

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The Company is a financial holding company and the principal activities of its subsidiaries are the provision of general banking and related financial services, primarily in Hong Kong. Particulars of the Company's principal subsidiaries as at 31 December 2004 are set out in note 20 on the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2004 and the state of the Company and the Group's affairs as at that date are set out in the financial statements on pages 12 to 72.

DIVIDENDS

An interim dividend of HK\$0.066 (2003: HK\$0.03) per share was paid on 15 September 2004. The Directors recommend the payment of a final dividend of HK\$0.075 (2003: HK\$0.063) per share in respect of the year ended 31 December 2004.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK\$756,155 (2003: HK\$39,800).

FIXED ASSETS

Movements in tangible fixed assets are set out in note 24 on the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 30 on the financial statements.

SHARE CAPITAL

Movements in the share capital of the Company are set out in note 29 on the financial statements.

DIRECTORS

The Directors during the year ended 31 December 2004 and up to the date of this report are as follows:

Mr. Kong Dan (*Chairman*)
Mr. Dou Jianzhong (*Chief Executive Officer*)
Mrs. Chan Hui Dor Lam Doreen (*Managing Director and Alternate Chief Executive Officer*)
Mr. Chen Xiaoxian (appointed on 17 January 2005)
Mr. Gil-Tienda Rafael (*Independent Non-executive Director*) (appointed on 1 December 2004)
Mr. Ju Weimin
Mr. Kong Siu Chee Kenneth (*Managing Director*)
Mr. Lam Kwong Siu (*Independent Non-executive Director*)
Mr. Liu Jifu
Mr. Lo Wing Yat Kelvin (*Managing Director and Alternate Chief Executive Officer*)
Mr. Tsang Yiu Keung Paul (*Independent Non-executive Director*) (appointed on 1 September 2004)
Mr. Wang Dongming
Mr. Yang Chao
Mr. Zhang Enzhao
Mr. Zhao Shengbiao

Mr. Lee Wing Hung Raymond (resigned on 20 May 2004)
Mr. Fan Sheung Tak Stephen (resigned on 19 October 2004)
Mr. Chang Zhenming (resigned on 17 January 2005)

In accordance with Article 98 of the Company's Articles of Association, all present Directors shall retire from office at the next annual general meeting and the retiring directors shall be eligible to offer themselves for re-election.

None of the Directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Company within one year without payment of compensation, other than normal statutory obligations.

No contract of significance in relation to the Company's business to which the Company, its holding company, subsidiaries or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate with the exception of the share option schemes, details of which are set out in the following section under the heading of "Share Option Schemes".

The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors, namely Mr. Lam Kwong Siu, Mr. Gil-Tienda Rafael and Mr. Tsang Yiu Keung Paul. The Company considers all three Independent Non-executive Directors of the Company to be independent.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS

As at 31 December 2004, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") were as follows:-

1. Long positions in shares of the Company:

<u>Name of director</u>	<u>Capacity</u>	<u>Number of ordinary shares held</u>	<u>Percentage of issued share capital</u>
Mrs. Chan Hui Dor Lam Doreen	Beneficial owner	1,000,000	0.031
Mr. Kong Siu Chee Kenneth	Beneficial owner	1,000,000	0.031
Mr. Lo Wing Yat Kelvin	Beneficial owner	300,000	0.009
Mr. Zhao Shengbiao	Beneficial owner	2,014,114	0.063

2. Long positions in (in respect of equity derivatives) underlying shares of the Company:

Shares options, being unlisted physically settled equity derivatives, to subscribe for the shares of the Company were granted to Mr. Kong Dan, Mr. Chang Zhenming, Mrs. Chan Hui Dor Lam Doreen, Mr. Kong Siu Chee Kenneth, Mr. Lo Wing Yat Kelvin and Mr. Zhao Shengbiao pursuant to the Senior Executive Share Option Scheme and The CITIC International Financial Holdings Limited Share Option Scheme respectively. Information in relation to these share options during the year ended 31 December 2004 was shown in the following section under the heading of "Share Option Schemes".

In addition, Mrs. Chan Hui Dor Lam Doreen, Mr. Kong Siu Chee Kenneth and Mr. Lo Wing Yat Kelvin are entitled to receive a cash benefit on the maturity date under the Equity Linked Deferred Award (the "ELDA") offered by CITIC Ka Wah Bank Limited ("CKWB"), a wholly-owned subsidiary of the Company on 16 April 2004. Detailed terms of the ELDA are as follows:-

<u>Name of director</u>	<u>Number of ordinary shares notionally subject to ELDA</u>	<u>ELDA price per share (HK\$)</u>	<u>Maturity date</u>
Mrs. Chan Hui Dor Lam Doreen	150,000	2.55	16/04/2006
Mr. Kong Siu Chee Kenneth	100,000	2.55	16/04/2006
Mr. Lo Wing Yat Kelvin	80,000	2.55	16/04/2006

The amount of cash benefit to be received by the respective Directors on the maturity date shall be calculated by multiplying the number of ordinary shares of the Company notionally subject to the ELDA by the lower of:-

- (i) the result obtained by subtracting the ELDA price per share from the closing price of the ordinary share of the Company as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the maturity date; and
- (ii) HK\$3.00.

The respective Directors are not entitled to receive any payment pursuant to the ELDA if the closing price of the ordinary share of the Company as stated in the daily quotations sheet of the Stock Exchange on maturity date falls below the ELDA price. No ordinary shares of the Company will be allotted or transferred to the respective Directors upon the maturity of the ELDA.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS (cont'd)

3. Short positions in shares and (in respect of equity derivatives) underlying shares of the Company:

None.

4. Long and short positions in shares and (in respect of equity derivatives) underlying shares of associated corporations of the Company:

None.

5. Interests in debentures of the Company:

None.

6. Interests in debentures of the associated corporation of the Company:

<u>Name of director</u>	<u>Issuer</u>	<u>Capacity</u>	<u>Amount of debentures</u>
Mrs. Chan Hui Dor Lam Doreen	CKWB (Cayman Islands) Limited	Beneficial owner	USD300,000
Mr. Lo Wing Yat Kelvin	CKWB (Cayman Islands) Limited	Beneficial owner	USD80,000

Save as disclosed above, as at 31 December 2004, none of the Directors or the chief executive of the Company had, under Divisions 7 and 8 of Part XV of the SFO, nor were they taken to or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO.

SHARE OPTION SCHEMES

The Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "New Option Scheme") on 16 May 2003 and, at the same time, terminated the Senior Executive Share Option Scheme adopted by the Company on 30 March 1995 (the "Old Option Scheme"). However, the provisions of the Old Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of all options granted prior to the termination of the Old Option Scheme. For the year ended 31 December 2004, there was no option granted by the Company under the Old Option Scheme. However, options to subscribe for a total of 7,412,000 ordinary shares of the Company were granted to 293 eligible persons under the New Option Scheme on 6 April 2004.

The following is a summary of the New Option Scheme disclosed in accordance with the Listing Rules:

1. Purpose of the New Option Scheme:

The purpose of the New Option Scheme is to provide the Company with a flexible means of either retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to the eligible persons.

SHARE OPTION SCHEMES (cont'd)

2. Participants of the New Option Scheme:

The Board may offer to grant an option to the following eligible persons:-

- (a) an employee or director holding salaried office or employment under a contract with a member of the Group;
- (b) a non-executive director (including any independent non-executive directors);
- (c) a direct or indirect shareholder of any member of the Group;
- (d) a supplier of goods or services to any member of the Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
- (f) a person or entity that provides research, development or other technological support or any advisory, consultancy and professional services to any member of the Group;
- (g) any company wholly-owned by one or more persons belonging to any of the above classes of participants; or
- (h) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any of the above classes of participants.

3. Total number of shares available for issue under the New Option Scheme and percentage of issued share capital as at 31 December 2004:

The number of shares available for issue under the New Option Scheme is 247,162,119 shares, representing 7.74% of the issued share capital of the Company as at 31 December 2004.

4. Maximum entitlement of each participant under the New Option Scheme:

No options may be granted to any eligible person which, if exercised, would result in such eligible person becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued or to be issued to him under all options granted to him in the 12 month period up to and including the offer date of the relevant options, exceed 1% of the shares in issue at such date. Any grant of further options above this limit shall be subject to certain requirements as stipulated in the rules of the New Option Scheme.

5. The period within which the shares must be taken up under an option:

Beginning on the second anniversary of the date of grant of such options and ending on the day immediately before the tenth anniversary thereof.

6. The minimum period for which an option must be held before it can be exercised:

From the date of grant of such options up to the day immediately before the second anniversary thereof.

7. The amount payable on application or acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

Not applicable.

8. The basis of determining the exercise price:

The exercise price is determined by the Directors and being not less than the higher of the followings:-

- (a) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer;
- (b) the average closing price of the shares of the Company as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer; and
- (c) the nominal value of the shares of the Company.

9. The remaining life of the New Option Scheme:

The New Option Scheme will be ended on 15 May 2013.

SHARE OPTION SCHEMES (cont'd)

At 31 December 2004, the Directors and the other eligible persons had the following interests in options, which were granted under the Old Option Scheme and/or the New Option Scheme respectively, to subscribe for the ordinary shares of the Company:

	<i>No. of options outstanding as at 01/01/2004</i>	<i>No. of options outstanding as at 31/12/2004</i>	<i>Date of grant</i>	<i>Vesting period</i>	<i>Exercisable period</i>	<i>No. of options granted during the year ended 31/12/2004 (Note 1)</i>	<i>No. of options exercised during the year ended 31/12/2004</i>	<i>No. of options lapsed during the year ended 31/12/2004</i>	<i>Price per share on exercise of options HK\$</i>	<i>Weighted average closing price (Note 2) HK\$</i>
Mr. Kong Dan	Under the New Option Scheme									
	400,000	400,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	-	3.540	-
	-	400,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	400,000	-	-	3.775	-
Mr. Chang Zhenming	Under the New Option Scheme									
	400,000	400,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	-	3.540	-
	-	400,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	400,000	-	-	3.775	-
Mrs. Chan Hui Dor Lam Doreen	Under the Old Option Scheme									
	2,000,000	1,000,000	17/08/1999	-	20/04/2000 to 29/03/2005	-	1,000,000	-	2.217	3.173
	74,689	74,689	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.217	-
	Under the New Option Scheme									
	300,000	300,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	-	3.540	-
	-	300,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	300,000	-	-	3.775	-
Mr. Kong Siu Chee Kenneth	Under the Old Option Scheme									
	2,000,000	1,000,000	17/08/1999	-	18/05/2001 to 29/03/2005	-	1,000,000	-	2.217	3.173
	74,689	74,689	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.217	-
	Under the New Option Scheme									
	200,000	200,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	-	3.540	-
	-	200,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	200,000	-	-	3.775	-
Mr. Lo Wing Yat Kelvin	Under the Old Option Scheme									
	1,200,000	300,000	17/08/1999	-	31/10/1999 to 29/03/2005	-	900,000	-	2.217	3.173
	74,689	74,689	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.217	-
	Under the New Option Scheme									
	200,000	200,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	-	3.540	-
	-	200,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	200,000	-	-	3.775	-
Mr. Zhao Shengbiao	Under the Old Option Scheme									
	316,114	-	06/05/1998	-	07/05/1998 to 29/03/2005	-	316,114	-	1.000	2.738
	Under the New Option Scheme									
	40,000	40,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	-	3.540	-
	-	40,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	40,000	-	-	3.775	-

SHARE OPTION SCHEMES (cont'd)

	No. of options outstanding as at 01/01/2004	No. of options outstanding as at 31/12/2004	Date of grant	Vesting period	Exercisable period	No. of options granted during the year ended 31/12/2004 (Note 1)	No. of options exercised during the year ended 31/12/2004	No. of options lapsed during the year ended 31/12/2004	Price per share on exercise of options HK\$	Weighted average closing price (Note 2) HK\$
Aggregate total of other eligible persons	Under the Old Option Scheme									
	814	-	06/05/1998	-	07/05/1998 to 29/3/2005	-	814	-	1.000	2.738
	203	203	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	1.620	-
	1,000,000	600,000	17/08/1999	-	01/04/2000 to 29/03/2005	-	400,000	-	2.217	3.173
	71,423	44,813	28/02/2002	-	28/02/2002 to 29/03/2005	-	26,141	469	2.217	3.173
	37,344	-	28/02/2002	-	01/03/2002 to 29/03/2005	-	-	37,344	1.828	-
	500,000	500,000	28/03/2000	-	31/03/2000 to 29/03/2005	-	-	-	1.758	-
	37,344	37,344	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	1.758	-
	100,000	-	27/06/2000	-	05/06/2002 to 29/03/2005	-	100,000	-	1.681	3.348
	37,344	-	28/02/2002	-	05/06/2002 to 29/03/2005	-	37,344	-	1.681	3.348
	100,000	100,000	10/08/2000	-	11/08/2001 to 29/03/2005	-	-	-	2.198	-
	4,203	4,203	28/02/2002	-	28/02/2002 to 29/03/2005	-	-	-	2.198	-
	500,000	-	05/12/2000	-	22/10/2001 to 29/03/2005	-	500,000	-	1.747	3.476
	37,344	-	28/02/2002	-	28/02/2002 to 29/03/2005	-	37,344	-	1.747	3.476
	Under the New Option Scheme									
	5,218,000	4,178,000	01/12/2003	17/11/2003 to 16/11/2005	17/11/2005 to 16/11/2013	-	-	1,040,000	3.540	-
	-	5,004,000	06/04/2004	06/04/2004 to 05/04/2006	06/04/2006 to 05/04/2014	5,872,000	-	868,000	3.775	-
	14,924,200	16,072,630				7,412,000	4,317,757	1,945,813		

Notes:

- (a) The closing price of the ordinary shares of the Company immediately before 6 April 2004 on which the options were granted was HK\$3.6.
(b) The Directors consider that it is not appropriate to disclose the value of options granted during the year ended 31 December 2004 since any valuation of the options would be subject to a number of assumptions that would be subjective and uncertain. The Directors believe that the evaluation of options based upon speculative assumptions would not be meaningful and would be misleading.
- This represents the weighted average closing price of the ordinary shares of the Company immediately before the dates on which the options were exercised.

Save as disclosed above, as at 31 December 2004, none of the Directors or chief executive of the Company or their spouses or children under 18 years of age were granted or exercised any right to subscribe for any equity or debt securities of the Company or any of its associated corporations.

INTEREST OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

Save as disclosed below, as at 31 December 2004, the Directors were not aware of any person (other than a Director or chief executive of the Company or their respective associate(s)) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

1. Long positions in shares of the Company:

<u>Name of shareholders</u>	<u>Capacity</u>	<u>Number of ordinary shares held</u>	<u>Percentage of issued share capital</u>
CITIC Group	Beneficial owner	1,789,048,220	56.01
	Interest of controlled corporations	11,678,770	0.37
China Construction Bank	Beneficial owner	168,599,268	5.28

2. Short positions in shares of the Company:

None.

3. Long and short positions in (in respect of equity derivatives) underlying shares of the Company:

None.

CONNECTED TRANSACTIONS

Acquisition of a 25% interest in CITIC Capital Markets Holdings Limited

On 18 March 2004, the Company entered into an acquisition agreement with CITIC Group in connection with the purchase by the Company of the total issued share capital in True Worth Investments Limited ("True Worth") and the assignment to the Company of all shareholder's loans owing by True Worth to CITIC Group at the total consideration of HK\$500,000,000 in cash (the "Acquisition"). True Worth is the holding company of 25% of the issued share capital in CITIC Capital Markets Holdings Limited ("CCMH") which the Company had an original holding of 25% through its wholly-owned subsidiary, Dramatic Year Limited ("Dramatic Year"). Subsequent to the completion of the Acquisition, the Company held the effective shareholding of 50% in CCMH through its two wholly-owned subsidiaries, True Worth and Dramatic Year. Since CITIC Group is the substantial shareholder of the Company, the Acquisition constituted a connected transaction of the Company. Since the completion of the Acquisition on 29 April 2004, CCMH ceased to be a connected person of the Company as defined by the Listing Rules.

Continuing connected transactions

Service Agreement

On 27 May 2002, CKWB entered into a service agreement with CCMH ("CCMH Service Agreement"). Pursuant to the CCMH Service Agreement, CKWB would provide management support services to CCMH and CCMH would pay CKWB service fees for the services rendered on a time cost basis as mutually agreed between the parties from time to time. The aggregate service fee received or receivable by CKWB pursuant to the CCMH Service Agreement for the year ended 31 December 2004 was HK\$1,947,785.

Agency Agreement

On 27 May 2002, CKWB entered into an agency agreement with CITIC Capital Securities Limited ("CCSL"), an associated company of the Company and CITIC Group, ("CCSL Agency Agreement") whereby CCSL appointed CKWB as its agent bank to act on its behalf to open securities accounts for its customers and to receive order from CCSL's customers through CKWB. For each successfully executed order, CKWB would be entitled to receive from CCSL an agency fee amounting to 30% (which was subsequently increased to 50% on 27 May 2004) of the brokerage commission payable by CCSL's customer on such order or such amount as mutually agreed between the parties from time to time. The aggregate agency fee received or receivable by CKWB for the year ended 31 December 2004 was HK\$13,229,870.

Discretionary Investment Management Agreements

On 31 July 2003, CKWB entered into a discretionary investment management agreement with CITIC Capital Markets Limited ("CCML"), a subsidiary of CCMH and an associated company of the Company and CITIC Group, ("CKWB DIM Agreement") whereby CKWB appointed CCML as the investment manager providing discretionary investment management services to CKWB. A management fee of 0.5% per annum of the invested amount would be paid by CKWB to CCML for the investment management services provided and on top of that, a performance fee of 15% for annualized return of 5% or above, 20% for annualized return of 10% or above, and 25% for annualized return of 15% or above. For the year ended 31 December 2004, no management fee and performance fee were payable by CKWB pursuant to the CKWB DIM Agreement.

CONNECTED TRANSACTIONS (cont'd)

On 18 September 2003, CITIC International Assets Management Limited ("CIAM"), a wholly-owned subsidiary of the Company, entered into a discretionary investment management agreement with CCML ("CIAM DIM Agreement") whereby CIAM appointed CCML to act as the investment manager providing discretionary investment management services to CIAM at the respective amount of management fee and performance fee. A management fee of 0.5% per annum of the net asset value, being the average daily balance in the month, would be paid monthly by CIAM to CCML for the investment management services provided and on top of that, a performance fee of 10% for a net return portion from 5% to 8%, and 20% for the net return portion in excess of 8% would be paid by CIAM for such services. For the year ended 31 December 2004, the management fee paid or payable by CIAM was HK\$316,323 and no performance fee was paid or payable by CIAM pursuant to the CIAM DIM Agreement.

Research Service Agreement

Respectively on 29 October 2003 and 24 November 2003, CITIC Frontier China Research Limited ("CITIC Frontier"), a 75% owned subsidiary of the Company then, entered into two research service agreements with CCSL and CCMH (respectively "CCSL Research Service Agreement" and "CCMH Research Service Agreement") whereby CITIC Frontier would render certain research compilation, industrial and market advisory services and other related services to CCSL and CCMH. Pursuant to the CCSL Research Service Agreement, a service fee of HK\$1,800,000 per annum would be payable by CCSL to CITIC Frontier and pursuant to the CCMH Research Service Agreement, a service fee comprising an upfront fee of HK\$2,100,000 and a semi-annual service fee of HK\$1,050,000 each payable on 31 March 2004 and 30 September 2004 respectively would be payable by CCMH to CITIC Frontier respectively.

On 17 June 2004, the 75% interest held by the Company in CITIC Frontier was sold to CCMH and since then, CITIC Frontier became a wholly-owned subsidiary of CCMH. The service fees received by CITIC Frontier pursuant to the CCSL Research Service Agreement and the CCMH Research Service Agreement during the period from 1 January 2004 to 17 June 2004 were HK\$750,000 and HK\$2,975,000 respectively.

Directors' review on the continuing connected transactions

The Directors, including the Independent Non-executive Directors, had reviewed the continuing connected transactions made during the year ended 31 December 2004 and confirmed that these transactions were (i) entered into in the ordinary and usual course of business on terms that are fair and reasonable so far as the Company or the relevant subsidiary is concerned and (ii) on normal commercial terms and in accordance with the terms of each of the relevant agreements governing such transactions. The aggregate investment management and performance fees paid or payable by CKWB and CIAM pursuant to the CKWB DIM Agreement and the CIAM DIM Agreement, or the aggregate service fee received or receivable by CKWB pursuant to the CCMH Service Agreement, or the aggregate agency fee received or receivable by CKWB pursuant to the CCSL Agency Agreement, or the aggregate service fee received by CITIC Frontier pursuant to the CCSL Research Service Agreement and the CCMH Research Service Agreement during the relevant period of time, did not exceed 3% of the consolidated net tangible assets of the Company as at 31 December 2004.

Auditors' confirmation on the continuing connected transactions

KPMG, the Auditors of the Company for the year ended 31 December 2004, have confirmed that the continuing connected transactions made during the year ended 31 December 2004:-

- (1) have received the approval of the Board of Directors of the Company;
- (2) have been entered into in accordance with the relevant agreements governing the transactions; and
- (3) have not exceeded the cap disclosed in the relevant previous announcements.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company had not redeemed any of its listed securities during the year ended 31 December 2004. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

MAJOR CUSTOMERS

The Directors believe that the five largest customers of the Group accounted for less than 30% of the total of interest income and other operating income of the Group in the year.

COMPLIANCE WITH THE "CODE OF BEST PRACTICE"

The Company had complied throughout the year with the "Code of Best Practice" as set out by the Stock Exchange in Appendix 14 of the Listing Rules except that there is no specific term for the appointment of Independent Non-executive Directors.

COMPLIANCE WITH THE "MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS"

The Company has adopted a code of conduct regarding directors' securities transactions (the "Code of Conduct") on the same terms as the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company, all Directors of the Company had complied with the Code of Conduct throughout the year.

AUDITORS

A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board

Kong Dan

Chairman

Hong Kong, 10 March 2005

Auditors' report to the shareholders of CITIC International Financial Holdings Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 12 to 72 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants
Hong Kong, 10 March 2005

Consolidated Income Statement for the year ended 31 December 2004

(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Interest income	3(a)	2,241,410	2,523,226
Interest expense		<u>(767,953)</u>	<u>(961,655)</u>
Net interest income		1,473,457	1,561,571
Fees and commission income		461,307	416,276
Fees and commission expense		<u>(26,880)</u>	<u>(39,000)</u>
Other operating income	3(b)	<u>248,551</u>	<u>82,012</u>
Operating income		2,156,435	2,020,859
Operating expenses	3(c)	<u>(1,117,485)</u>	<u>(1,015,485)</u>
Operating profit before provisions		1,038,950	1,005,374
Charge for bad and doubtful debts	3(d)	<u>(78,065)</u>	<u>(513,781)</u>
Operating profit	3	960,885	491,593
Net profit/(loss) on disposal of tangible fixed assets		11,862	(16,017)
Net surplus on revaluation of investment properties		7,555	24,461
Net profit on disposal of held-to-maturity securities		-	124,823
Provision written back on held-to-maturity securities		9,682	169
Impairment loss on goodwill	23	<u>(9,502)</u>	-
Impairment loss on other premises		-	(27,617)
Share of profits less losses of associates		<u>75,978</u>	<u>174,672</u>
Profit from ordinary activities before taxation	34	1,056,460	772,084
Income tax	5(a)	<u>(155,491)</u>	<u>(115,318)</u>
Profit from ordinary activities after taxation		900,969	656,766
Minority interests		<u>370</u>	<u>(188)</u>
Profit attributable to shareholders	30(f)	<u>901,339</u>	<u>656,578</u>
Profit retained in:			
The Company and its subsidiaries		829,675	508,231
Associates		<u>71,664</u>	<u>148,347</u>
		<u>901,339</u>	<u>656,578</u>
Dividends attributable to the year:	7(a)		
Interim dividend declared and paid during the year		210,759	95,465
Final dividend proposed after the balance sheet date		<u>239,636</u>	<u>200,960</u>
		<u>450,395</u>	<u>296,425</u>
Earnings per share	8		
Basic		<u>28.24¢</u>	<u>21.00¢</u>
Diluted		<u>25.70¢</u>	<u>20.84¢</u>

The notes on pages 18 to 72 form part of these financial statements.

Consolidated Balance Sheet at 31 December 2004

(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Assets			
Cash and short-term funds	10 & 27	8,345,790	7,511,643
Placements with banks and other financial institutions maturing after one month	27	364,307	646,373
Trade bills less provisions	11	246,081	452,489
Certificates of deposit	12 & 27	1,366,315	2,059,100
Other investments in securities	13	3,968,263	2,511,606
Advances to customers and other accounts less provisions	14(a)	43,323,300	41,073,517
Held-to-maturity securities and investment securities	19	22,294,833	22,454,176
Interest in associates	21	1,312,357	490,444
Goodwill	23	1,007,749	1,077,587
Deferred tax assets	17(a)	93,562	87,477
Tangible fixed assets	24	1,247,460	1,553,045
Total assets		83,570,017	79,917,457
Liabilities			
Deposits and balances of banks and other financial institutions	27	3,555,852	3,486,079
Deposits from customers	25 & 27	55,451,727	56,847,606
Certificates of deposit issued	27	6,959,690	4,711,175
Debt securities issued	26 & 27	2,322,798	-
Convertible bonds issued	27 & 31	1,399,384	1,397,364
Current taxation	5(c)	6,446	17,071
Deferred tax liabilities	17(a)	8	15
Other accounts and provisions		1,287,861	1,376,464
Total liabilities		70,983,766	67,835,774

Consolidated Balance Sheet
at 31 December 2004 (Cont'd)
(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Capital resources			
Share capital	29	3,194,153	3,189,835
Reserves	30	5,116,202	4,621,935
Shareholders' funds		8,310,355	7,811,770
Minority interests		-	191
Loan capital	32	4,275,896	4,269,722
Total capital resources		12,586,251	12,081,683
Total liabilities and capital resources		83,570,017	79,917,457

Approved and authorised for issue by the Board of Directors on 10 March 2005

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The notes on pages 18 to 72 form part of these financial statements.

Balance Sheet at 31 December 2004

(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Assets			
Other investments in securities	13	86,074	-
Advances to customers and other accounts less provisions	14(a)	23,963	29,910
Amounts due from subsidiaries	18	1,070,478	1,637,049
Investments in subsidiaries	20	6,236,222	5,546,229
Tangible fixed assets	24	57,823	212,735
Total assets		7,474,560	7,425,923
Liabilities			
Other accounts and provisions		6,777	7,690
Amounts due to subsidiaries	22	1,399,608	1,397,597
Total liabilities		1,406,385	1,405,287
Capital resources			
Share capital	29	3,194,153	3,189,835
Reserves	30	2,874,022	2,830,801
Shareholders' funds		6,068,175	6,020,636
Total liabilities and capital resources		7,474,560	7,425,923

Approved and authorised for issue by the Board of Directors on 10 March 2005

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The notes on pages 18 to 72 form part of these financial statements.

Consolidated Statement of Changes in Equity for the year ended 31 December 2004

(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Shareholders' equity at 1 January		<u>7,811,770</u>	
- As previously reported			7,426,293
- Prior year adjustment in respect of deferred taxation			<u>(53,066)</u>
- As restated			<u>7,373,227</u>
Exchange differences	30(e)	<u>283</u>	<u>(916)</u>
Net gains/(losses) not recognised in the income statement		<u>283</u>	<u>(916)</u>
Profit attributable to shareholders	30(f)	<u>901,339</u>	<u>656,578</u>
Dividends paid during the year	7(c)	<u>(411,897)</u>	<u>(490,095)</u>
Movements in share capital:			
Shares issued under the Old Option Scheme	29	4,318	9,052
Shares issued under scrip dividends	29	-	145,470
Net share premium received	30(a)	<u>4,542</u>	<u>118,454</u>
		<u>8,860</u>	<u>272,976</u>
Shareholders' equity at 31 December		<u><u>8,310,355</u></u>	<u><u>7,811,770</u></u>

The notes on pages 18 to 72 form part of these financial statements.

Consolidated Cash Flow Statement for the year ended 31 December 2004

(Expressed in Hong Kong dollars)

	Note	2004 HK\$'000	2003 HK\$'000
Operating activities			
Cash (used in)/generated from operating activities	34	(637,954)	1,330,860
Hong Kong profits tax paid		(115,782)	(44,307)
Overseas profits tax paid		(1,568)	(2,408)
Net cash (used in)/generated from operating activities		(755,304)	1,284,145
Investing activities			
Dividends received from equity investment securities		10,777	13,462
Dividends received from associates		-	15,180
Purchase of tangible fixed assets		(64,003)	(39,756)
Proceeds from disposal of tangible fixed assets		241,875	20,453
Increase in shareholding in an associate		(500,000)	-
Capital injection into an associate		(250,000)	-
Net cash inflow from purchase of a subsidiary		-	511
Net cash outflow from disposal of a subsidiary	35(b)	(8,872)	-
Net cash (used in)/generated from investing activities		(570,223)	9,850
Financing activities			
Dividends paid	7(c)	(411,897)	(490,095)
Net proceeds from convertible bonds issued		-	1,369,417
Interest paid on convertible bonds issued		(3,505)	-
Interest paid on loan capital issued		(355,602)	(356,667)
Proceeds from debt securities issued		2,323,082	-
Capital contribution from minority interests		-	3
Proceeds from shares issued		8,860	272,976
Net cash generated from financing activities		1,560,938	795,634
Net increase in cash and cash equivalents		235,411	2,089,629
Cash and cash equivalents at 1 January		7,819,098	5,729,469
Cash and cash equivalents at 31 December	36	8,054,509	7,819,098
Cash flows from operating activities include:			
Interest received		3,072,324	3,321,445
Interest paid		(1,549,720)	(1,818,360)

The notes on pages 18 to 72 form part of these financial statements.

Notes on the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

1. Principal activities

The principal activities of CITIC International Financial Holdings Limited (the “Company”) and its subsidiaries (the “Group”), which materially affect the results or comprise the assets and liabilities of the Group, are the provision of banking and related financial services.

2. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice (“SSAP”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of premises and investment properties, and the marking to market of certain investments in securities and derivative financial instruments as explained in the accounting policies set out below.

(c) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

- (i) Interest income from dated debt securities intended to be held to maturity is recognised as it accrues, as adjusted by the amortisation of the premium or discount on acquisition, so as to achieve a constant rate of return over the period from the date of purchase to the date of maturity. Other interest income is accrued on a time-apportioned basis by reference to the principal outstanding and the rate applicable, except in the case of interest on doubtful debts (note 2(d)(v)).
- (ii) Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk incurred or accounted for as interest income.
- (iii) Finance income implicit in the finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return, on the outstanding net investment in the leases for each accounting period. Commission paid to dealers for finance lease loans or hire purchase contracts is amortised over the terms of the leases.

2. Significant accounting policies (cont'd)

(c) Revenue recognition (cont'd)

- (iv) Rental income receivable under operating leases is recognised as other operating income in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

- (v) Dividend income is recognised as follows:
 - dividend income from listed investments is recognised when the share price of the investment goes ex-dividend; and
 - dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(d) Advances and doubtful debts

- (i) Advances to customers and trade bills are measured at the cash consideration at the time of drawdown/acquisition and are stated in the balance sheet at the principal amounts outstanding net of any suspended interest and provisions for bad and doubtful debts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over the early prepayment penalty period.

- (ii) Loans are designated as non-performing as soon as management has doubts as to the ultimate recoverability of principal or interest or when contractual payments of principal or interest are 90 days overdue. When a loan is designated as non-performing, interest will be suspended and a specific provision raised if required.

However, the suspension of interest may be deferred for up to 12 months past due in the following situations:

- where cash collateral is held covering the total of principal and interest due and the right of set-off is in place; or
 - where the value of net realisable tangible collateral is considered more than sufficient to cover the full repayment of all principal and interest due and credit approval has been given to the rolling-up or capitalisation of interest payments.
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- (iii) Specific provisions

Specific provisions represent the quantification of expected losses from identified accounts and are deducted from loans and advances in the balance sheet. The amount of specific provisions raised is assessed on a case by case basis. Specific provisions are made against the carrying amount of advances that are identified as being in doubt, based on regular reviews of outstanding balances, to reduce these advances, net of any realisable collateral, to their recoverable amounts.

2. Significant accounting policies (cont'd)

(d) Advances and doubtful debts (cont'd)

(iv) General provisions

General provisions augment specific provisions and provide cover for loans which are impaired at the balance sheet date but which will not be identified as such until some time in the future. The Group maintains a general provision which is determined taking into account the structure and risk characteristics of the Group's loan portfolio and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience. General provisions are deducted from loans and advances to customers in the balance sheet.

(v) Advances on which interest is being suspended

Interest accrued on non-performing loans is credited to a suspense account which is netted in the balance sheet against "Advances to customers and other accounts" or "Trade bills" as appropriate. On receipt of cash (other than from the realisation of collateral), suspended interest is recovered and taken to the income statement. Amounts received from the realisation of collateral are applied to the repayment of outstanding indebtedness, with any surplus used to recover any specific provisions and then suspended interest.

(vi) Non-accrual loans

Loans are not reclassified as accruing until interest and principal payments are up-to-date and future payments are reasonably assured. Where the probability of receiving interest payments is remote, interest is no longer accrued. Where the loan has no reasonable prospect of recovery, the loan and any related suspended interest are written off.

(vii) Assets acquired in exchange for advances

Assets acquired in exchange for advances in order to achieve an orderly realisation continue to be reported as advances. In this regard, provision is made on the shortfall between the carrying amount of the advances and the expected net sales proceeds from realisation of the repossessed assets.

In the case when the loan has been written off, the asset acquired will be reclassified to other accounts. Impairment losses (see note 2(k)), if necessary, are made to allow for declines in the estimated fair value of the assets acquired.

(e) Subsidiaries

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

2. Significant accounting policies (cont'd)

(e) Subsidiaries (cont'd)

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case the investment is accounted for as an investment in other securities (see note 2(h)(iv)).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet separately from liabilities and the shareholders' equity. Minority interests in the results of the Group for the year are also separately presented in the income statement.

Where losses attributable to the minority exceed the minority interest in the net assets of a subsidiary, the excess, and any further losses attributable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make good the losses. All subsequent profits of the subsidiary are allocated to the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case the investment is accounted for as an investment in other securities (see note 2(h)(iv)).

(f) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An interest in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case the investment is accounted for as an investment in other securities (see note 2(h)(iv)). The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further loss is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

2. Significant accounting policies (cont'd)

(f) Associates (cont'd)

In the Company's balance sheet, its interests in associates are stated at cost less impairment losses (see note 2(k)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the investor, in which case the investment is accounted for as an investment in other securities (see note 2(h)(iv)).

(g) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment losses (see note 2(k)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life. The cost of positive goodwill less any accumulated amortisation and any impairment losses (see note 2(k)) is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(h) Investments in securities

The Group's and the Company's policies for investments in securities other than investments in subsidiaries and associates are as follows:

- (i) Dated debt securities that the Group and/or the Company have the ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less any provisions for diminution in value. Provisions are made when carrying amounts are not expected to be fully recovered and are recognised as an expense in the income statement, such provisions being determined for each investment individually.
- (ii) Investments held on a continuing basis for an identified long-term purpose are classified as investment securities. Investment securities are stated in the balance sheet at cost less any provisions for diminution in value. Provisions are made when the fair values have declined below the carrying amounts, unless there is evidence that the decline is temporary, and are recognised as expenses in the income statement, such provisions being determined for each investment individually.
- (iii) Provisions against the carrying value of held-to-maturity securities and investment securities are written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- (iv) All other securities (whether held for trading or otherwise) are stated in the balance sheet at fair values. Changes in fair value are recognised in the income statement as they arise. Securities are presented as trading securities when they were acquired principally for the purpose of generating a profit from short term fluctuations in price or dealer's margin.
- (v) Profits or losses on disposal of investments in securities are determined as the difference between the net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

2. Significant accounting policies (cont'd)

(i) Sale and repurchase agreements

Proceeds received from the sale of securities under sale and repurchase agreements are considered to be, in substance, secured loans. Therefore the securities are maintained on the balance sheet at cost or market value depending on their classification as held-to-maturity securities, investment securities or other investments and the proceeds of the sale are included in "Deposits from customers" or "Deposits and balances of banks and other financial institutions" depending on the identity of the counterparty. The difference between the sale price and the repurchase price is amortised on an effective yield basis over the period from the date of sale to the date of repurchase and is included in interest expense.

(j) Tangible fixed assets and depreciation

(i) In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKICPA, with the effect that other premises have not been revalued to open market value at the balance sheet date. It is not the directors' intention to revalue other premises in the near future.

(ii) Tangible fixed assets are carried in the balance sheet on the following bases:

- Freehold land is not depreciated. Other premises are depreciated on a straight-line basis to write off their cost or valuation over their estimated useful lives which are as follows:
 - Land held on leases - over the unexpired terms of the leases
 - Buildings - over 30 years or the unexpired terms of the land leases, whichever is the shorter
- Furniture, fixtures and equipment are stated at cost less depreciation calculated on a straight-line basis to write off the assets over their estimated useful lives, which are generally between three and ten years.

(iii) Changes arising on the revaluation of investment properties are generally dealt with in reserves. The only exceptions are as follows:

- when a deficit arises on revaluation, it will be charged to the income statement, if and to the extent that it exceeds the amount held in the reserve in respect of the portfolio of investment properties, immediately prior to the revaluation; and
- when a surplus arises on revaluation, it will be taken to the income statement, if and to the extent that a deficit on revaluation in respect of the portfolio of investment properties, had previously been charged to the income statement.

2. Significant accounting policies (cont'd)

(j) Tangible fixed assets and depreciation (cont'd)

- (iv) Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.
- (v) Profits or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment properties revaluation reserve is also transferred to the income statement for the year. For all other fixed assets, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(k) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates (except for those accounted for as an investment in other securities under notes 2(h)(iv)); and
- positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature, is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are taken to the income statement in the year in which the reversals are recognised.

2. Significant accounting policies (cont'd)

(l) Leases and hire purchase contracts

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets held under finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Revenue arising from finance leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c)(iii).

(ii) Assets held for use in operating leases

Where the Group is a lessor under operating leases, the leased assets are included in fixed assets and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(j), and less any impairment losses (see note 2(k)). Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c)(iv).

(iii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash and balances with banks and other financial institutions, and short-term, highly liquid inter-bank placements and investments that are readily convertible into known amount of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(n) Subordinated liabilities and debt securities issued

Subordinated liabilities and debt securities issued are included in the balance sheet at the value of the net proceeds received upon issue, adjusted for the amortisation of any premium or discount arising on issue.

Interest on subordinated liabilities and debt securities issued is charged to the income statement at the coupon rate adjusted for the amortisation of any premium or discount arising on issue so as to achieve a constant rate of charge over the period from the date of issue to the date of redemption.

When debt securities issued are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognised immediately in the income statement.

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. Contributions are charged to the income statement as and when the contributions fall due.

2. Significant accounting policies (cont'd)

(o) Employee benefits (cont'd)

- (iii) When the Group grants employees options to acquire shares of the Company, no employee benefit cost or obligation is recognised at the date of grant. When the options are exercised, equity is increased by the amount of the proceeds received.
- (iv) Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

2. Significant accounting policies (cont'd)

(p) Income tax (cont'd)

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. Significant accounting policies (cont'd)

(s) Off-balance sheet financial instruments

Off-balance sheet financial instruments mainly include derivatives arising from futures, forward, swap and option transactions undertaken by the Group and the Company in the foreign exchange, interest rate and equity markets. Netting is applied where a legal right of set-off exists, which would survive the insolvency of all parties.

The accounting for these instruments is dependent upon whether the transactions are undertaken for trading purposes or as part of the management of asset and liability portfolios.

(i) Derivatives used for trading purposes

Trading transactions include transactions undertaken for market making, to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes are marked to market and the net present value of the gain or loss arising is recognised in the income statement as trading gains/losses. Unrealised gains on transactions are included in "Accrued interest and other accounts" in the balance sheet. Unrealised losses on transactions are included in "Other accounts and provisions".

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

(ii) Derivatives used for asset and liability management purposes

Derivatives that qualify as hedges are valued on an equivalent basis to the underlying assets, liabilities or net positions which they are hedging. Any profit or loss is recognised on the same basis as that arising from the related assets, liabilities or net positions.

A hedging relationship exists where:

- at the inception of the hedge there is formal documentation of the hedge;
- the hedge is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the reporting period; and
- for hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Any gain or loss on termination of hedging derivatives is deferred and amortised to the income statement over the remaining original life of the terminated contract. Where the underlying asset, liability or position is sold or terminated, the hedging derivative is immediately marked to market through the income statement.

2. Significant accounting policies (cont'd)

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise the bank premises, central cash management and any items which cannot be reasonably allocated to specific business segments.

3. Operating profit

The operating profit for the year is stated after taking account of the following:

(a) Interest income

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Interest income on listed securities	327,940	284,049
Interest income on unlisted securities	566,284	619,104
Other interest income	1,347,186	1,620,073
	<u>2,241,410</u>	<u>2,523,226</u>

(b) Other operating income

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Other revenue		
Dividend income		
Listed investments	488	357
Unlisted investments	10,289	13,105
Rental income less outgoings of \$1,598,000 (2003: \$3,694,000)	9,893	13,736
	<u>20,670</u>	<u>27,198</u>
Other net income		
Net gain on other investments in securities	100,893	15,409
Net gain arising from dealing in foreign currencies	54,468	7,590
Net gain arising from other dealing activities	22,583	14,058
Profit on disposal of a subsidiary	865	-
Others	49,072	17,757
	<u>227,881</u>	<u>54,814</u>
Total	<u>248,551</u>	<u>82,012</u>

(c) Operating expenses

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Staff costs		
Salaries and other staff costs	556,831	459,783
Retirement costs (note 37)	35,866	36,493
Premises and equipment expenses		
Rental of premises	33,369	46,456
Depreciation (note 24)	146,399	123,443
Others	74,839	92,355
Advertising	66,651	51,639
Amortisation of goodwill (note 23)	60,336	59,786
Communication, printing and stationery	52,694	54,294
Legal and professional fees	22,247	23,277
Transportation	7,614	7,271
Auditors' remuneration	3,358	3,799
Others	57,281	56,889
	<u>1,117,485</u>	<u>1,015,485</u>

3. Operating profit (cont'd)

(d) Charge for bad and doubtful debts

	The Group	
	2004 HK\$'000	2003 HK\$'000
Specific provisions		
New provisions	427,837	699,883
Releases	(280,715)	(153,667)
Recoveries	(44,372)	(80,935)
	<u>102,750</u>	<u>465,281</u>
General provisions		
New provisions	2,315	94,323
Releases	(27,000)	(45,823)
	<u>(24,685)</u>	<u>48,500</u>
Net charge for bad and doubtful debts	<u><u>78,065</u></u>	<u><u>513,781</u></u>

(e) Individuals with highest emoluments

Of the Group's five individuals with the highest emoluments, three of them (2003: four) are directors of the Company and the information in respect of the directors' emoluments are disclosed in note 4.

The emoluments of the remaining two (2003: one) individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	4,728	2,208
Bonuses	3,050	600
Pension contributions	228	216
	<u>8,006</u>	<u>3,024</u>

The emoluments of the remaining two (2003: one) individuals with highest emoluments are within the following bands:

	2004 Number of individuals	2003 Number of individuals
\$3,000,001 - \$3,500,000	-	1
\$3,500,001 - \$4,000,000	1	-
\$4,000,001 - \$4,500,000	1	-
	<u>2</u>	<u>1</u>

4. Directors' remuneration

Directors' remuneration disclosed pursuant to section 161 of the Hong Kong Companies Ordinance is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Fees	4,660	4,500
Salaries, allowances and benefits in kind	14,319	14,950
Bonuses	8,546	3,964
Pension contributions	1,263	1,394
	<u>28,788</u>	<u>24,808</u>

4. Directors' remuneration (cont'd)

Included in the directors' remuneration were fees of \$700,000 (2003: \$600,000) provided to independent non-executive directors during the year.

In addition to the above emoluments, certain directors were granted share options under The CITIC International Financial Holdings Limited Share Option Scheme (the "New Option Scheme") and the Senior Executive Share Option Scheme (the "Old Option Scheme") of the Company. The details of these benefits in kind are disclosed under the paragraph "Share Option Schemes" in the directors' report.

The remuneration of the directors is within the following bands:

	2004	2003
	Number of	Number of
	directors	directors
\$0 - \$1,000,000	11	9
\$1,500,001 - \$2,000,000	-	2
\$2,000,001 - \$2,500,000	2	-
\$3,500,001 - \$4,000,000	1	1
\$4,000,001 - \$4,500,000	1	1
\$4,500,001 - \$5,000,000	-	1
\$5,000,001 - \$5,500,000	-	1
\$5,500,001 - \$6,000,000	1	-
\$7,500,001 - \$8,000,000	1	-
	17	15

5. Income tax

(a) Taxation in the consolidated income statement represents:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Current tax - Provision for Hong Kong Profits Tax		
Tax for the year	156,377	94,709
Over-provision in respect of prior years	(1,253)	(1,501)
	155,124	93,208
Current tax - Overseas		
Tax for the year	2,145	5,177
Deferred tax		
Origination and reversal of temporary differences	(6,092)	(2,073)
Effect of increase in tax rate on deferred tax balances at 1 January	-	(7,319)
	(6,092)	(9,392)
Share of associates' taxation	4,314	26,325
Total income tax expense	155,491	115,318

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

5. Taxation (cont'd)

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Profit before tax	<u>1,056,460</u>	<u>772,084</u>
Notional tax on profit before tax, calculated at the rates applicable to profits in the tax jurisdictions concerned	171,055	104,118
Tax effect of non-deductible expenses	56,294	21,625
Tax effect of non-taxable revenue	(51,687)	(21,660)
Tax effect of unused tax losses not recognised	1,593	8,281
Tax effect of previous tax losses utilised in current year	(11,636)	(1,694)
Tax effect of tax benefit from tax planning arrangement	(13,247)	(13,125)
Tax effect of temporary allowance not recognised	58	268
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	-	(7,319)
Over-provision in prior years	<u>(1,253)</u>	<u>(1,501)</u>
Share of associates' taxation	<u>4,314</u>	<u>26,325</u>
Actual tax expense	<u>155,491</u>	<u>115,318</u>

(c) Taxation in the balance sheet represents:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Hong Kong Profits Tax	5,275	12,892
Overseas taxation	<u>1,171</u>	<u>4,179</u>
	<u>6,446</u>	<u>17,071</u>

6. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of \$450,576,000 (2003: \$332,723,000) which has been dealt with in the financial statements of the Company.

7. Dividends

(a) Dividends attributable to the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid of \$0.066 (2003: \$0.03) per share	210,759	95,465
Final dividend proposed after the balance sheet date of \$0.075 (2003: \$0.063) per share	<u>239,636</u>	<u>200,960</u>
	<u><u>450,395</u></u>	<u><u>296,425</u></u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of \$0.063 (2003: \$0.13) per share	200,960	394,591
Final dividend in respect of the previous financial year on shares issued under the Old Option Scheme subsequent to the balance sheet date and before the close of the Register of Members of the Company	<u>178</u>	<u>39</u>
	<u><u>201,138</u></u>	<u><u>394,630</u></u>

(c) Dividends paid during the year

	2004 HK\$'000	2003 HK\$'000
Interim dividend declared and paid of \$0.066 (2003: \$0.03) per share	210,759	95,465
Final dividend in respect of the previous financial year, approved and paid during the year of \$0.063 (2003: \$0.13) per share	200,960	394,591
Final dividend in respect of the previous financial year on shares issued under the Old Option Scheme subsequent to the balance sheet date and before the close of the Register of Members of the Company	<u>178</u>	<u>39</u>
	<u><u>411,897</u></u>	<u><u>490,095</u></u>

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on profit attributable to shareholders of \$901,339,000 (2003: \$656,578,000) and on the weighted average of 3,192,157,892 (2003: 3,126,742,217) ordinary shares in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on adjusted profit attributable to shareholders of \$904,834,000 (2003: \$656,811,000) and on the weighted average number of ordinary shares of 3,521,197,208 (2003: 3,151,682,576) after adjusting for the effects of all dilutive potential ordinary shares.

8. Earnings per share (cont'd)

(c) Reconciliation

	2004	2003
	Number of	Number of
	shares	shares
Weighted average number of ordinary shares used in calculating basic earnings per share	3,192,157,892	3,126,742,217
Deemed issue of ordinary shares for no consideration	2,138,403	3,445,504
Deemed issue of ordinary shares for Convertible Bonds	326,900,913	21,494,855
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>3,521,197,208</u>	<u>3,151,682,576</u>

9. Segment reporting

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format as the directors consider that this is more relevant to the Group's internal financial reporting.

(i) Business segments

The Group is principally engaged in the provision of banking and related financial services. The Group comprises the following main business segments:

Commercial banking business:	It mainly comprises banking business, which includes retail banking, wholesale banking and treasury activities.
Asset management:	It mainly comprises direct investment and distressed assets management.
Investment banking:	It mainly comprises merchant banking, fund management and securities brokerage and dealing.
Unallocated:	It mainly comprises the premises and any items which cannot be reasonably allocated to specific business segments.

9. Segment reporting (cont'd)

(i) Business segments (cont'd)

2004	The Group					Consolidated HK\$'000
	Commercial banking HK\$'000	Asset management HK\$'000	Investment banking HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	
Net interest income	1,456,353	12,417	-	4,687	-	1,473,457
Other operating income	600,994	60,359	-	21,625	-	682,978
Operating income	<u>2,057,347</u>	<u>72,776</u>	<u>-</u>	<u>26,312</u>	<u>-</u>	<u>2,156,435</u>
Segment result	944,583	79,945	-	(63,643)	-	960,885
Net profit/(loss) on disposal of tangible fixed assets	19,755	-	-	(7,893)	-	11,862
Net surplus on revaluation of investment properties	7,555	-	-	-	-	7,555
Provision written back on held-to-maturity securities	9,682	-	-	-	-	9,682
Impairment loss on goodwill	(9,502)	-	-	-	-	(9,502)
Share of (loss)/profit of associates	(6,094)	-	82,072	-	-	75,978
Profit/(loss) from ordinary activities before taxation	965,979	79,945	82,072	(71,536)	-	1,056,460
Income tax	(149,583)	(54)	(6,269)	415	-	(155,491)
Profit/(loss) from ordinary activities after taxation	816,396	79,891	75,803	(71,121)	-	900,969
Minority interests	-	-	-	370	-	370
Profit/(loss) attributable to shareholders	<u>816,396</u>	<u>79,891</u>	<u>75,803</u>	<u>(70,751)</u>	<u>-</u>	<u>901,339</u>
Depreciation for the year	149,070	87	-	(2,758)	-	146,399
Charge/(write back) for bad and doubtful debts	100,540	(22,475)	-	-	-	78,065
Amortisation of goodwill for the year	1,056	-	6,528	52,752	-	60,336
Segment assets	80,101,502	1,335,287	-	1,038,641	(217,770)	82,257,660
Interest in associates	191,450	-	1,120,907	-	-	1,312,357
Total assets	<u>80,292,952</u>	<u>1,335,287</u>	<u>1,120,907</u>	<u>1,038,641</u>	<u>(217,770)</u>	<u>83,570,017</u>
Segment liabilities	<u>70,036,532</u>	<u>14,064</u>	<u>-</u>	<u>1,399,608</u>	<u>(466,438)</u>	<u>70,983,766</u>
Capital expenditure incurred during the year	62,784	719	195,866	500	-	259,869

9. Segment reporting (cont'd)

(i) Business segments (cont'd)

2003

	The Group					Consolidated HK\$'000
	Commercial banking HK\$'000	Asset management HK\$'000	Investment banking HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	
Net interest income	1,547,284	11,380	-	2,907	-	1,561,571
Other operating income	399,608	54,535	-	5,145	-	459,288
Operating income	<u>1,946,892</u>	<u>65,915</u>	<u>-</u>	<u>8,052</u>	<u>-</u>	<u>2,020,859</u>
Segment result	555,488	9,923	-	(73,818)	-	491,593
Net (loss)/profit on disposal of tangible fixed assets	(21,818)	-	-	5,801	-	(16,017)
Net surplus on revaluation of investment properties	7,835	-	-	16,626	-	24,461
Net profit on disposal of held-to-maturity securities	123,948	-	-	875	-	124,823
Provision written back/(made) on held-to-maturity securities	1,135	-	-	(966)	-	169
Impairment loss on other premises	(4,751)	-	-	(22,866)	-	(27,617)
Share of profits less losses of associates	95,102	-	79,570	-	-	174,672
Profit/(loss) from ordinary activities before taxation	756,939	9,923	79,570	(74,348)	-	772,084
Income tax	<u>(103,214)</u>	<u>(7)</u>	<u>(11,825)</u>	<u>(272)</u>	<u>-</u>	<u>(115,318)</u>
Profit/(loss) from ordinary activities after taxation	653,725	9,916	67,745	(74,620)	-	656,766
Minority interests	-	-	-	(188)	-	(188)
Profit/(loss) attributable to shareholders	<u>653,725</u>	<u>9,916</u>	<u>67,745</u>	<u>(74,808)</u>	<u>-</u>	<u>656,578</u>
Depreciation for the year	<u>125,537</u>	<u>55</u>	<u>-</u>	<u>(2,149)</u>	<u>-</u>	<u>123,443</u>
Charge for bad and doubtful debts	<u>473,638</u>	<u>38,042</u>	<u>-</u>	<u>2,101</u>	<u>-</u>	<u>513,781</u>
Amortisation of goodwill for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,786</u>	<u>-</u>	<u>59,786</u>
Segment assets	77,219,893	1,258,759	410	2,514,990	(1,567,039)	79,427,013
Interest in associates	195,306	-	295,138	-	-	490,444
Total assets	<u>77,415,199</u>	<u>1,258,759</u>	<u>295,548</u>	<u>2,514,990</u>	<u>(1,567,039)</u>	<u>79,917,457</u>
Segment liabilities	<u>68,208,002</u>	<u>18,584</u>	<u>-</u>	<u>1,397,364</u>	<u>(1,788,176)</u>	<u>67,835,774</u>
Capital expenditure incurred during the year	<u>47,312</u>	<u>450</u>	<u>-</u>	<u>2,918</u>	<u>-</u>	<u>50,680</u>

9. Segment reporting (cont'd)

(ii) Geographical segments

The information concerning geographical analysis has been classified by the location of the principal operations of the subsidiaries or branches of its subsidiaries.

2004

	Hong Kong HK\$'000	Mainland China HK\$'000	USA HK\$'000	Others HK\$'000	Inter- segment elimination HK\$'000	Consolidated HK\$'000
Operating income from external customers	2,105,057	16,684	45,380	-	(10,686)	2,156,435
Total assets	82,997,057	690,143	1,742,424	466,479	(2,326,086)	83,570,017
Capital expenditure incurred during the year	<u>245,075</u>	<u>8,008</u>	<u>6,786</u>	<u>-</u>	<u>-</u>	<u>259,869</u>

2003

	Hong Kong HK\$'000	Mainland China HK\$'000	USA HK\$'000	Others HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Operating income from external customers	1,978,831	3,882	43,689	-	(5,543)	2,020,859
Total assets	78,513,770	413,576	1,911,002	354,100	(1,274,991)	79,917,457
Capital expenditure incurred during the year	<u>37,876</u>	<u>11,408</u>	<u>1,396</u>	<u>-</u>	<u>-</u>	<u>50,680</u>

10. Cash and short-term funds

	The Group	
	2004 HK\$'000	2003 HK\$'000
Cash and balances with banks and other financial institutions	1,488,919	497,995
Money at call and short notice (a)	6,458,048	7,013,648
Treasury bills (including Exchange Fund Bills) (b)	<u>398,823</u>	<u>-</u>
	<u>8,345,790</u>	<u>7,511,643</u>

(a) Money at call and short notice represents deposits of up to a maximum of one month maturity.

(b) The analysis of treasury bills (including Exchange Fund Bills) is as follows:

	The Group	
	2004 HK\$'000	2003 HK\$'000
Held-to-maturity securities	<u>398,823</u>	<u>-</u>
Unlisted and issued by central governments and central banks	<u>398,823</u>	<u>-</u>

11. Trade bills less provisions

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Trade bills	248,567	457,060
General provisions for bad and doubtful debts (note 15)	<u>(2,486)</u>	<u>(4,571)</u>
	<u>246,081</u>	<u>452,489</u>

12. Certificates of deposit

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Held-to-maturity securities - Unlisted	1,276,366	1,678,843
Other investments - Unlisted	<u>89,949</u>	<u>380,257</u>
	<u>1,366,315</u>	<u>2,059,100</u>

13. Other investments in securities

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities				
Listed in Hong Kong	1,817	1,397	-	-
Listed outside Hong Kong	570,004	1,523,272	-	-
Unlisted	<u>960,643</u>	<u>471,443</u>	<u>-</u>	<u>-</u>
	<u>1,532,464</u>	<u>1,996,112</u>	<u>-</u>	<u>-</u>
Equity securities				
Listed in Hong Kong	84,692	37,601	-	-
Listed outside Hong Kong	-	3,340	-	-
Unlisted	<u>332,882</u>	<u>262,099</u>	<u>-</u>	<u>-</u>
	<u>417,574</u>	<u>303,040</u>	<u>-</u>	<u>-</u>
Investment funds - unlisted				
	<u>2,018,225</u>	<u>212,454</u>	<u>86,074</u>	<u>-</u>
	<u>3,968,263</u>	<u>2,511,606</u>	<u>86,074</u>	<u>-</u>

13. Other investments in securities (cont'd)

The issuers of debt securities and equity securities are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Central governments and central banks	1,234	-	-	-
Banks and other financial institutions	256,872	1,514,774	-	-
Corporate entities	3,703,657	737,053	86,074	-
Public sector entities	6,500	259,779	-	-
	<u>3,968,263</u>	<u>2,511,606</u>	<u>86,074</u>	<u>-</u>

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Market value of listed securities:				
Debt securities	571,821	1,524,669	-	-
Equity securities	84,692	40,941	-	-
	<u>656,513</u>	<u>1,565,610</u>	<u>-</u>	<u>-</u>

The unlisted equity securities include an amount of \$123,697,000 (2003: \$123,697,000) representing 25% equity interest in Chinese Mercantile Bank ("CMB"), a joint venture bank established and operating in Shenzhen, The People's Republic of China.

In 1999, the Group appointed the other shareholder of CMB to identify a buyer to acquire the 25% equity interest in CMB held by the Group at a consideration of approximately \$129,947,000. A cash deposit in the amount of this agreed sale consideration was received by the Group from the other shareholder of CMB. At the same time, the Group and that other shareholder of CMB also agreed that the Group would no longer have any further involvement in the management and operations of CMB, or participation in its financial results, from the time of receipt of the cash deposit.

As a result of the above arrangements, the 25% equity interest in CMB held by the Group has been classified as "Other investments in securities" in the balance sheet, which is stated at fair value. In the opinion of the Directors, the cash deposit received by the Group less anticipated transaction costs best represents the fair value of the 25% equity interest in CMB held by the Group.

On 30 December 2004, the Group entered into a Sale and Purchase Agreement ("Agreement") with the other shareholder and a subsidiary of the other shareholder, pursuant to which the Group agreed to sell and transfer its 25% equity interest in CMB, subject to the terms and conditions of the Agreement. The Agreement shall take effect upon the approval of the China Banking Regulatory Commission ("CBRC"). As at 31 December 2004, the approval from CBRC has not been obtained.

14. Advances to customers and other accounts less provisions

(a) Advances to customers and other accounts less provisions

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Advances to customers (note 27)	42,672,715	40,186,173	-	-
Specific provisions for bad and doubtful debts (note 15)	(537,056)	(690,501)	-	-
General provisions for bad and doubtful debts (note 15)	(519,351)	(541,903)	-	-
	<u>41,616,308</u>	<u>38,953,769</u>	-	-
Advances to banks and other financial institutions (note 27)	20,000	40,000	-	-
Accrued interest and other accounts less provisions	1,686,992	2,079,748	23,963	29,910
	<u>43,323,300</u>	<u>41,073,517</u>	<u>23,963</u>	<u>29,910</u>

(b) Net investment in finance leases and hire purchase contracts

Advances to customers include net investment in equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. The contracts usually run for an initial period of 5 to 20 years, with an option for acquiring the leased asset at nominal value.

At 31 December, the total minimum lease payments receivable under finance leases and hire purchase transactions, and their present values are as follows:

	The Group					
	2004			2003		
	Present value of the minimum lease payments HK\$'000	Interest income relating to future periods HK\$'000	Total minimum lease payments HK\$'000	Present value of the minimum lease payments HK\$'000	Interest income relating to future periods HK\$'000	Total minimum lease payments HK\$'000
Within 1 year	592,884	101,987	694,871	494,196	118,555	612,751
After 1 year but within 5 years	874,284	277,119	1,151,403	882,692	334,812	1,217,504
After 5 years	2,415,956	551,367	2,967,323	1,834,055	597,645	2,431,700
	<u>3,883,124</u>	<u>930,473</u>	<u>4,813,597</u>	<u>3,210,943</u>	<u>1,051,012</u>	<u>4,261,955</u>
Provisions for bad and doubtful debts	(7,795)			(17,109)		
Net investment in finance leases and hire purchase contracts	<u>3,875,329</u>			<u>3,193,834</u>		

14. Advances to customers and other accounts less provisions (cont'd)

(c) Non-performing advances on which interest is being placed in suspense or on which interest accrual has ceased are as follows:

	Total amount of loans on which interest is placed in suspense		The Group		
			Market value of collateral held	Specific provisions made	Amount of interest in suspense
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004	<u>1,883,882</u>	<u>4.41</u>	<u>1,550,423</u>	<u>460,587</u>	<u>383,689</u>
At 31 December 2003	<u>2,616,208</u>	<u>6.51</u>	<u>2,018,580</u>	<u>657,620</u>	<u>389,638</u>

* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004 and 31 December 2003, nor were there any specific provisions made for them on these two days.

The specific provisions were made after taking into account the value of collateral in respect of such advances.

15. Provisions for bad and doubtful debts

2004

The Group

	Specific HK\$'000	General HK\$'000	Total HK\$'000	Suspended interest HK\$'000
At 1 January	762,063	546,474	1,308,537	389,638
Amounts written off	(297,765)	-	(297,765)	(140,617)
New provisions charged to the income statement	427,837	2,315	430,152	-
Provisions released to the income statement	(325,087)	(27,000)	(352,087)	-
Amounts recovered	44,372	-	44,372	-
Interest suspended during the year	-	-	-	154,588
Suspended interest recovered	-	-	-	(20,277)
Exchange differences	61	48	109	357
At 31 December	<u>611,481</u>	<u>521,837</u>	<u>1,133,318</u>	<u>383,689</u>
Representing:				
Trade bills (note 11)	-	2,486	2,486	-
Advances to customers (note 14(a))	537,056	519,351	1,056,407	383,689
Other accounts	74,425	-	74,425	-
	<u>611,481</u>	<u>521,837</u>	<u>1,133,318</u>	<u>383,689</u>

15. Provisions for bad and doubtful debts (cont'd)

2003

	The Group			Suspended interest HK\$'000
	Specific HK\$'000	General HK\$'000	Total HK\$'000	
At 1 January	669,976	498,137	1,168,113	370,032
Addition through acquisition of a subsidiary	26,861	-	26,861	-
Amounts written off	(480,990)	-	(480,990)	(107,100)
New provisions charged to the income statement	699,883	94,323	794,206	-
Provisions released to the income statement	(234,602)	(45,823)	(280,425)	-
Amounts recovered	80,935	-	80,935	-
Interest suspended during the year	-	-	-	183,527
Suspended interest recovered	-	-	-	(57,201)
Exchange differences	-	(163)	(163)	380
At 31 December	<u>762,063</u>	<u>546,474</u>	<u>1,308,537</u>	<u>389,638</u>
Representing:				
Trade bills (note 11)	-	4,571	4,571	206
Advances to customers (note 14(a))	690,501	541,903	1,232,404	389,432
Other accounts	<u>71,562</u>	-	<u>71,562</u>	-
	<u>762,063</u>	<u>546,474</u>	<u>1,308,537</u>	<u>389,638</u>

16. Material related party transactions

During the year, the Group entered into a number of transactions with its ultimate holding company and the ultimate holding company's subsidiaries, in the ordinary course of its banking business including, inter alia, lending, the acceptance and placement of inter-bank deposits, participation in loan syndicates, correspondent banking transactions and foreign exchange transactions. The contracts were priced based on relevant market rates at the time of each transaction, and were under the same terms as those available to other counterparties and customers of the Group. In the opinion of the directors, these transactions were conducted on normal commercial terms.

Information relating to income and expense from related party transactions during the year and balances outstanding as at the balance sheet date is set out below:

(a) Income/(expense)

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Interest income	8,045	6,141
Interest expense	(17,277)	(28,426)
Other income	20,286	15,668
Other expense	(3,296)	(9,412)
	<u>7,758</u>	<u>(16,029)</u>

(b) Ultimate holding company

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Deposits from customers	190,667	529,348
Other accounts and provisions	9	16
	<u>190,676</u>	<u>529,364</u>

16. Material related party transactions (cont'd)

(c) Fellow subsidiaries

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Cash and short-term funds	80,902	371,785
Advances to customers and other accounts less provisions	227,613	241,094
	<u>308,515</u>	<u>612,879</u>
Deposits and balances of banks and other financial institutions	80,917	127,602
Deposits from customers	1,034,002	979,917
Other accounts and provisions	385	1,039
	<u>1,115,304</u>	<u>1,108,558</u>

(d) Associates

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Advances to customers and other accounts less provisions	144,507	20,725
Deposits from customers	1,383,378	580,988
Other accounts and provisions	20	1,940
	<u>1,383,398</u>	<u>582,928</u>

During the year, an associate of the Group acted as the arranger for the issue of debt securities (note 26). An arranger fee of \$1,555,000 has been paid to the associate.

17. Deferred taxation

(a) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

Deferred tax arising from:	The Group					
	Depreciation allowances in excess of related depreciation HK\$'000	Provisions HK\$'000	Fair value adjustment on properties & other assets HK\$'000	Losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2004	51,047	(89,558)	(46,689)	-	(2,262)	(87,462)
Charged/(credited) to income statement	(9,749)	4,725	(1,068)	-	-	(6,092)
At 31 December 2004	<u>41,298</u>	<u>(84,833)</u>	<u>(47,757)</u>	<u>-</u>	<u>(2,262)</u>	<u>(93,554)</u>
At 1 January 2003	-	-	-	-	-	-
- as previously reported	-	-	-	-	-	-
- prior period adjustments	58,623	(74,718)	(43,669)	(13,875)	(4,431)	(78,070)
- as restated	58,623	(74,718)	(43,669)	(13,875)	(4,431)	(78,070)
Charged/(credited) to income statement	(7,576)	(14,840)	(3,020)	13,875	2,169	(9,392)
At 31 December 2003	<u>51,047</u>	<u>(89,558)</u>	<u>(46,689)</u>	<u>-</u>	<u>(2,262)</u>	<u>(87,462)</u>

	The Group	
	2004 HK\$'000	2003 HK\$'000
Net deferred tax asset recognised on the balance sheet	(93,562)	(87,477)
Net deferred tax liability recognised on the balance sheet	<u>8</u>	<u>15</u>
	<u>(93,554)</u>	<u>(87,462)</u>

(b) Deferred tax assets unrecognised

The Group and the Company have not recognised deferred tax assets in respect of tax losses of \$106,225,000 (2003: \$166,170,000) and \$26,260,000 (2003: \$21,023,000) respectively. Under the current tax legislation, the expiry dates of the tax losses were as follows:

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Expiring within 5 years	65,739	73,702	-	-
No expiry date	40,486	92,468	26,260	21,023
	<u>106,225</u>	<u>166,170</u>	<u>26,260</u>	<u>21,023</u>

18. Amounts due from subsidiaries

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Money at call and short notice	54,602	1,405,783
Advances to customers and other accounts less provisions (Note)	<u>1,015,876</u>	<u>231,266</u>
	<u><u>1,070,478</u></u>	<u><u>1,637,049</u></u>

Note: Balance as at 31 December 2003 included a loan to a former subsidiary amounting to \$10,000,000 which was repayable after one year.

19. Held-to-maturity securities and investment securities

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Held-to-maturity securities		
Listed in Hong Kong	717,949	1,202,690
Listed outside Hong Kong	<u>7,563,978</u>	<u>8,294,091</u>
	8,281,927	9,496,781
Unlisted	<u>13,988,557</u>	<u>12,971,704</u>
	22,270,484	22,468,485
Provision for diminution in value		
Held-to-maturity securities	<u>(15,492)</u>	<u>(54,292)</u>
	<u><u>22,254,992</u></u>	<u><u>22,414,193</u></u>
Investment securities - debt securities		
Unlisted	<u>15,782</u>	<u>15,932</u>
Investment securities - equity securities		
Unlisted	<u>24,059</u>	<u>24,051</u>
	<u><u>22,294,833</u></u>	<u><u>22,454,176</u></u>

19. Held-to-maturity securities and investment securities (cont'd)

The issuers of debt securities and equity securities are as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Central governments and central banks	290,170	1,190,249
Banks and other financial institutions	12,934,328	12,962,613
Corporate entities	8,285,780	7,980,893
Public sector entities	788,265	362,781
Others	11,782	11,932
	<u>22,310,325</u>	<u>22,508,468</u>
 Market value of listed securities:		
Debt securities	<u>9,017,797</u>	<u>10,322,551</u>

20. Investments in subsidiaries, at cost

	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	<u>6,236,222</u>	<u>5,546,229</u>

The following list contains the particulars of principal subsidiaries which materially affect the results or assets of the Group.

Name of company	Place of incorporation/ operation	% of shares held	Principal activities	Issued ordinary share capital
Beijing Kananten Investment Consulting***	PRC	100%	Investment holding	US\$500,000
California Investment LLC **	USA	100%	Property holding	US\$5,415,000
Carford International Limited*	Hong Kong	100%	Property holding	HK\$2
China International Finance Company Limited (Shenzhen)***	PRC	100%	Financial services	RMB400,000,000
CIFH (CB-I) Limited	Cayman Islands	100%	Issuer of convertible bonds	US\$1
CITIC International Assets Management Limited	Hong Kong	100%	Investment holding and assets management	HK\$1,261,488,146
CITIC Ka Wah Bank Limited	Hong Kong	100%	Banking	HK\$3,083,341,176
CKWB (Cayman Islands) Limited*	Cayman Islands/ Hong Kong	100%	Issuer of subordinated notes	US\$1
CKWH-UT2 Limited*	Cayman Islands/ Hong Kong	100%	Issuer of subordinated notes	US\$1
Dramatic Year Limited	British Virgin Islands	100%	Investment holding	US\$1
HKCB Finance Limited*	Hong Kong	100%	Consumer financing	HK\$300,000,000
HKCB Insurance Agency Limited*	Hong Kong	100%	Insurance agency	HK\$2
Ka Wah International Merchant Finance Limited*	Hong Kong	100%	Financial services	HK\$32,500,000
KS Investment and Consultancy Limited*	British Virgin Islands/ Hong Kong	100%	Investment and consultancy	US\$1,200,000
KWB Investment Limited*	Hong Kong	100%	Investment holding	HK\$5,000,000
The Hongkong Chinese Bank (Nominees) Limited*	Hong Kong	100%	Nominees services	HK\$5,000
The Ka Wah Bank (Trustee) Limited*	Hong Kong	100%	Trustee services	HK\$3,000,000
True Worth Investments Limited	British Virgin Islands	100%	Investment holding	US\$1
Viewcon Hong Kong Limited*	Hong Kong	100%	Mortgage financing	HK\$2

20. Investments in subsidiaries, at cost (cont'd)

All of the above subsidiaries are held directly by the Company except for those indicated below.

* Subsidiaries held indirectly by the Company.

** 99% of the shares of this subsidiary is held directly by the Company and the remaining 1% is held indirectly through another subsidiary of the Company.

*** Subsidiary held indirectly by the Company incorporated in the PRC and were "Foreign Investment Enterprises" under the PRC Law.

21. Interest in associates

	The Group	
	2004	2003
	HKS'000	HKS'000
Share of net assets	1,123,020	490,444
Goodwill	189,337	-
	<u>1,312,357</u>	<u>490,444</u>

On 18 March 2004, the Company entered into an Acquisition Agreement with CITIC Group, the ultimate holding company of the Company, in connection with the purchase by the Company of the total issued share capital in True Worth Investments Limited ("True Worth") and the assignment to the Company of all shareholder's loans owing by True Worth to CITIC Group ("Acquisition"). True Worth is a holding company of 25% of the total issued share capital in CITIC Capital Markets Holdings Limited ("CCMH"). Before the Acquisition, the Company indirectly held 25% of the total issued share capital in CCMH via Dramatic Year Limited ("Dramatic"). Following the completion of the Acquisition, the Group owns 50% in aggregate of the total issued share capital of CCMH. The consideration paid by the Company for the Acquisition was \$500,000,000 in cash.

During the year, Dramatic and True Worth, two wholly-owned subsidiaries of the Company each holding a 25% interest in CCMH, subscribed for 2,000,000 new shares of \$1.00 each of CCMH, totaling 4,000,000 shares, at the subscription price of \$62.50 per share. The aggregate subscription amount paid by Dramatic and True Worth was \$250,000,000.

Share of profits less losses of associates included \$6,529,000 (2003: Nil) amortisation of positive goodwill.

Details of the principal associates are as follows:

Name of company	Form of business structure	Place of incorporation/operation	Principal activities	Proportion of ownership interest			Nominal value of issued shares
				Group's effective interest	held by subsidiaries	held by associate	
CITIC Capital Active Partner Fund Limited	Incorporated	Cook Islands/ PRC	Investment holding	64.6%	41.8%	45.6%*	US\$60,582
CITIC Capital Markets Holdings Limited	Incorporated	Hong Kong	Investment holding	50%	50%	-	HK\$28,000,000
CITIC Capital Securities Limited	Incorporated	Hong Kong	Securities brokerage and margin financing	50%	-	100%*	HK\$28,000,000
CITIC Capital Markets Limited	Incorporated	Hong Kong	Investment banking	50%	-	100%*	HK\$10,000,000
CITIC Capital Futures Limited	Incorporated	Hong Kong	Brokerage of exchange-traded futures and options contracts	50%	-	100%*	HK\$20,000,000
CITIC Frontier China Research Limited	Incorporated	Hong Kong	Stock market research, advising on securities and dealing in securities	50%	-	100%*	HK\$15,000,000

All associated companies are held indirectly by the Company.

* Interest held by a 50% associated company.

22. Amounts due to subsidiaries

	The Company	
	2004	2003
	HK\$'000	HK\$'000
Other accounts and provisions	224	233
Placement from a subsidiary	<u>1,399,384</u>	<u>1,397,364</u>
	<u>1,399,608</u>	<u>1,397,597</u>

23. Goodwill

	The Group
	HK\$'000
Cost:	
At 1 January 2004	1,197,158
Written off	(10,558)
At 31 December 2004	<u>1,186,600</u>
Accumulated amortisation:	
At 1 January 2004	119,571
Amortisation for the year	60,336
Impairment loss	9,502
Written off	(10,558)
At 31 December 2004	<u>178,851</u>
Carrying amount:	
At 31 December 2004	<u>1,007,749</u>
At 31 December 2003	<u>1,077,587</u>

Goodwill is amortised over 20 years. The amortisation of goodwill for the year is included in "operating expenses" in the consolidated income statement. The Group has performed an assessment of the fair value of its interest in an acquired subsidiary and recognised an impairment loss of \$9,502,000 (2003: Nil) for the year ended 31 December 2004.

24. Tangible fixed assets

	The Group			
	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2004	197,261	1,408,697	675,944	2,281,902
Additions	-	-	64,003	64,003
Disposals	(139,966)	(142,627)	(39,583)	(322,176)
Exchange differences	-	60	23	83
Net surplus on revaluation	7,555	-	-	7,555
At 31 December 2004	64,850	1,266,130	700,387	2,031,367
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	1,065,686	700,387	1,766,073
Valuation				
-1985	-	50,704	-	50,704
-1988	-	149,740	-	149,740
-2004	64,850	-	-	64,850
	<u>64,850</u>	<u>1,266,130</u>	<u>700,387</u>	<u>2,031,367</u>
Accumulated depreciation:				
At 1 January 2004	-	366,980	361,877	728,857
Charge for the year (note 3(c))	-	27,235	119,164	146,399
Written back on disposals	-	(58,725)	(32,644)	(91,369)
Exchange differences	-	6	14	20
At 31 December 2004	-	335,496	448,411	783,907
Net book value:				
At 31 December 2004	64,850	930,634	251,976	1,247,460
At 31 December 2003	<u>197,261</u>	<u>1,041,717</u>	<u>314,067</u>	<u>1,553,045</u>

24. Tangible fixed assets (cont'd)

	The Company			
	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
Cost or valuation:				
At 1 January 2004	99,916	158,426	11,338	269,680
Additions	-	-	229	229
Disposals	(99,916)	(95,667)	(8,956)	(204,539)
At 31 December 2004	-	62,759	2,611	65,370
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	55,389	2,611	58,000
Valuation -1985	-	7,370	-	7,370
	<u>-</u>	<u>62,759</u>	<u>2,611</u>	<u>65,370</u>
Accumulated depreciation:				
At 1 January 2004	-	50,029	6,916	56,945
Charge for the year	-	2,837	856	3,693
Write back on disposals	-	(46,130)	(6,961)	(53,091)
At 31 December 2004	-	6,736	811	7,547
Net book value:				
At 31 December 2004	-	56,023	1,800	57,823
At 31 December 2003	<u>99,916</u>	<u>108,397</u>	<u>4,422</u>	<u>212,735</u>

24. Tangible fixed assets (cont'd)

The net book value of investment properties and other premises comprises:

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Freehold				
Held outside Hong Kong	38,422	189,754	2,670	153,333
Leasehold				
Held in Hong Kong				
- Long term leases (over 50 years)	300,399	273,745	-	-
- Medium term leases (10 - 50 years)	640,853	758,147	53,353	54,980
Held outside Hong Kong				
- Medium term leases (10 - 50 years)	15,810	17,332	-	-
	995,484	1,238,978	56,023	208,313

The net book value of other premises of the Group and the Company at 31 December 2004 would have been \$107,359,000 (2003: \$109,545,000) and \$2,481,000 (2003: \$2,705,000) respectively had they been carried at cost less accumulated depreciation.

Investment properties of the Group and the Company were revalued at 31 December 2004 by independent firms of surveyors, Vigers Appraisal and Consulting Limited on an open market value basis. The revaluation surplus amounted to \$7,555,000 which has been credited to the income statement. Vigers Appraisal & Consulting Limited have among their staff Fellows of the Hong Kong Institute of Surveyors.

The gross rental income arising from investment properties is \$7,408,000 (2003: \$16,064,000).

During the year, profit on disposal of investment properties amounted to \$8,420,000 (2003: \$2,052,000).

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases after that date at which time all terms are renegotiated. None of the leases includes contingent rentals (2003:Nil).

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$64,850,000 (2003: \$197,261,000).

The Group and the Company's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	2,211	7,272	-	2,797
After 1 year but within 5 years	3,528	2,353	-	-
	5,739	9,625	-	2,797

25. Deposits from customers

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Demand deposits and current deposits	10,204,982	12,200,834
Savings deposits	11,818,370	8,967,279
Time, call and notice deposits	33,428,375	35,679,493
	<u>55,451,727</u>	<u>56,847,606</u>

26. Debt securities issued

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Debt securities issued	<u>2,322,798</u>	<u>-</u>

The debt securities represent 4.25% per annum notes with face value of US\$300 million issued at discount on 17 November 2004. The notes were issued by CKWB and constitute direct, unconditional and unsecured obligations of CKWB. The notes will mature on 17 November 2009.

27. Maturity profile

	The Group						
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004							
Assets							
Cash and short-term funds	1,488,919	6,458,048	398,823	-	-	-	8,345,790
Placements with banks and other financial institutions maturing after one month	-	303,773	60,534	-	-	-	364,307
Trade bills	-	234,449	14,118	-	-	-	248,567
Certificates of deposit	-	20,002	856,386	489,927	-	-	1,366,315
Other investments in securities	-	-	-	-	-	-	-
- debt securities	-	351	609	1,212,672	314,904	3,928	1,532,464
Advances to customers	1,531,097	3,804,515	6,327,196	16,412,807	12,940,980	1,656,120	42,672,715
Advances to banks and other financial institutions	-	-	-	20,000	-	-	20,000
Held-to-maturity securities and investment securities	-	-	-	-	-	-	-
- debt securities	-	1,245,907	4,573,717	11,265,058	5,132,272	69,312	22,286,266
	<u>3,020,016</u>	<u>12,067,045</u>	<u>12,231,383</u>	<u>29,400,464</u>	<u>18,388,156</u>	<u>1,729,360</u>	<u>76,836,424</u>
Liabilities							
Deposits and balances of banks and other financial institutions	85,678	3,470,174	-	-	-	-	3,555,852
Deposits from customers	22,023,352	32,125,086	1,085,817	217,472	-	-	55,451,727
Certificates of deposit issued	-	674,999	1,279,926	5,004,765	-	-	6,959,690
Convertible bonds issued*	-	-	-	1,399,384	-	-	1,399,384
Debt securities issued	-	-	-	2,322,798	-	-	2,322,798
	<u>22,109,030</u>	<u>36,270,259</u>	<u>2,365,743</u>	<u>8,944,419</u>	<u>-</u>	<u>-</u>	<u>69,689,451</u>

* Maturity based on expected Bondholders' option as mentioned in Note 31.

	The Group						
	Repayable on demand	3 months or less but not repayable on demand	1 year or less but over 3 months	5 years or less but over 1 year	After 5 years	Undated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2003							
Assets							
Cash and short-term funds	497,995	7,013,648	-	-	-	-	7,511,643
Placements with banks and other financial institutions maturing after one month	-	646,373	-	-	-	-	646,373
Trade bills	6,517	368,950	81,593	-	-	-	457,060
Certificates of deposit	-	-	593,869	1,465,231	-	-	2,059,100
Other investments in securities	-	-	-	-	-	-	-
- debt securities	-	155,182	40,706	1,504,331	291,979	3,914	1,996,112
Advances to customers	1,969,410	4,317,032	4,693,187	15,364,994	11,848,124	1,993,426	40,186,173
Advances to banks and other financial institutions	-	-	-	40,000	-	-	40,000
Held-to-maturity securities and investment securities	-	-	-	-	-	-	-
- debt securities	-	271,480	2,981,852	13,320,250	5,813,968	96,867	22,484,417
	<u>2,473,922</u>	<u>12,772,665</u>	<u>8,391,207</u>	<u>31,694,806</u>	<u>17,954,071</u>	<u>2,094,207</u>	<u>75,380,878</u>
Liabilities							
Deposits and balances of banks and other financial institutions	567,191	2,725,862	193,026	-	-	-	3,486,079
Deposits from customers	21,168,113	34,150,134	1,384,702	144,657	-	-	56,847,606
Certificates of deposit issued	-	1,060,709	649,876	3,000,590	-	-	4,711,175
Convertible bonds issued*	-	-	-	1,397,364	-	-	1,397,364
	<u>21,735,304</u>	<u>37,936,705</u>	<u>2,227,604</u>	<u>4,542,611</u>	<u>-</u>	<u>-</u>	<u>66,442,224</u>

* Maturity based on expected Bondholders' option as mentioned in Note 31.

28. Assets subject to sale and repurchase transactions

The following assets and liabilities are subject to sale and repurchase transactions:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Included in held-to-maturity securities and investment securities	<u>2,909,158</u>	<u>2,010,227</u>
Included in deposits and balances of banks and other financial institutions	<u>3,113,297</u>	<u>2,196,121</u>

29. Share capital

	2004	2003
	HK\$'000	HK\$'000
Authorised:		
6,000,000,000 ordinary shares of \$1 each	<u>6,000,000</u>	<u>6,000,000</u>
Issued and fully paid:		
At 1 January: 3,189,835,394 (2003: 3,035,313,281) ordinary shares of \$1 each	3,189,835	3,035,313
Shares issued under the Old Option Scheme	4,318	9,052
Shares issued under scrip dividend	<u>-</u>	<u>145,470</u>
At 31 December: 3,194,153,151 (2003: 3,189,835,394) ordinary shares of \$1 each	<u>3,194,153</u>	<u>3,189,835</u>

29. Share capital (cont'd)

On 16 May 2003, the Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "New Option Scheme") and, at the same time, terminated the Senior Executive Share Option Scheme (the "Old Option Scheme"). The provisions of the Old Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of all options granted prior to the termination of the Old Option Scheme. There was no option granted under the Old Option Scheme for the year ended 31 December 2004. Pursuant to the New Option Scheme, options to subscribe for a total of 7,412,000 ordinary shares of the Company at the exercise price of \$3.775 per share were granted to 293 eligible persons on 6 April 2004. As at 31 December 2004, the details of the outstanding share options, which had been granted under the Old Option Scheme and the New Option Scheme, are as follows:-

Date of grant	Exercise Price (HK\$)	Number of options granted	Vesting period	Exercisable period	Number of shares			
					acquired on exercise of options as at 31 December 2004	Number of options lapsed as at 31 December 2004	Number of options outstanding as at 31 December 2004	Number of options outstanding as at 31 December 2003
The Old Option Scheme								
6 May 1998	1.000	1,427,448	-	7 May 1998 to 29 March 2005	425,073	1,002,375	-	316,928
17 August 1999	2.217	19,600,000	-	31 October 1999 to 29 March 2005	8,550,000	8,150,000	2,900,000	6,200,000
28 March 2000	1.758	1,700,000	-	31 March 2000 to 29 March 2005	1,200,000	-	500,000	500,000
27 June 2000	1.681	1,000,000	-	5 June 2002 to 29 March 2005	1,000,000	-	-	100,000
10 August 2000	2.198	700,000	-	11 August 2001 to 29 March 2005	400,000	200,000	100,000	100,000
5 December 2000	1.747	2,300,000	-	22 October 2001 to 29 March 2005	2,300,000	-	-	500,000
28 February 2002	1.620	44,813	-	28 February 2002 to 29 March 2005	44,610	-	203	203
28 February 2002	2.217	481,743	-	28 February 2002 to 29 March 2005	104,095	108,768	268,880	295,490
28 February 2002	1.758	74,688	-	28 February 2002 to 29 March 2005	26,141	11,203	37,344	37,344
28 February 2002	1.681	37,344	-	5 June 2002 to 29 March 2005	37,344	-	-	37,344
28 February 2002	2.198	26,141	-	28 February 2002 to 29 March 2005	14,469	7,469	4,203	4,203
28 February 2002	1.747	85,891	-	28 February 2002 to 29 March 2005	85,891	-	-	37,344
28 February 2002	1.828	37,344	-	1 March 2002 to 29 March 2005	-	37,344	-	37,344
The New Option Scheme								
1 December 2003	3.540	6,758,000	17 November 2003 to 16 November 2005	17 November 2005 to 16 November 2013	-	1,040,000	5,718,000	6,758,000
6 April 2004	3.775	7,412,000	6 April 2004 to 5 April 2006	6 April 2006 to 5 April 2014	-	868,000	6,544,000	-
		<u>41,685,412</u>			<u>14,187,623</u>	<u>11,425,159</u>	<u>16,072,630</u>	<u>14,924,200</u>

30. Reserves

(a) Share premium

	The Group		The Company	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	1,831,406	1,712,952	1,831,406	1,712,952
Share premium on shares issued during the year	4,542	118,454	4,542	118,454
At 31 December	<u>1,835,948</u>	<u>1,831,406</u>	<u>1,835,948</u>	<u>1,831,406</u>

(b) Other property revaluation reserve

At 1 January and 31 December	<u>11,945</u>	<u>11,945</u>	<u>-</u>	<u>-</u>
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(c) Capital reserve

At 1 January	2,818	37,500	-	-
Transfer to retained profits (note)	-	(34,682)	-	-
At 31 December	<u>2,818</u>	<u>2,818</u>	<u>-</u>	<u>-</u>

(d) General reserve

At 1 January and 31 December	<u>100,000</u>	<u>100,000</u>	<u>-</u>	<u>-</u>
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(e) Exchange differences

At 1 January	(597)	319	-	-
Current year	283	(916)	-	-
At 31 December	<u>(314)</u>	<u>(597)</u>	<u>-</u>	<u>-</u>

30 Reserves (cont'd)

	The Group		The Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
(f) Retained profits				
At 1 January	2,676,363		999,395	1,156,767
- As previously reported		2,528,264		
- Prior year adjustment in respect of deferred taxation		(53,066)		
- As restated		2,475,198		
Dividends paid in respect of the previous year (note 7(b))	(201,138)	(394,630)	(201,138)	(394,630)
Transfer from capital reserve (note)	-	34,682	-	-
Profit for the year	901,339	656,578	450,576	332,723
Dividends declared in respect of the current year	(210,759)	(95,465)	(210,759)	(95,465)
At 31 December	3,165,805	2,676,363	1,038,074	999,395
Total reserves	5,116,202	4,621,935	2,874,022	2,830,801

Included in the retained profits is an amount of \$457,903,000 (2003: \$386,239,000) being the retained profits attributable to associates.

The application of the share premium is governed by section 48B of the Hong Kong Companies Ordinance. The exchange reserve and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for translation of foreign currencies and the revaluation of premises and investment properties (note 2).

The other property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Hong Kong Companies Ordinance. At 31 December 2004, the aggregate amount of reserves available for distribution to shareholders of the Company was \$1,038,074,000 (2003: \$999,395,000). After the balance sheet date the directors proposed a final dividend of 7.5 cents per share (2003: 6.3 cents per share), amounting to \$239,636,000 (2003: \$200,960,000). This dividend has not been recognised as a liability at the balance sheet date.

Note:

In 2003, part of the capital reserve was released to retained profits as a result of partial redemption of shares in a subsidiary.

31. Convertible bonds issued

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Convertible bonds	<u>1,399,384</u>	<u>1,397,364</u>

In December 2003, the Group issued 0.25% per annum Guaranteed Convertible Bonds with face value of US\$180 million. The Bonds were issued by CIFH (CB-I) Limited, a single purpose wholly-owned subsidiary of the Company. The Company unconditionally and irrevocably guarantees all amounts payable under the Bonds. Each Bond, at the option of the holder, is convertible on or after 18 January 2004 upto and including 8 November 2008 into fully paid ordinary shares with a par value of \$1.00 of the Company at an initial conversion price of \$4.269 per share. The Bonds can be redeemed at their principal amount together with accrued interest on 8 December 2008.

The net proceeds from the issue of the Bonds have been used for general corporate purposes of the Group.

32. Loan capital

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Subordinated notes	<u>4,275,896</u>	<u>4,269,722</u>

The notes represent 7.625% per annum subordinated notes with face value of US\$300 million issued on 5 July 2001 and 9.125% per annum perpetual subordinated notes with face value of US\$250 million issued on 23 May 2002. The notes were issued by CKWB (Cayman Islands) Ltd and CKWH-UT2 Ltd respectively, two separate single purpose wholly-owned subsidiaries of CITIC Ka Wah Bank Limited ("CKWB") a subsidiary of the Company, and qualify as tier 2 capital. CKWB unconditionally and irrevocably guarantees all amounts payable under the notes. The 7.625% per annum subordinated notes will mature on 5 July 2011 whereas the 9.125% per annum perpetual subordinated notes will be callable in 2012.

33. Off-balance sheet exposures

(a) Contingent liabilities and commitments

The following is a summary of the contractual amounts of each significant class of contingent liabilities and commitments:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Direct credit substitutes	943,362	1,096,253
Trade-related contingencies	1,165,944	1,635,365
Other commitments:		
- with an original maturity of under 1 year or which are unconditionally cancellable	10,576,584	10,387,731
- with an original maturity of 1 year and over	588,078	734,808
	<u>13,273,968</u>	<u>13,854,157</u>

Contingent liabilities and commitments are credit-related instruments which include acceptance, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers applying for loans. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contract amounts do not represent expected future cash flows.

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	The Group					
	2004			2003		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	2,637,254	-	2,637,254	1,059,391	-	1,059,391
Swaps	7,447,460	3,504,209	10,951,669	12,416,034	4,966,108	17,382,142
Options purchased	241,068	-	241,068	172,189	-	172,189
Options written	238,249	-	238,249	142,182	-	142,182
Interest rate contracts						
Forwards and futures	427,590	-	427,590	2,173,677	-	2,173,677
Swaps	3,570,070	11,615,697	15,185,767	3,060,615	8,992,439	12,053,054
Options purchased	1,671,487	-	1,671,487	1,853,448	-	1,853,448
Options written	1,849,231	-	1,849,231	2,031,079	-	2,031,079
Equity contracts						
Options purchased	-	1,083	1,083	-	12,044	12,044
Options written	-	1,083	1,083	-	12,044	12,044
	<u>18,082,409</u>	<u>15,122,072</u>	<u>33,204,481</u>	<u>22,908,615</u>	<u>13,982,635</u>	<u>36,891,250</u>

The above transactions are undertaken by the Group in the foreign exchange, interest rate and equity markets. The notional amounts of these instruments indicate the volume of transactions outstanding and do not represent amounts at risk.

33. Off-balance sheet exposures (cont'd)

- (c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures of the Group are as follows. The Group did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

	The Group			
	2004		2003	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	1,072,223	N/A	1,414,021
Exchange rate contracts	119,532	66,096	120,536	71,464
Interest rate contracts	325,439	105,037	459,238	133,659
Equity contracts	1	46	50	599
	<u>444,972</u>	<u>1,243,402</u>	<u>579,824</u>	<u>1,619,743</u>

The replacement cost represents the cost of replacing all contracts which have a positive value when marked to market and which have not been subject to any bilateral netting arrangement.

The credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate, interest rate and other derivatives contracts.

33. Off-balance sheet exposures (cont'd)

(d) Capital commitments

Capital commitments outstanding at 31 December not provided for in the financial statements were as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Authorised and contracted for		
Fixed assets	8,534	14,062
Others	15,160	57,878
	<u>23,694</u>	<u>71,940</u>

(e) Lease commitments

At 31 December, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Premises		
Within 1 year	29,700	15,348
After 1 year but within 5 years	43,441	7,759
After 5 years	18,728	-
	<u>91,869</u>	<u>23,107</u>
Equipment		
Within 1 year	847	718
After 1 year but within 5 years	5,655	1,221
After 5 years	1,029	-
	<u>7,531</u>	<u>1,939</u>

The Group leases a number of properties and items of equipment under operating leases. The leases typically run for an initial period of two to four years, with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

34. Reconciliation of profit from ordinary activities before taxation to cash (used in)/generated from operating activities

	2004 HK\$'000	2003 HK\$'000
Profit from ordinary activities before taxation	1,056,460	772,084
Charge for bad and doubtful debts	78,065	513,781
Share of profits less loss of associates	(75,978)	(174,672)
Net (profit)/loss on disposal of tangible fixed assets	(11,862)	16,017
Net surplus on revaluation of investment properties	(7,555)	(24,461)
Impairment loss on other premises	-	27,617
Net profit on disposal of a subsidiary	(865)	-
Net profit on disposal of held-to-maturity securities	-	(124,823)
Provision written back on held-to-maturity securities	(9,682)	(169)
Amortisation of deferred expenses	101,485	63,005
Amortisation of discounts on debt securities issued	(284)	-
Interest expenses on subordinated notes	355,877	355,260
Interest expenses on convertible bonds issued	3,495	301
Amortisation of goodwill	60,336	59,786
Impairment loss on goodwill	9,502	-
Depreciation	146,399	123,443
Dividend income from equity investment securities	(10,777)	(13,462)
Foreign exchange difference	7,938	(20,128)
Net cash inflow from trading activities	<u>1,702,554</u>	<u>1,573,579</u>
Increase in money at call (original maturity over 3 months)	(19,338)	(26,893)
Decrease/(increase) in placements with banks and other financial institutions (original maturity over 3 months)	101,491	(262,025)
(Increase)/decrease in treasury bills (original maturity over 3 months)	(398,823)	388,198
Decrease/(increase) in certificates of deposit	692,785	(1,028,156)
(Increase)/decrease in other investments in securities	(1,456,657)	707,953
(Increase)/decrease in advances to customers, banks and other financial institutions, trade bills and other accounts	(2,270,500)	1,801,322
Decrease/(increase) in held-to-maturity securities and investment securities	169,025	(3,707,716)
Increase in deposits and balances of banks and other financial institutions	69,773	1,365,898
(Decrease)/increase in deposits from customers	(1,395,879)	1,312,146
(Decrease)/increase in interest payable and other liabilities	(80,900)	327,892
Increase/(decrease) in certificates of deposit issued	<u>2,248,515</u>	<u>(1,121,338)</u>
Cash (used in)/generated from operating activities	<u>(637,954)</u>	<u>1,330,860</u>

35. Disposal of a subsidiary

	2004 HK\$'000
(a) Net liabilities disposed:	
Cash and short-term funds	9,198
Advances to customers and other accounts less provisions	1,003
Tangible fixed assets	794
Current taxation	(160)
Other accounts and provisions	(11,553)
Minority interest	179
Net liabilities	<u>(539)</u>
Net profit on disposal of a subsidiary	<u>865</u>
Total sales price received, satisfied in cash	<u><u>326</u></u>

(b) Analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary:

	2004 HK\$'000
Cash consideration	326
Cash and short-term funds disposed	<u>(9,198)</u>
	<u><u>(8,872)</u></u>

36. Analysis of the balances of cash and cash equivalents

	The Group	
	2004	2003
	HK\$'000	HK\$'000
(i) Component of cash and cash equivalents in the consolidated cash flow statement		
Cash and balances with banks and other financial institutions	1,488,919	497,995
Money at call and short notice	6,411,817	6,986,755
Placements with banks and other financial institutions repayable with original maturity within three months	153,773	334,348
	<u>8,054,509</u>	<u>7,819,098</u>
(ii) Reconciliation with the consolidated balance sheet		
Cash and short-term funds	8,345,790	7,511,643
Placements with banks and other financial institutions maturing after one month	364,307	646,373
Amount shown in the consolidated balance sheet	8,710,097	8,158,016
Less: amounts with an original maturity of beyond three months	(655,588)	(338,918)
Cash and cash equivalent in the consolidated cash flow statement	<u>8,054,509</u>	<u>7,819,098</u>

37. Staff retirement scheme

The Group has a defined contribution provident fund scheme (the "Retirement Scheme") under which it contributes 10% of the employee's basic salaries. The Retirement Scheme is an MPF exempted scheme and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully may not be used by the Group to reduce the existing level of contribution but are transferred to a separate welfare fund which shall be applied for the welfare of the Retirement Scheme's members.

Besides the Retirement Scheme, the Group also participated in an approved MPF scheme effective on 1 December 2000 to provide scheme choice to both existing and new employees. Mandatory benefits are being provided under the MPF Scheme.

During the year, the Group contributed approximately \$36 million (2003: \$36 million) (note 3(c)) to these schemes.

38. Equity compensation benefits

The New Option Scheme was adopted by the Company on 16 May 2003 and, at the same time, terminated the Old Option Scheme. The provisions of the Old Option Scheme remain in full force and effect to the extent necessary to give effect to the exercise of all options granted prior to the termination of the Old Option Scheme. For the year ended 31 December 2004, there was no option granted by the Company under the Old Option Scheme. However, options to subscribe for a total of 7,412,000 ordinary shares of the Company at the exercise price of \$3.775 per share were granted to 293 eligible persons, including certain Directors of the Group, under the New Option Scheme on 6 April 2004. These options were granted for nil consideration and can be exercised during the period from 6 April 2006 to 5 April 2014.

(a) Movement in share options

	2004 Numbers	2003 Numbers
At 1 January	14,924,200	17,736,842
Granted	7,412,000	6,758,000
Exercised	(4,317,757)	(9,051,970)
Lapsed	(1,945,813)	(518,672)
At 31 December	<u>16,072,630</u>	<u>14,924,200</u>

(b) Terms of unexpired and unexercised share options at the balance sheet date

Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Number of options outstanding	
				2004	2003
6 May 1998	-	7 May 1998 to 29 March 2005	1.000	-	316,928
17 August 1999	-	31 October 1999 to 29 March 2005	2.217	2,900,000	6,200,000
28 March 2000	-	31 March 2000 to 29 March 2005	1.758	500,000	500,000
27 June 2000	-	5 June 2002 to 29 March 2005	1.681	-	100,000
10 August 2000	-	11 August 2001 to 29 March 2005	2.198	100,000	100,000
5 December 2000	-	22 October 2001 to 29 March 2005	1.747	-	500,000
28 February 2002	-	28 February 2002 to 29 March 2005	1.620	203	203
28 February 2002	-	28 February 2002 to 29 March 2005	2.217	268,880	295,490
28 February 2002	-	28 February 2002 to 29 March 2005	1.758	37,344	37,344
28 February 2002	-	5 June 2002 to 29 March 2005	1.681	-	37,344
28 February 2002	-	28 February 2002 to 29 March 2005	2.198	4,203	4,203
28 February 2002	-	28 February 2002 to 29 March 2005	1.747	-	37,344
28 February 2002	-	1 March 2002 to 29 March 2005	1.828	-	37,344
1 December 2003	17 November 2003 to 16 November 2005	17 November 2005 to 16 November 2013	3.540	5,718,000	6,758,000
6 April 2004	6 April 2004 to 5 April 2006	6 April 2006 to 5 April 2014	3.775	6,544,000	-
				<u>16,072,630</u>	<u>14,924,200</u>

38. Equity compensation benefits (cont'd)

(c) Details of share options granted during the year

Vesting period	Exercisable period	Exercise price HK\$	Number of options granted	
			2004	2003
6 April 2004 to 5 April 2006	6 April 2006 to 5 April 2014	3.775	7,412,000	-
17 November 2003 to 16 November 2005	17 November 2005 to 16 November 2013	3.540	-	6,758,000
			<u>7,412,000</u>	<u>6,758,000</u>

(d) Details of share options exercised during the year

Exercise date	Exercise Price HK\$	Market value per share at exercise date HK\$	Proceeds received HK\$	Number of options exercised
25 March 2004	1.681	3.500	168,100	100,000
29 March 2004	2.217	3.375	221,700	100,000
15 April 2004	2.217	3.400	221,700	100,000
19 April 2004	1.000	3.450	814	814
22 April 2004	2.217	3.325	665,100	300,000
10 May 2004	2.217	2.950	501,355	226,141
10 May 2004	2.217	2.950	2,217,000	1,000,000
10 May 2004	2.217	2.950	2,217,000	1,000,000
3 June 2004	2.217	2.850	665,100	300,000
7 June 2004	1.000	2.900	200,000	200,000
23 June 2004	1.000	2.700	116,114	116,114
25 August 2004	1.681	3.100	62,775	37,344
8 October 2004	1.747	3.250	349,400	200,000
9 November 2004	1.747	3.500	349,400	200,000
25 November 2004	1.747	3.625	174,700	100,000
26 November 2004	1.747	3.500	65,240	37,344
28 December 2004	2.217	3.400	665,100	300,000
			<u>8,860,598</u>	<u>4,317,757</u>

39. Loans to officers

Particulars of loans to officers of the Company disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	2004	2003
	HK\$'000	HK\$'000
Balance outstanding at 31 December		
- By a subsidiary	<u><u>2,010</u></u>	<u><u>1,806</u></u>
Maximum aggregate amount outstanding during the year		
- By a subsidiary	<u><u>2,630</u></u>	<u><u>11,633</u></u>

There was no interest due but unpaid nor any provision made against these loans at 31 December 2004.

40. Assets pledged as security

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Assets pledged		
Cash and short term funds	441	33
Held-to-maturity securities and investment securities	<u><u>77,714</u></u>	<u><u>125,394</u></u>
	<u><u>78,155</u></u>	<u><u>125,427</u></u>

As at 31 December 2004, the assets pledged represented statutory deposits pledged to the Office of the Comptroller of Currency in the USA and to the People's Bank of China in the PRC.

As at 31 December 2003, the assets pledged represented statutory deposits pledged to the Office of the Comptroller of Currency in the USA.

41. Post balance sheet event

On 10 November 2004, the Group accepted a tender to sell Ka Wah Bank Centre (the "Property") for a total consideration of \$351 million. Subsequently, the Group entered into a Memorandum of Agreement for Sale and Purchase with the purchaser on 1 December 2004. The sale of the Property was completed on 12 January 2005 (the "Completion Date"). As a result of the sale, a gain of approximately of \$226.7 million for the sale will be recognised in the Group's income statement for the financial year ending 31 December 2005.

42. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be CITIC Group, which is incorporated in the People's Republic of China.

43. Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

44. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 10 March 2005.

**Unaudited supplementary financial information
at 31 December 2004**

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Capital adequacy ratio

	2004	2003
Unadjusted capital adequacy ratio	<u>15.24%</u>	<u>18.41%</u>

The unadjusted capital adequacy ratio is computed on the consolidated basis covering the Company and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the "HKMA") for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

(B) Capital base after deductions

	2004 HK\$'000	2003 HK\$'000
Core capital		
Paid up ordinary share capital	3,194,153	3,189,835
Share premium	1,835,948	1,831,406
Reserves	2,580,129	2,198,658
Deduct : Goodwill	<u>(1,007,749)</u>	<u>(1,067,029)</u>
Total core capital	<u>6,602,481</u>	<u>6,152,870</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	8,362	8,362
General provisions for doubtful debts	521,837	546,474
Perpetual subordinated debt	1,943,589	1,940,783
Term subordinated debt	<u>932,923</u>	<u>1,397,364</u>
Total eligible supplementary capital	<u>3,406,711</u>	<u>3,892,983</u>
Total capital base before deductions	10,009,192	10,045,853
Deductions from total capital base	<u>(1,295,680)</u>	<u>(596,936)</u>
Total capital base after deductions	<u>8,713,512</u>	<u>9,448,917</u>

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(C) Segmental information

By geographical area

2004

	The Group				
	Profit *	Total assets	Total liabilities	Operating income	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,043,629	82,997,057	70,385,252	2,105,057	12,921,806
Mainland China	9,769	690,143	322,158	16,684	-
USA	13,620	1,742,424	1,674,194	45,380	352,162
Others	-	466,479	466,479	-	-
Less: Inter-segment items	<u>(10,558)</u>	<u>(2,326,086)</u>	<u>(1,864,317)</u>	<u>(10,686)</u>	<u>-</u>
	<u>1,056,460</u>	<u>83,570,017</u>	<u>70,983,766</u>	<u>2,156,435</u>	<u>13,273,968</u>

2003

	The Group				
	Profit *	Total assets	Total liabilities	Operating income	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	758,747	78,513,770	66,434,778	1,978,831	13,167,998
Mainland China	152	413,576	27,173	3,882	-
USA	13,185	1,911,002	1,855,577	43,689	686,159
Others	-	354,100	354,100	-	-
Less: Inter-segment items	<u>-</u>	<u>(1,274,991)</u>	<u>(835,854)</u>	<u>(5,543)</u>	<u>-</u>
	<u>772,084</u>	<u>79,917,457</u>	<u>67,835,774</u>	<u>2,020,859</u>	<u>13,854,157</u>

The above geographical analysis is classified by the location of the principal operations of the subsidiaries or branches of its subsidiaries.

* Profit from ordinary activities before taxation

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(C) Segmental information (cont'd)

	The Group					
	2004			2003		
	Advances to customers HK\$'000	Overdue loans and advances HK\$'000	Non- performing loans HK\$'000	Advances to customers HK\$'000	Overdue loans and advances HK\$'000	Non- performing loans HK\$'000
Hong Kong	34,431,875	1,314,119	1,235,995	32,971,478	1,920,762	1,889,711
Mainland China	5,899,197	596,904	596,904	4,738,547	568,987	570,993
USA	714,454	50,620	50,620	611,329	51,754	51,754
Others	1,627,189	363	363	1,864,819	109,531	103,750
	42,672,715	1,962,006	1,883,882	40,186,173	2,651,034	2,616,208

The geographical analysis is classified by the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor.

Non-performing advances to customers are those advances on which interest is being placed in suspense or on which interest accrual has ceased.

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(D) Advances to customers - By industry sectors

The analysis of advances to customers by industry sectors is based on categories and definitions used by the HKMA.

	The Group	
	Gross advances to customers	
	2004	2003
	HK\$'000	HK\$'000
Loans for use in Hong Kong		
Industrial, commercial and financial		
- Property development	350,668	327,555
- Property investment	4,313,945	4,252,571
- Financial concerns	2,702,487	2,695,514
- Stockbrokers	39,835	20,519
- Wholesale and retail trade	2,000,654	2,347,275
- Manufacturing	3,372,328	3,506,532
- Transport and transport equipment	5,404,016	4,551,838
- Others	3,690,455	3,761,929
Individuals		
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	19,394	23,979
- Loans for the purchase of other residential properties	10,512,764	10,920,086
- Credit card advances	538,041	426,249
- Others	1,161,561	1,462,017
Trade finance	2,287,943	2,088,069
Loans for use outside Hong Kong	6,278,624	3,802,040
	42,672,715	40,186,173

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(E) Currency risk

The information concerning the foreign currency exposures of the Group arising from trading, non-trading and structural positions is disclosed as follows. The net options position reported is calculated in accordance with the methods set out in the banking return "Foreign Currency Position" (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	The Group							
	2004				2003			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	28,674,000	757,264	4,981,384	34,412,648	26,366,749	598,834	5,558,178	32,523,761
Spot liabilities	(30,836,628)	(134,181)	(4,656,405)	(35,627,214)	(24,441,071)	(14,114)	(5,324,368)	(29,779,553)
Forward purchases	7,309,008	-	2,629,869	9,938,877	9,986,595	-	2,378,099	12,364,694
Forward sales	(5,848,312)	-	(2,943,565)	(8,791,877)	(8,239,058)	-	(2,621,242)	(10,860,300)
Net options position	693	-	(693)	-	23,051	-	128,193	151,244
Net (short)/long position	<u>(701,239)</u>	<u>623,083</u>	<u>10,590</u>	<u>(67,566)</u>	<u>3,696,266</u>	<u>584,720</u>	<u>118,860</u>	<u>4,399,846</u>

The net options position is calculated using the model user approach (2003: worst case approach).

(F) Cross-border claims

Cross border claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institutions, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	Banks and other financial institutions HK\$'000	Public sector entities HK\$'000	Others HK\$'000	Total HK\$'000
2004				
Asia and Pacific excluding Hong Kong	6,765,626	201,643	7,552,627	14,519,896
of which Australia	3,373,719	1,128	61,338	3,436,185
of which Mainland China	2,196,755	199,858	6,712,491	9,109,104
Western Europe	13,717,333	3,008	4,276,585	17,996,926
of which France	2,281,061	-	806,261	3,087,322
of which Germany	2,519,414	-	410,682	2,930,096
of which Netherlands	1,249,111	-	720,948	1,970,059
of which United Kingdom	<u>3,608,631</u>	<u>953</u>	<u>1,023,518</u>	<u>4,633,102</u>
2003				
Asia and Pacific excluding Hong Kong	6,886,634	187,909	5,439,220	12,513,763
of which Australia	3,314,907	-	58,420	3,373,327
of which Mainland China	2,076,200	187,909	4,815,870	7,079,979
Western Europe	15,428,297	-	4,997,868	20,426,165
of which France	1,996,503	-	810,627	2,807,130
of which Germany	4,155,222	-	1,273,093	5,428,315
of which Netherlands	865,556	-	724,171	1,589,727
of which United Kingdom	<u>4,361,105</u>	<u>-</u>	<u>830,528</u>	<u>5,191,633</u>

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(G) Overdue advances to customers (net of suspended interest)

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for periods of:

	2004		The Group		2003	
	HK\$'000	%*	HK\$'000	%*	HK\$'000	%*
- 6 months or less but over 3 months	90,905	0.21	165,835	0.41		
- 1 year or less but over 6 months	213,538	0.50	307,408	0.76		
- over 1 year	1,657,563	3.89	2,177,791	5.42		
Total	1,962,006	4.60	2,651,034	6.59		
Secured overdue advances	1,449,690		1,742,648			
Unsecured overdue advances	512,316		908,386			
	1,962,006		2,651,034			
Market value of collateral held against the secured overdue advances	1,607,051		2,104,234			
Specific provisions made	473,671		580,629			

* Based on total advances to customers

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2004 and 31 December 2003.

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(H) Reconciliation between overdue loans and advances and non-performing loans

	The Group	
	2004	2003
	HK\$'000	HK\$'000
Advances to customers overdue for more than 3 months	1,962,006	2,651,034
Less: Amount overdue for more than 3 months and on which interest is still being accrued	(142,832)	(247,895)
Add: Amount overdue for 3 months or less, or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	11,047	84,187
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	53,661	128,882
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	1,883,882	2,616,208

(I) Other overdue assets

	The Group	
	2004	2003
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for:		
- 6 months or less but over 3 months	2,565	-
- 1 year or less but over 6 months	-	1,162
	2,565	1,162
Held-to-maturity securities which have been overdue for:		
- 1 year or less but over 6 months	-	69,409
- Over 1 year	15,549	15,526
	15,549	84,935

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(J) Rescheduled loans

	2004		The Group	
	HK\$'000	%*	2003 HK\$'000	%*
Rescheduled loans	<u>226,093</u>	<u>0.53</u>	<u>517,916</u>	<u>1.29</u>

* Based on total advances to customers

Rescheduled advances are those advances which have been restructured or renegotiated because of a deterioration in the financial position of the borrower, or the inability of the borrower to meet the original repayment schedule and for which the revised repayment terms are non-commercial to the Group. Rescheduled advances to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note (G).

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2004 and 31 December 2003.

(K) Repossessed assets

	The Group	
	2004 HK\$'000	2003 HK\$'000
Included in advances to customers and other accounts	<u>309,332</u>	<u>436,993</u>

(L) Board Committees

The Board of Directors of the Company has established the following committee:

Audit Committee

The committee, being an independent body, assists the Board of Directors in monitoring compliance with the policies, procedures, and internal and statutory regulations. It also assists the Board of Directors in providing independent review of the effectiveness of the Company's financial reporting process and internal control systems. The committee comprises three Directors of the Company, two of which are Independent Non-executive Directors.

Apart from the above committee, the following three committees were established under the Board of Directors of CITIC Ka Wah Bank Limited (the "Bank") which is a major wholly-owned subsidiary of the Company:

(i) Audit Committee

The committee, being an independent body, assists the Board of Directors of the Bank in monitoring compliance with the policies, procedures, and internal and statutory regulations. It also assists the Board of Directors in providing independent review of the effectiveness of the Bank's financial reporting process and internal control systems. The committee comprises three Directors of the Bank, two of which are Independent Non-executive Directors.

(ii) Executive Personnel Committee

The committee provides oversight of the appointment and removal, remuneration, and succession plan of the Bank's senior executives. It also assists the Board of Directors of the Bank in selecting and recommending candidates for vacancy on the Board of Directors of the Bank. The committee comprises four Directors of the Bank.

Unaudited supplementary financial information at 31 December 2004 (cont'd)

(L) Board Committees (cont'd)

(iii) Credit & Risk Management Committee

The committee oversees the Bank's risk management strategy, policies and mechanism. The risks concerned primarily include credit, market, interest rate, liquidity, operational, reputation, legal and strategic risks. The Committee carries out its oversight function on the Bank's risk management through various committees at the Bank's management level, including: Credit Committee, Non Performing Loan Committee, Asset and Liability Management Committee ("ALCO") and Operations & Control Committee. The committee comprises six Directors of the Bank.

(M) Risk management

The Group manages various types of risk mainly through the Bank under the delegation and close supervision of the Board. To centralize all its risk functions, the Bank combined all the risk management units in the first quarter of 2004 to form the Risk Management Group that consists of group credit, retail credit, inter-bank credit, market risk, risk policies, control and administration functions.

(i) Credit risk management

Credit risk is the risk of loss arising from a customer's or counterparty's inability to meet its financial obligations. The Group is exposed to credit risk through its lending, trading and capital markets activities. The Group defines the credit exposure to a customer as the amount of maximum potential loss arising from all these activities. These exposures include both on- and off-balance sheet transactions, including unfunded lending commitments such as loan commitments, letters of credit and financial guarantees.

The Group's credit risk management practices are designed to preserve the independence and integrity of the risk assessment process. The Group assesses credit risk based upon the risk profile of the borrower, source of repayment and the nature of the underlying collateral after giving consideration to current events and market developments. Credit risk is also managed at portfolio levels in terms of product, industry and geography to manage concentration risk.

Credit policy manuals and control procedures are regularly revised and updated to ensure that credit risk is adequately assessed, properly approved, continually monitored, and proactively managed.

Through entering into services agreements with subsidiaries and associated companies, the Risk Management Group of the Bank is also entrusted with the responsibilities to manage credit risk for these companies.

(ii) Liquidity risk management

The Group must be able to meet all customer claims in both normal and emergency circumstances besides meeting all regulatory requirements and complying with statutory liquidity ratios. To adopt a proactive liquidity management, the Group has issued long-dated certificates of deposit regularly and has also arranged re-purchase agreement facilities on its liquid investment portfolio.

Unaudited supplementary financial information at 31 December 2004 (cont'd)

(M) Risk management (cont'd)

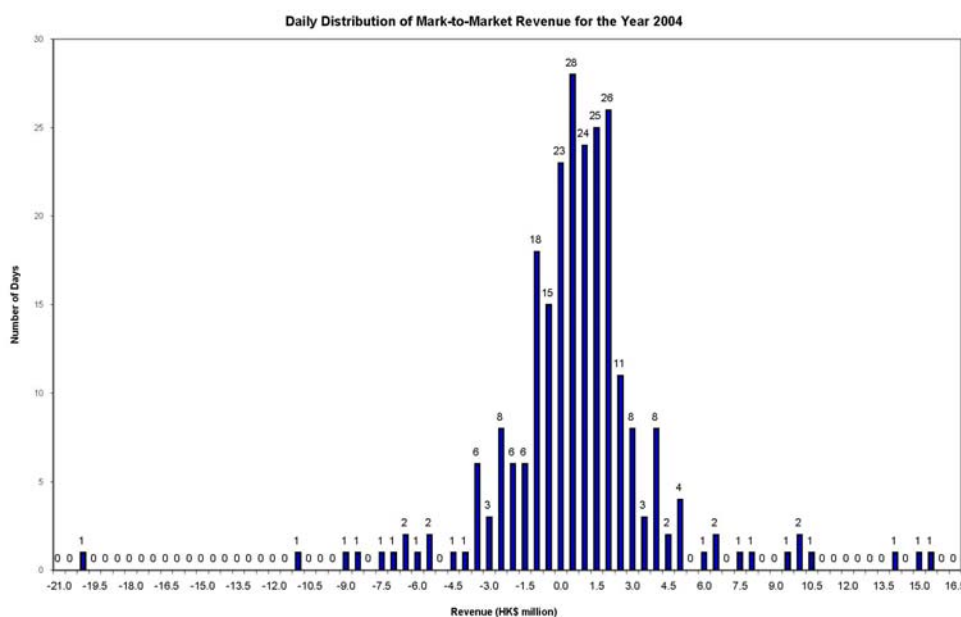
(iii) Market risk management

The Group's major market risk exposure rested with the Bank and is being monitored by the Market Risk Management Unit ("MRM") under Risk Management Group against established limits. The Bank's Treasury is the centre point to take on market risk exposures through customer flows, short-term market views and longer term strategic views. MRM ensures that the exposures are within established position and sensitivity limits.

Other subsidiaries of the Group have also engaged in investments albeit in relatively smaller magnitude.

For the year ended 31 December 2004, the average daily profit and loss from the Group's trading activities in interest rate risk was a loss of \$44,000. The average daily total mark-to-market profit and loss was a gain of \$442,000. The figure below shows the histogram of the Group's daily mark-to-market profit and loss.

Figure: Daily distribution of mark-to-market revenue for the year ended 31 December 2004



From the chart above, the maximum daily loss was \$20,320,000 and the maximum daily gain was \$15,270,000. Out of the 249 trading days for the period, there were 98 days with mark-to-market losses. The most frequent results were daily gains between \$0 and \$500,000 with the highest occurrence of 28 days.

(iv) Capital adequacy management

The Group has structured and is maintaining a strong capital base to support the development of the Group's business and to meet statutory capital adequacy ratios. As disclosed in note (A) above, the Group's unadjusted capital adequacy ratio was 15.24% as at 31 December 2004, well above the statutory minimum ratio.

The Group allocates its capital to various business activities depending on the risk taken by each business entities. Certain financial subsidiaries, as specified by the HKMA, are subject to the HKMA's capital requirements for its regulatory supervision purposes.

Unaudited supplementary financial information at 31 December 2004 (cont'd)

(M) Risk management (cont'd)

(v) Foreign currency risk management

The Group's foreign exchange risk stems from taking foreign exchange positions, commercial dealing, investment in foreign currency securities and operations of overseas branches. All foreign exchange positions are subject to exposure limits approved by ALCO. The Group's average daily foreign exchange trading profit and loss for the year ended 31 December 2004 was a gain of \$3,000.

(vi) Interest rate risk management

The interest rate risk for the Group comes mainly from the Bank. The mismatch arising from interest rate profile of the Bank's assets and liabilities, which gives rise to interest rate risk for the banking book, is overseen by the Bank's ALCO. This interest rate risk comprises of basis risk among different interest rate benchmarks, yield curve movements, interest rate repricing risk and embedded options if any. The Bank's ALCO reviews interest rate risk of its banking book through gap mismatch reports, sensitivity analysis and various earnings scenario analyses. To mitigate interest rate risk, the Bank has used interest rate derivatives, mainly interest rate swaps, to hedge both assets and liabilities.

(vii) Other trading and investment activities

For the year ended 31 December 2004, the Group has gold trading via the Bank with an average daily loss of \$9,000. CITIC International Assets Management Limited has equity trading and commodity trading in oil futures with an average daily trading profit of \$4,000 and \$5,000 respectively.

The Group, by itself and via the Bank, has invested part of its excess liquidity into external funds to enhance the return starting in May 2004. The average daily mark-to-market profit and loss for the year ended 31 December 2004 was a gain of \$483,000.

(viii) Operational risk management

The Group manages its operational risk through the Management Committee at the Group level and the Operations & Control Committee at the Bank level. The Management Committee ensures that all the subsidiaries are operating properly and managed in accordance with pre-set risk policies and procedures of the respective subsidiaries. The Operations & Control Committee comprises the Chief Operating Officer as the chairman and other senior staff from various business lines and support functions. One of its key responsibilities is to periodically review, update, and test as necessary the operational policies, procedures and contingency plans of the Bank.

Operational risk is the risk of losses which the Group may incur as a result of inadequate or failed processes, technology, infrastructure, personnel or from external events. Operational risk is not new to banks. Significant operational risk events in recent years have highlighted the need to manage operational risk more effectively by taking a broader and more comprehensive view. Technology and operational issues remain critically important, but other areas, which could lead to operational losses, must be managed as well.

**Unaudited supplementary financial information
at 31 December 2004 (cont'd)**

(M) Risk management (cont'd)

(viii) Operational risk management (cont'd)

The Bank currently manages operational risk through a number of ways, such as:

- Operations and technology policies and manual are developed and reviewed annually to ensure processes are adequately considered and defined.
- Human resources policy and practices are established to define and encourage proper staff behavior, and that staff are qualified and trained for their roles.
- New products and services are evaluated to ensure that staff, processes, and technology can adequately support prior to launching.
- Disaster recovery and business continuity plans are set up and tested annually for major events such as major failure of data centre caused by fire or other events; loss of operating site and sudden and massive customer withdrawal due to market rumors or other reasons.