
Trading revenue	**713,847**	**897,788**	**667,507**
Revenue growth		*26%*	*n/a*
Normalised PBT	**14,416**	**18,468**	**11,176** [1]
PBT growth		*28%*	*n/a*
PBT margin	*2.02%*	*2.06%*	*1.67%*
Normalised NPAT	**9,833**	**12,473**	**8,253** [1]
NPAT growth		*27%*	*n/a*
NPAT margin	*1.38%*	*1.39%*	*1.24%*

Source: CATL

Notes:

1. The normalisation adjustments applied to the HY1 2008 PBT and NPAT do not include asset write-downs or foreign exchange gains or losses
2. n/a – not applicable

- despite significant growth in trading revenue between 2003 and 2007, at a CAGR of 19% per annum, growth in PBT and NPAT has been more moderate. The CAGR for PBT and NPAT was 16% per annum and 17% per annum, respectively. However these results are distorted by a particularly high level of growth in 2005
- CATL's potential future growth will be affected by its ability to obtain adequate trade finance to support its operations. Given CATL's current equity base and its reliance on the guarantee provided by CRA, we consider it unlikely that CATL's future growth in NPAT will continue at a rate comparable to the historical level of growth
- assuming a future maintainable NPAT of $10.0 million, and adjusting for the commercial cost of the guarantee, results in a future maintainable NPAT of $8.5 million.
- the selected future maintainable NPAT figure of $8.5 million is equivalent to an NPAT margin of 0.85% on trading revenue of $1 billion. This is lower than CATL's historical NPAT margin as it has been adjusted for the notional cost of the guarantee. If the cost of this guarantee had been adjusted in prior years, the NPAT margins are consistent.

6.2.2 Earnings multiple

We have selected an earnings multiple in the range from 5.5 to 6.5 times (on a listed portfolio basis) to apply to the selected NPAT of CATL.

In selecting these earnings multiples we have considered:

- NPAT multiples observed for companies operating in the mining, mining services, banking and financial services and wholesale distribution industries
- NPAT multiples observed for the All Ordinaries Index and the MSCI Capital Index
- our assessment of CATL's cost of capital and growth prospects.

We have also included a premium for control in the range from 20% to 30% in determining a value for a CATL share on a control basis.

These are discussed separately below.

Industry multiples

Due to the unique nature and level of maturity of CATL's business, we were unable to identify any listed Australian companies which are sufficiently comparable to CATL and for which meaningful valuation metrics are available. As a consequence, we have considered the earnings multiples observed for companies operating in a number of related industries:

- due to its iron ore and alumina export businesses, CATL will face similar commodity pricing risks to operators in the mining and mining services industry, notwithstanding the likely differences in capital expenditure and depreciation profiles
- as discussed in Section 6.2.1, net interest expense is an operating cost for CATL, rather than a financing cost. Consequently, we have considered multiples observed for companies operating in the financial services and banking industry for whom interest also forms a central part of the operation of the business
- due its import and export operations, CATL will face a number of similar operational and financial risks to operators in the wholesale distribution industry.

The observed historical and forecast NPAT multiples for companies in the mining, mining services, banking and financial services and wholesale distribution industries are set out in the following table.

Table 8: NPAT multiples for companies operating in related industries

Company	Historical NPAT multiple (times)	Historical NPAT margin	Forecast NPAT multiple (times)
Mining			
Average	7.5	26%	5.7
Minimum	2.8	25%	1.4
Maximum	13.6	26%	10.3
Mining services			
Average	6.2	11%	5.1
Minimum	2.7	4%	2.9
Maximum	10.5	23%	7.8
Financial services			
Average	11.5	9%	10.0
Minimum	4.7	4%	3.0
Maximum	16.9	13%	13.4
Wholesale distribution			
Average	9.4	6%	7.8
Minimum	4.2	1%	2.9
Maximum	14.8	11%	11.5

Source: Bloomberg

Further details on the NPAT multiples for these comparable companies are provided in Appendix 2.

General comments regarding the NPAT multiples observed for the related industries are listed below:

- a significant proportion (approximately 75%) of CATL's revenues are derived from its export activities relating primarily to alumina and iron ore exports. Due to the common commodity price risks faced by operators in the mining and mining services industry, we consider these industries to be the most comparable to CATL's operations
- the average forecast NPAT multiple for the selected companies in the mining industry is 5.7 times, and ranges from 1.4 times to 10.3 times
- the average forecast NPAT multiple for the selected companies in the mining services industry is 5.1 times, and ranges from 2.9 times to 7.8 times
- a number of the selected companies in the mining and mining services industries are significantly larger than CATL. In general, larger companies exhibit higher earnings multiples than smaller companies
- the historical NPAT margins observed for the selected companies are generally higher than CATL's historical NPAT margins
- the comparable companies with lower NPAT margins also tend to have lower NPAT multiples

- the NPAT multiples observed for these companies are for a minority interest and do not include a premium for control. We separately consider an appropriate premium for control below.

Share market multiples

In addition to an analysis of NPAT multiples exhibited by companies operating in related industries to CATL, we have considered the price earnings multiples for overall stock market indices. The following table sets out the forward price earnings multiples for the All Ordinaries Index and the MSCI Capital Index.

Table 9: Price earnings multiples

	All Ordinaries Index		MSCI Capital Index	
	NPAT multiple (historical earnings)	NPAT multiple (forecast earnings)	NPAT multiple (historical earnings)	NPAT multiple (forecast earnings)
30 June 2007	18.5	17.8	16.9	15.0
30 September 2007	16.5	17.5	14.9	12.1
31 December 2007	15.5	16.9	16.0	11.7
31 March 2008	13.6	14.7	14.9	12.8
30 June 2008	13.9	14.8	14.6	12.9
30 September 2008	14.4	11.2	13.6	11.7
31 October 2008	11.9	9.5	11.7	10.4

Source: Bloomberg

General comments regarding the price earnings multiples observed for the All Ordinaries Index and the MSCI Capital Index are listed below:

- the NPAT multiples based on historical earnings relate to multiples calculated based on the historical NPAT for the prior financial year. NPAT multiples based on forecast earnings relate to multiples calculated using one-year forecast NPAT figures.
- the All Ordinaries Index is heavily weighted to high market capitalisation companies
- many of the companies included in these indices are considerably larger than CATL. In general, larger companies have higher earnings multiples than smaller companies
- in general, the risk-free rate in Australia is higher than other countries represented in the MSCI Capital Index. Consequently, we expect the MSCI Capital Index to exhibit a higher NPAT multiple than the All Ordinaries Index
- since 30 June 2007, the NPAT multiples for the All Ordinaries Index and the MSCI Capital Index have generally declined
- as at 31 October 2008, the NPAT multiple for the All Ordinaries Index based on historical earnings and forecast earnings was 11.9 times and 9.5 times, respectively
- as at 31 October 2008, the NPAT multiples for the MSCI Capital Index based on historical earnings and forecast earnings was 11.7 times and 10.4 times, respectively

- the NPAT multiples observed for the All Ordinaries Index and the MSCI Capital Index are based on a minority interests and do not include a premium for control.

Selected multiple

In selecting an appropriate multiple to apply to CATL's future maintainable NPAT we have considered the following:

- the average forecast NPAT multiples observed for the selected companies in the mining industry is 5.7 times, and ranges from 1.4 times to 10.3 times
- the average forecast NPAT multiples observed for the selected companies in the mining services industry is 5.1 times, and ranges from 2.9 times to 7.8 times
- we consider the mining and mining services industry to be most comparable to CATL's operations
- a number of the selected companies in the mining and mining services industries and the companies which comprise the selected stock market indices are significantly larger than CATL. In general, larger companies exhibit higher earnings multiples than smaller companies
- the forecast NPAT multiples observed for the All Ordinaries Index and the MSCI Capital Index as at 31 October 2008 was 9.5 times and 10.4 times, respectively

We have selected a multiple of 5.5 to 6.5 times NPAT to apply to CATL on a listed portfolio basis. The range of selected multiples to apply to future maintainable NPAT is exclusive of a premium for control.

Premium for control

Earnings multiples derived from share market trading do not reflect the market value for control of a company as they are for portfolio holdings. The difference between the market value of a controlling interest and a minority interest is referred to as the premium for control. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values

The owner of a controlling interest has the ability to do many things that the owner of a minority interest does not. These include:

- control the cash flows of the company, such as dividends, capital expenditure and compensation for directors
- determine the strategy and policy of the company
- make acquisitions, or divest operations
- control the composition of the board of directors.

The following factors have been taken into consideration in determining an appropriate premium for control for CATL:

- the control premiums observed for market transactions may include a portion of synergies achievable by a potential acquirer for which consideration has been paid
- there may be synergies that could be achieved by certain potential purchasers of CATL, such as cost synergies, including a reduction in corporate overheads (such as listing costs). We consider the synergies available to a potential purchaser of CATL are not likely to be significant
- CATL's current capital structure, which has a significant amount of debt, which is used to fund CATL's accounts receivable
- CATL's small size compared to the companies included in the above analysis.

The level of premium that should be applied to the value of a minority interest in order to derive the value of a controlling interest is somewhat subjective. Based on these considerations, we believe that a premium for control towards the lower end of the observed range is appropriate for CATL.

On this basis, we have selected a premium for control in the range of 20% to 30% to include in our valuation of a CATL share on a control basis.

6.2.3 Number of shares outstanding

As discussed in Section 4.6, CATL currently has 85.2 million shares on issue. There are currently no outstanding options to acquire CATL shares, therefore adjustment to the number of outstanding shares is not required.

6.2.4 Valuation: capitalisation of maintainable earnings

The value of CATL derived from the capitalisation of maintainable earnings method is summarised below.

Table 10: Summary – capitalisation of maintainable earnings method

		Low value	High value
Maintainable NPAT	($ million)	8.5	8.5
NPAT multiple (on a liquid portfolio basis)	(times)	5.5	6.5
Equity value (on a liquid portfolio basis)	**($ million)**	**46.8**	**55.3**
Control premium		20%	30%
Equity value (on a control basis)	**($ million)**	**56.1**	**71.8**
Number of shares on issue	(million)	85.2	85.2
Estimated value per share (on a control basis)	**($)**	**0.66**	**0.84**

Source: Deloitte analysis

6.3 Cross checks

We have cross checked our valuation against a high level discounted cash flow valuation. The discounted cash flow analysis was based on a high level financial model developed by Deloitte, based on the financial projections prepared by CATL management in conjunction with CRA. We have reviewed the provided financial projections for broad reasonableness. Our review of the financial projections did not include verification work nor constitute an audit or a review engagement in accordance with AUS.

The results of our high level discounted cash flow analysis were not inconsistent with our valuation of a CATL share based on the capitalisation of future maintainable earnings. In our view, the high level discounted cash flow valuation cross check provides some support for our valuation of CATL based on the capitalisation of earnings method.

6.4 Analysis of recent share trading

The market can be expected to provide an objective assessment of the fair market value of a listed entity, where the market is well informed and liquid. Market prices incorporate the influence of all publicly known information relevant to the value of an entity's shares.

We consider that the share price provides relatively weak evidence of the fair market value of CATL's shares since the market for CATL shares is relatively illiquid. In the six months prior to the announcement of the Proposed Capital Return, the total volume of shares traded in CATL shares was 3% of the issued capital, or 11% of the free float. This implies an illiquid market for CATL shares. Notwithstanding this, we have included the analysis of recent share trading activity for completeness.

Share prices from market trading do not typically reflect the market value for control of a company as they are for portfolio holdings. Australian studies indicate the premiums required to obtain control of companies range between 20% and 40% of the portfolio holding values.

The following table sets out our assessed value of a share in CATL (on a control basis) compared to recent market trading in CATL shares prior to the announcement of the Proposed Capital Return.

Table 11: Summary – analysis of recent share trading method

	Low value ($)	High value ($)	Implied premium (over assessed value of a CATL share)
Deloitte assessed value of a CATL share (control basis)	0.66	0.84	
VWAP prior to the announcement of the Proposed Capital Return			
1 day prior to announcement	0.48	0.48	38% to 75%
10 days prior to announcement	0.46	0.46	44% to 83%
30 days prior to announcement	0.57	0.57	16% to 47%

Source: Bloomberg and Deloitte analysis

As set out in Section 6.2.4, our estimated value for a CATL share is in the range from $0.66 to $0.84 on a control basis.

6.5 Conclusions

We have assessed the fair value of a CATL share based on the capitalisation of future maintainable earnings methodology. We have cross checked our valuation using a high level discounted cash flow analysis. In addition, we have also considered the value of a CATL share implied by the recent share market trading activity.

Our assessment of the fair market value of a CATL share is in the range from $0.66 to $0.84.

7 Evaluation and conclusion

7.1 Valuation of consideration

In order to assess whether the Proposed Capital Return is fair and reasonable to CATL's Minority Shareholders, we have:

- assessed whether the Proposed Capital Return is fair by estimating the fair market value of a CATL share on a control basis and comparing that value to the estimated fair market value of the consideration to be received by the Minority Shareholders pursuant to the Proposed Capital Return
- assessed the reasonableness of the Proposed Capital Return by considering other advantages and disadvantages of the Proposed Capital Return to the Minority Shareholders.

Under the Proposed Capital Return, CATL would cancel all of the shares held by the Minority Shareholders, and in return the Minority Shareholders would receive cash consideration of $0.75 per CATL share, comprising a capital return component of $0.17 and a fully franked dividend component of $0.58. The franking credit attaching to the dividend component is approximately $0.25 per share.

Given the high proportion of the consideration being received by way of dividend, we have considered the impact of taxation on the dividend component of the consideration. Due to the franking credits, the value of the consideration to individual Minority Shareholders will differ depending on their individual tax profile. The following table sets out the value of the consideration under a range of common marginal tax rates.

Table 12: Valuation of the consideration

	Marginal tax rate				
	0%	15%	30%	40%	45%
Possible type of investor	Investment supporting an allocated pension	Superannuation fund	Company	Individual	Individual
Capital return	0.17	0.17	0.17	0.17	0.17
Dividend (excluding franking credit)	0.58	0.58	0.58	0.58	0.58
Franking credit	0.25	0.25	0.25	0.25	0.25
Tax payable on dividend	0.00	(0.12)	(0.25)	(0.33)	(0.37)
Total value of the consideration	**1.00**	**0.87**	**0.75**	**0.67**	**0.63**

Source: Deloitte analysis

Note:

1. The tax payable figures above do not include an allowance for the Medicare levy

Based on our analysis above, we estimate the value of the consideration to be in the range from $0.63 to $1.00, depending on an individual shareholder's marginal tax rate. We note that CATL shares have consistently traded above $0.70 on the ASX since the announcement of the Proposed Capital Reduction, indicating that shareholders on marginal tax rates above 30% may be able to achieve an outcome which is superior to the value of the consideration offered under the Proposed Capital Return by selling their shares on-market.

In assessing the value of the consideration to the Minority Shareholders, we have ignored the value of any capital loss which may accrue to the Minority Shareholders as a consequence of the capital return being lower than their initial acquisition price.

7.2 Fairness

ASIC Regulatory Guide 111 defines an offer under a control transaction to be fair if the value of the offer price is equal to or greater than the value of the securities being the subject of the offer. Set out in the table below is a comparison of our assessment of the fair market value of a CATL share with the cash consideration offered to the Minority Shareholders.

Table 13: Evaluation of fairness

	Low value per share ($)	High value per share ($)
Estimated fair market value of a CATL share (control basis)	0.66	0.84
Cash consideration offered to the Minority Shareholders	0.75	0.75
Value of consideration offered to the Minority Shareholders	0.63	1.00

Source: Deloitte analysis

The low end of the value of the consideration offered to the Minority Shareholders is below the low end of the range of our estimate of the fair market value of a CATL share. The high end of the value of the consideration offered to the Minority Shareholders is above the range of our estimate of the fair market value of a CATL share. In relation to the Proposed Capital Return, we consider that, if the value of the consideration offered falls within or above the range of values for a CATL share, the offer is fair. As the value of the consideration is predominantly within and above our assessed range of values for a CATL share, **it is therefore our opinion that the Proposed Capital Return is fair.**

The value of the consideration takes account of the tax which individual shareholders will have to pay on the dividend component of the Proposed Capital Return, as set out in Table 12 above.

Since the low end of the consideration offered to the Minority Shareholders of $0.63 per CATL share is lower than our assessed value of a CATL share of $0.66, technically the Proposed Capital Return is not fair (by $0.03 per CATL share) to those specific shareholders who have a marginal tax rate of 45%. These shareholders may be able to achieve a superior return by selling their CATL shares on-market as CATL shares have traded above $0.70 on the ASX since the announcement of the Proposed Capital Reduction.

7.3 Reasonableness

In accordance with ASIC Regulatory Guide 111 an offer is reasonable if it is fair. On this basis, in our opinion the Proposed Capital Return is reasonable. We have also considered the factors set out below in assessing the reasonableness of the Proposed Capital Return.

Advantages of the Proposed Capital Return

We have identified the following likely advantages to the Minority Shareholders of the Proposed Capital Return:

Minority Shareholders are receiving a premium to CATL's share price prior to the announcement of the Proposed Capital Return

The consideration offered under the Proposed Capital Return includes a control premium. We have assessed the value of the consideration per CATL share pursuant to the Proposed Capital Return to be in the range from $0.63 to $1.00 per share.

The one day VWAP of CATL shares, prior to the announcement of the Proposed Capital Return, was $0.48, and the 30-day VWAP was $0.57. Based on this, the low end of the value of the consideration represents a significant control premium to the share trading in CATL shares prior to the announcement of the Proposed Capital Return of between 11% and 31%. This is not inconsistent with control premiums paid in the Australian market.

Potential for other takeover offers

Since CRA currently holds a 76.35% interest in CATL, the likelihood of Minority Shareholders realising a similar premium through an alternative offer from another bidder is reduced. To date, there have not been any takeover offers made for CATL.

In the absence of the Proposed Capital Return CATL shares may trade below current levels

In the absence of the Proposed Capital Return or an alternative transaction, CATL shares may trade below the prices achieved since the announcement of the Proposed Capital Return. In those circumstances, we would expect CATL shares to trade at a price consistent with our valuation of a CATL share, after adjusting our control value for an appropriate minority interest discount.

Disadvantages of the Proposed Capital Return

We have identified the following disadvantages to the Minority Shareholders of the Proposed Capital Return:

Consideration is lower for shareholders with higher marginal tax rates

Due to the high proportion of the consideration which comprises a fully franked dividend, the after tax outcome for shareholders will depend on each shareholder's marginal tax rate. As set out in Table 12, for shareholders with a marginal tax rate above 30%, the net after tax consideration will be lower than the cash consideration of $0.75 per CATL share; whilst for shareholders with a marginal tax rate below 30%, the net after tax consideration will be higher than the cash consideration of $0.75 per CATL share.

Therefore the net after tax consideration will be lower for shareholders with a higher marginal tax rate.

For shareholders in these circumstances, depending on the cost base for their shares, it may be possible to realise higher proceeds by selling their CATL shares on market rather than accepting the Proposed Capital Reduction.

Certain shareholders will receive a consideration with a value below the low end of the valuation range

Shareholders facing the highest marginal tax rate of 45% will receive a consideration valued at approximately $0.63, which is slightly lower than the low end of our valuation range for a CATL share. Accordingly, for these shareholders, the Proposed Capital Reduction is not 'fair'. However, these shareholders may be able to achieve a superior return by selling their CATL shares on-market. For example, CATL shares have consistently traded above $0.70 on the ASX since the announcement of the Proposed Capital Reduction, indicating that shareholders on marginal tax rates above 30% may be able to achieve an outcome which is fair (and superior to the outcome achievable with Proposed Capital Return) by selling their shares on-market.

No participation in future growth of CATL's business

The value of a CATL share is influenced by the demand for commodities such as alumina and iron ore. Following the recent downturn in global financial markets, commodity prices have decreased compared to recent historical levels. In our assessment of future maintainable earnings we had regard to the current commodity price and demand outlook. If the Proposed Capital Return proceeds, to the extent that earnings are in excess of the levels assumed in our valuation, Minority Shareholders will forego this potential upside.

Furthermore, our valuation of CATL recognises the potential future growth of CATL's business based on its current business operations, however, if CATL is able to generate additional cash flows, beyond those considered in our valuation, for example, by identifying additional import and export trading opportunities, the value of CATL may be enhanced, perhaps significantly, to a value that may exceed the estimated value of the CATL shares as set out in this report.

Other matters

Taxation issues

Under the Proposed Capital Return, Minority Shareholders may incur a taxation liability for income tax upon cancellation of their CATL shares. Minority Shareholders should consult their tax advisers in relation to their personal circumstances.

We note that we have considered the potential impact of taxation on the dividend component of the consideration in our assessment of value. We have ignored the possible capital loss resulting from the Proposed Capital Return.

Conclusion on reasonableness

As the Proposed Capital Return is fair it is also reasonable.

7.4 Conclusion

Based on the foregoing, we are of the opinion that the Proposed Capital Return is fair and reasonable.

Appendix 1: Glossary

Reference	Definition
$	Australian dollars
ABS	Australian Bureau of Statistics
AFSL	Australian Financial Services Licence
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
AUS	Australian Auditing Standards
BHP	BHP Billiton Limited
CACT	CITIC Australia Commodity Trading Pty Limited
CAGR	Compound annual growth rate
CAPM	Capital Asset Pricing Model
CATL	CITIC Australia Trading Limited
Corporations Act	Corporations Act 2001 (Cwth)
CRA	CITIC Resources Australia Pty Limited
Deloitte	Deloitte Corporate Finance Pty Limited
dltu	Dry long tonne unit
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Explanatory Memorandum, the	Explanatory memorandum containing detailed terms of the Proposed Capital Return
FICS	Financial Industry Complaints Service
FOS	Financial Ombudsman Service
FSG	Financial Services Guide
HY1	First half year
Independent Directors, the	Directors of CATL who are independent of CRA
LME	London Metals Exchange
Minority Shareholders, the	Shareholders of CATL other than CRA
NPAT	Net profit after tax
PBT	Profit before tax
PDS	Product Disclosure Statement
Proposed Capital Return, the	Proposal to Minority Shareholders from CRA to cancel all of their shares in consideration for a cash payment comprising a capital component and a fully franked dividend
QOL	Queensland Ores Limited
Rio	Rio Tinto Limited
Section 640	Section 640 of the Corporations Act
USA	United States of America
USD	United States dollars
Vale	Companhia Vale do Rio Doce
VWAP	Volume weighted average price
WA	Western Australia

Appendix 2: Comparable entities

The observed historical and forecast NPAT multiples for companies in the mining, mining services, banking and financial services and wholesale distribution industries are set out in the following table.

Table 14: Price earnings multiples for companies operating in related industries

Company	NPAT multiple (historical earnings) (times)	NPAT margin (historical earnings)	NPAT multiple (forecast earnings) (times)
Mining			
Mount Gibson Iron Limited	2.8	26%	1.4
Alumina Limited	13.6	n/a	10.3
BHP	7.1	26%	4.9
Rio	6.5	25%	6.0
Average	**7.5**	**26%**	**5.7**
Mining services			
Mineral Resources Limited	6.8	20%	5.8
Bradken Limited	10.5	8%	7.8
Brandrill Limited	3.8	7%	2.9
Ausdrill Limited	4.6	9%	4.2
Boart Longyear Group	2.7	5%	3.4
Ausenco Limited	8.1	12%	6.8
Macmahon Holdings Limited	8.6	4%	7.0
Imdex Limited	4.4	23%	3.0
Average	**6.2**	**11%**	**5.1**
Financial services			
Credit Corp Group Limited	4.7	8%	3.0
Australia and New Zealand Banking Group	8.4	11%	10.7
Westpac Banking Group	9.7	12%	10.7
National Australia Bank Limited	9.0	10%	9.5
St George Bank Limited	13.6	13%	12.0
Bendigo and Adelaide Bank	16.9	6%	13.4
Suncorp-Metway Limited	14.2	4%	8.1
Bank of Queensland Limited	15.2	6%	12.6
Average	**11.5**	**9%**	**10.0**
Wholesale distribution			
Fantastic Holdings Limited	10.1	6%	9.7
Funtastic Limited	8.3	1%	2.9
GUD Holdings Limited	8.8	8%	7.3
GWA International Limited	14.8	7%	11.5
Housewares International Limited	4.2	5%	4.1
Alesco Corp Limited	8.1	5%	8.6
ARB Corporation Limited	11.7	11%	10.6
Average	**9.4**	**6%**	**7.8**
Overall average	**8.8**	**11%**	**7.3**
Minimum	**2.7**	**1%**	**1.4**
Maximum	**16.9**	**26%**	**13.4**
Median	**8.4**	**8%**	**7.3**

Source: Bloomberg

Appendix 3: Sources of information

In preparing this report we have had access to the following principal sources of information:

- the draft Explanatory Memorandum
- audited financial statements for CATL for the years ending 31 December 2006 and 31 December 2007, and the half year ending 30 June 2008
- annual reports for CATL for the years ending 31 December 2005, 31 December 2006 and 31 December 2007
- financial models prepared by CATL in conjunction with CRA
- company websites for CATL and other companies operating in related industries
- publicly available information on comparable companies and market transactions published by ASIC, Thompson research, Bloomberg Financial markets, SDC Platinum and Mergermarket
- IBISWorld Pty Limited company and industry reports
- other publicly available information, media releases and brokers reports on CATL and other companies operating in related industries.

In addition, we have had discussions and correspondence with certain directors and executives, including Roger Marshall OBE, Independent Non-Executive Director; Bruce Foy, Independent Non-Executive Director; Irwin Kam, Chief Financial Officer and Company Secretary (CRA) and Kelvin Chan, Chief Financial Officer (CACT); in relation to the above information and to current operations and prospects.

Appendix 4: Qualifications, declarations and consents

The report has been prepared at the request of the Independent Directors of CATL and is to be included in the Explanatory Memorandum to be given to the Minority Shareholders for approval of the Proposed Capital Return as if it were required in accordance with Section 640.

Accordingly, it has been prepared only for the benefit of the Independent Directors and those persons entitled to receive the Explanatory Memorandum in their assessment of the Proposed Capital Return outlined in the report and should not be used for any other purpose. We are not responsible to you, or any one else, whether for our negligence or otherwise, if the report is used by any other person for any other purpose. Further, recipients of this report should be aware that it has been prepared without taking account of their individual objectives, financial situation or needs. Accordingly, each recipient should consider these factors before acting on the Proposed Capital Return.

The report represents solely the expression by Deloitte of its opinion as to whether the Proposed Capital Return is fair and reasonable in relation to Section 640. Deloitte consents to this report being included in the Explanatory Memorandum.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, Deloitte has relied upon the completeness of the information provided by CATL and its officers, employees, agents or advisors which Deloitte believes, on reasonable grounds, to be reliable, complete and not misleading. Deloitte does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to the Independent Directors for confirmation of factual accuracy.

In recognition that Deloitte may rely on information provided by CATL and its officers, employees, agents or advisors, CATL has agreed that it will not make any claim against Deloitte to recover any loss or damage which CATL may suffer as a result of that reliance and that it will indemnify Deloitte against any liability that arises out of either Deloitte's reliance on the information provided by CATL and its officers, employees, agents or advisors or the failure by CATL and its officers, employees, agents or advisors to provide Deloitte with any material information relating to the Proposed Capital Return.

To the extent that this report refers to prospective financial information we have considered the prospective financial information and the basis of the underlying assumptions. The procedures involved in Deloitte's consideration of this information consisted of enquiries of CATL personnel and analytical procedures applied to the financial data. These procedures and enquiries did not include verification work nor constitute an audit or a review engagement in accordance with AUS.

Based on these procedures and enquiries, Deloitte considers that there are reasonable grounds to believe that the prospective financial information for CATL included in this report has been prepared on a reasonable basis. In relation to the prospective financial information, actual results may be different from the prospective financial information of CATL referred to in this report since anticipated events frequently do not occur as expected and the variation may be material. The achievement of the prospective financial information is dependent on the outcome of the assumptions. Accordingly, we express no opinion as to whether the prospective financial information will be achieved.

Deloitte holds the appropriate Australian Financial Services licence to issue this report and is owned by the Australian Partnership Deloitte Touche Tohmatsu. The employees of Deloitte principally involved in the preparation of this report were Hamish Blair, Director, BCom (Hons), MCom, CA, F Fin; Stephen Reid, Director, MAppFinInv, BEc, F Fin, CA; Mary Beth Adam, Client Manager, MAppFinInv, BCom, LLB (Hons); Thimendra Karawdeniya, Client Manager, BCom, BSc (Hons); and Beverley Fong, Senior Analyst, BCom CA. Hamish Blair and Stephen Reid have many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither Deloitte, Deloitte Touche Tohmatsu, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction which could be considered to affect our ability to render an unbiased opinion in this report. Deloitte will receive a fee of $100,000 exclusive of GST in relation to the preparation of this report. This fee is based upon time spent at our normal hourly rates and is not contingent upon the success or otherwise of the Proposed Capital Return.

Consent to being named in disclosure document

Deloitte Corporate Finance Pty Limited (ACN 003 833 127) of 180 Lonsdale Street, Melbourne VIC 3000 acknowledges that:

- CATL proposes to issue a Explanatory Memorandum in respect of the Proposed Capital Return between the CITIC Group and the Minority Shareholders of CATL shares (the Explanatory Memorandum)
- the Explanatory Memorandum will be issued in hard copy and be available in electronic format
- it has previously received a copy of the draft Explanatory Memorandum (draft Explanatory Memorandum) for review
- it is named in the Explanatory Memorandum as the 'independent expert' and the Explanatory Memorandum includes its independent expert's report in Annexure A of the Explanatory Memorandum.

On the basis that the Explanatory Memorandum is consistent in all material respects with the draft Explanatory Memorandum received, Deloitte Corporate Finance Pty Limited consents to it being named in the Explanatory Memorandum in the form and context in which it is so named, to the inclusion of its independent expert's report in Annexure A of the Explanatory Memorandum and to all references to its independent expert's report in the form and context in which they are included, whether the Explanatory Memorandum is issued in hard copy or electronic format or both.

Deloitte Corporate Finance Pty Limited has not authorised or caused the issue of the Explanatory Memorandum and takes no responsibility for any part of the Explanatory Memorandum, other than any references to its name and the independent expert's report as included in Annexure A.

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Annexure B

Tax Adviser's Report

See attached.

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14 November 2008

The Directors
CITIC Australia Trading Limited
Level 7
99 King Street
Melbourne VIC 3000

Dear Directors,

CITIC Australia Trading Limited - Capital Return
Tax Adviser's Report

We have been requested by CITIC Australia Trading Limited (***Company***) to prepare this Tax Adviser's Report for inclusion in the Explanatory Memorandum in relation to the proposed selective capital reduction in the Company (***Capital Return***).

Unless the contrary intention appears, or the context otherwise requires, capitalised words used in this letter have the meaning given to them in Section 15 of the Explanatory Memorandum.

1. Introduction

The following is a summary of the principal Australian income tax consequences generally applicable to Minority Shareholders who participate in the Capital Return and hold their Shares on capital account for the purposes of investment.

This outline reflects the provisions of the *Income Tax Assessment Act 1936* (Cth) and the *Income Tax Assessment Act 1997* (Cth) (***Tax Law***) and the regulations made under the Tax Law, taking into account currently proposed amendments and ATO rulings and determinations applicable as at the date of this letter. The outline does not otherwise take into account or anticipate changes in the law, whether by way of judicial decision or legislative action, nor does it take into account tax legislation of countries apart from Australia. We note that the Tax Law and their interpretation could change at any time.

The following outline is not exhaustive of all Australian income tax considerations that could apply to particular Shareholders. In particular, the outline does not apply to Minority Shareholders who:

- hold their Shares on revenue account or as trading stock;
- acquired their Shares pursuant to an employee share or option plan;
- are a bank, insurance company, tax exempt organisation or superannuation fund that are subject to special tax rules; or
- are non-resident shareholders that hold their Shares as an asset of a permanent establishment in Australia.

The outline below is general in nature and does not constitute taxation advice and should not be relied upon as such. Given the general nature of the outline, each Minority Shareholder is advised to consult with their own tax adviser regarding the consequences of the Capital Reduction in light of current tax laws and their particular circumstances.

2. Summary of the Capital Return

Under the terms of the Capital Return, the Shares held by Minority Shareholders will be cancelled in return for the payment of A$0.75 cash per Share. It is proposed that:

- $0.17 per Share will be debited to the Company's share capital account (***Capital Component***); and
- $0.58 per Share will be debited to the Company's retained earnings account (***Dividend Component***).

3. ATO Class Ruling

A class ruling has been requested from the ATO in relation to the Australian taxation implications of the Capital Return for Minority Shareholders. It is expected that the class ruling will accord with the following outline.

4. Assumptions

The outline below is based on the following assumptions:

- The share capital account of the Company is not regarded as "tainted" as that term is used in the Tax Law.
- The Minority Shareholder Shares were all acquired, or deemed to have been acquired for Australian tax purposes on or after 21 September 1999.
- At the time of the cancellation of Shares held by Minority Shareholders, more than 50% of the market value of the assets of the Company did not consist of Australian real property.

5. Treatment of the Dividend Component

5.1 Australian resident Minority Shareholders

(a) The Dividend Component will be included in Australian resident Minority Shareholder's assessable income.

(b) Australian resident Minority Shareholders may be entitled to franking credits attached to the franked Dividend Component. It is proposed that the Dividend Component will be fully franked. For a Minority Shareholder to be entitled to franking credits, the Minority Shareholder must be a "qualified person" under the Tax Law. This generally requires that the Minority Shareholder satisfies a "holding period" and "related payment" rule. Broadly, the "holding period" rule requires that the Shares are held "at-risk" for a specified continuous period of at least 45 days. An exemption may be applicable to certain shareholders. The qualified person rules are complex and depend on the individual circumstances of each Minority Shareholder. Minority Shareholders should seek their own taxation advice regarding the application of these rules.

(c) The remaining comments set out below assume that the "qualified person" provisions are satisfied by the entity entitled to franking credits in respect of the Dividend Component.

(d) The general position is that the Dividend Component must be "grossed-up" by the amount of the franking credits that are attached to the Dividend Component. As a result, the amount of the Dividend Component, plus the amount of the franking credits that are attached to the Dividend Component are included in the Minority Shareholder's assessable income. In summary, assuming that the Dividend Component of $0.58 per Share is fully franked Australian resident Minority Shareholders will include the following amounts in their assessable income:

Item	**Amount (per Share)**
Dividend	$0.58
Franking credit gross-up	$0.25
Total assessable income	$0.83

(e) The amount of the franking credits that are attached to the Dividend Component can generally be used to offset the amount of tax that the Minority Shareholder is required to pay. Any excess tax offset may be refundable to individual and certain other Minority Shareholders (but not to companies).

(f) Franked dividends received by Minority Shareholders that are Australian resident companies will generally give rise to a credit to the relevant company's franking account.

(g) Special rules apply to Minority Shareholders that are trusts. The general position is that where Australian resident beneficiaries are presently entitled to a distribution of the net income of a trust that includes a franked dividend, the franking credits will flow through to the beneficiary and will be taxed to the beneficiary in accordance with their particular tax status and profile (subject to the trust having net income for the relevant year).

5.2 Non-resident Minority Shareholders

On the assumption that the Dividend Component is fully franked, non-resident Minority Shareholders will not be liable to dividend withholding tax regardless of the tax residency of the Minority Shareholder.

6. Capital gains tax

6.1 The cancellation of the Shares held by Minority Shareholders as part of the Capital Reduction will be a capital gains tax (***CGT***) event for the Minority Shareholders (i.e. CGT event C2).

6.2 In summary, the consequences of the CGT event that takes place in respect of the Minority Shareholder's Shares are as follows:

(a) A capital gain (or capital loss) arising to a Minority Shareholder is determined as:

(i) **the capital proceeds received**. The capital proceeds will consist of the total cash amount paid to each Minority Shareholder in respect of the Capital Reduction being $0.75 per Share,

less

(ii) **the CGT cost base (or reduced cost base) of the Shares**. The CGT cost base (or reduced cost base) of the Shares will generally include the actual (or deemed) cost of acquisition plus incidental costs associated with the acquisition and disposal of the Shares.

(b) A Minority Shareholder will make a capital gain if the capital proceeds exceed the cost base of the Shares. A capital loss will arise if the capital proceeds are less than the reduced cost base of the Shares. The result, therefore, is that a Minority Shareholder will incur a capital loss from the cancellation of Shares as part of the Capital Return only if their CGT cost base is **more than** the $0.75 consideration for the cancellation of the Shares.

(c) A capital gain that is made by an Minority Shareholder on the cancellation of Shares as part of the Capital Return will be reduced by the amount of the gain that was otherwise included in the assessable income of the Shareholder as a dividend. The capital gain cannot be reduced below zero (for example, the reduction cannot result in a capital loss to a Minority Shareholder).

(d) For Minority Shareholders that are individuals, complying superannuation funds, certain life insurance companies or a trustee of a trust, a discount may apply to the amount of a capital gain that arises on the cancellation of the Shares as part of the Capital Return. If otherwise available, the CGT discount will only apply if the Shares have been held for 12 months or more before the time of the CGT event that arises on the cancellation of the Shares. In summary, the CGT discount is applied after offsetting any available capital losses. Different CGT discount rates apply for different entities. For example, the CGT discount rate is 50% for individuals and trustees and 33% for complying superannuation funds. The CGT discount is not available to a Minority Shareholder that is a company.

6.3 Non-resident Minority Shareholders

Generally, non-resident shareholders are only subject to CGT in respect of a CGT event that takes place in relation to "taxable Australian property." In relation to the Shares in the Company, a non-resident Minority Shareholder will only be subject to CGT if:

- the Shareholder holds a direct interest in the Company (together with associates) of 10% or more at the time of the CGT event that takes place on the cancellation of Shares as part of the Capital Return or throughout a 12 month period that began within 2 years of the CGT event; and
- more than 50% of the market value of the assets (directly or indirectly) of the Company consist of real property situated in Australia.

Based on the assumptions, the second condition above is not satisfied. Non-resident Minority Shareholders will therefore not be subject to CGT in respect of the Capital Return.

7. Illustrative examples

We have attached a summary table that illustrates the potential taxation consequences for certain Minority Shareholders.

We note that the attached table is for illustrative purposes only and particular Minority Shareholder's circumstances may differ from those set out in the table. We therefore recommend that each Minority Shareholder obtains their own advice regarding the tax consequences of the proposed Capital Return.

8. Stamp Duty

There will be no stamp duty payable on the cancellation of the Shares under the proposed Capital Return.

* * * * *

Yours faithfully,
Baker & McKenzie

Ian Kellock
Partner
+61 3 9617 4430
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Illustrative Example

The following illustrative example of the Australian tax consequences of the proposed Capital Return are based on the following facts and assumptions:

(a) the Minority Shareholder is an Australian resident individual that holds their Shares on capital account;

(b) examples are provided for various marginal tax rates (and includes 1.5% in respect of the Medicare Levy);

(c) the Minority Shareholder Shares are cancelled in return for a payment of $0.75 per Share;

(d) the Dividend Component of the Capital Return is fully franked;

(e) the Minority Shareholder is a "qualified person" for the purposes of the Tax Law and is entitled to franking credits in respect of the Dividend Component;

(f) the Minority Shareholder's CGT cost base in the Shares is $0.50 and there are no other relevant incidental costs; and

(g) other rebates, credits etc have been ignored.

		16.5% tax rate	31.5% tax rate	41.5% tax rate	46.5% tax rate
1.	**Total Payment per Share:**	$0.75	$0.75	$0.75	$0.75
	Dividend Component	$0.58	$0.58	$0.58	$0.58
	Capital Component	$0.17	$0.17	$0.17	$0.17
2.	**Dividend:**				
	Assessable dividend	$0.58	$0.58	$0.58	$0.58
	Add franking credits	$0.25	$0.25	$0.25	$0.25
	Taxable income	$0.83	$0.83	$0.83	$0.83
3.	**CGT:**				
	Capital proceeds	$0.75	$0.75	$0.75	$0.75
	Less cost base	($0.50)	($0.50)	($0.50)	($0.50)
	Capital Gain	$0.25	$0.25	$0.25	$0.25
	Less reduction for assessable dividend	($0.25)	($0.25)	($0.25)	($0.25)
	Net capital gain	Nil	Nil	Nil	Nil
4.	**Total Taxable Income:**	$0.83	$0.83	$0.83	$0.83
	Tax Payable	$0.14	$0.26	$0.34	$0.39
	Less Franking credit offset	($0.25)	($0.25)	($0.25)	($0.25)
	Net tax payable	**($0.11)***	**$0.01**	**$0.09**	**$0.14**

* As noted above, certain entities may not be entitled to a refund in respect of the excess tax offset.

CORPORATE DIRECTORY

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Tinghu Guo
Roger Marshall

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Andrew Metcalfe

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Shareholder information

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