中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 183)

ANNOUNCEMENT OF 2005 INTERIM RESULTS

SUMMARY OF RESULTS

The Board of Directors of CITIC International Financial Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 and the Group's state of affairs as at that date together with the comparative figures for the corresponding period in the previous year as follows:–

(A) CONSOLIDATED INCOME STATEMENT

	The Group		
	Six months ended 30 June		
	2005 Unaudited	2004 Unaudited (restated)	Variance
	HK$'000	*HK$'000*	*%*
Interest income	**1,289,369**	1,102,019	17.00
Interest expense	**(724,570)**	(322,271)	124.83
Net interest income	**564,799**	779,748	(27.57)
Fees and commission income	**200,157**	216,860	(7.70)
Fees and commission expense	**(5,920)**	(16,213)	(63.49)
Other operating income	**214,486**	36,143	493.44
Non-interest income	**408,723**	236,790	72.61
Operating income	**973,522**	1,016,538	(4.23)
Operating expenses	**(499,921)**	(495,917)	0.81
Operating profit before impairment losses and impairment allowances/provisions	**473,601**	520,621	(9.03)
Impairment losses and impairment allowances written back on loans and advances	**92,295**	–	
Charge for bad and doubtful debts	**–**	(38,075)	
Operating profit	**565,896**	482,546	17.27
Net profit on disposal of tangible fixed assets	**251,069**	8,895	
Impairment allowances on available-for-sale securities	**(2,817)**	–	
Impairment allowances written back on held-to-maturity securities	**2,254**	–	
Provision written back on held-to-maturity securities	**–**	80	
Impairment loss written back on properties	**1,517**	–	
Loss on disposal of an associate	**(6,155)**	–	
Share of profits less losses of associates	**17,515**	24,354	
Profit before taxation	**829,279**	515,875	60.75
Income tax *(Note 6)*			
Current tax			
– Hong Kong	**(96,483)**	(82,489)	16.96
– Overseas	**(716)**	1,480	148.38
Deferred tax	**(3,693)**	(6,546)	(43.58)
Associates	**(5,211)**	(3,928)	32.66
Profit after taxation	**723,176**	424,392	70.40
Attributable to:			
Equity holders of the parent	**723,176**	424,762	70.25
Minority interests	**–**	(370)	(100.00)
Profit after taxation	**723,176**	424,392	70.40
Interim dividends declared 11.3 cents (2004: 6.6 cents) per share	**361,358**	210,756	
Earnings per share			
Basic *(Note 7)*	**22.62¢**	13.31¢	
Diluted *(Note 8)*	**21.05¢**	12.11¢	

(B) CONSOLIDATED BALANCE SHEET

	The Group	
	As at 30 June 2005 Unaudited	As at 31 December 2004 Audited (restated)
	HK\$'000	*HK\$'000*
Assets		
Cash and short-term funds	**8,180,223**	8,345,790
Placements with banks and other financial institutions maturing after one month	**271,473**	364,307
Trade bills	**215,767**	246,081
Certificates of deposit held	**1,266,290**	1,366,315
Securities measured at fair value through profit or loss	**6,110,753**	–
Other investments in securities	**–**	3,953,518
Advances to customers and other accounts	**44,686,551**	43,323,300
Available-for-sale securities	**6,244,758**	–
Held-to-maturity securities	**17,235,162**	22,254,992
Investment securities	**–**	39,841
Interest in associates	**1,165,872**	1,334,442
Goodwill	**1,007,749**	1,007,749
Deferred tax assets	**43,374**	93,562
Tangible fixed assets	**1,047,511**	1,247,460
Total assets	**87,475,483**	83,577,357
Equity and liabilities		
Deposits and balances of banks and other financial institutions	**4,643,547**	3,555,852
Deposits from customers	**55,254,145**	55,451,727
Certificates of deposit issued	**8,332,665**	6,959,690
Debt securities issued	**2,306,325**	2,322,798
Convertible bonds issued	**1,275,376**	1,399,384
Current taxation	**149,092**	6,446
Deferred tax liabilities	**56,074**	8
Other accounts and provisions	**1,533,963**	1,283,553
Total liabilities	**73,551,187**	70,979,458
Share capital	**3,197,859**	3,194,153
Reserves	**6,255,655**	5,127,850
Total equity attributable to equity holders of the parent	**9,453,514**	8,322,003
Loan capital	**4,470,782**	4,275,896
Total	**13,924,296**	12,597,899
Total equity and liabilities	**87,475,483**	83,577,357

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Group			
	Six months ended 30 June 2005 Unaudited		Six months ended 30 June 2004 Unaudited (restated)	
	HK\$'000	***HK\$'000***	*HK\$'000*	*HK\$'000*
Total equity at 1 January:				
Attributable to equity holders of the parent (as previously reported at 31 December)	**8,310,355**		7,811,770	
Minority interests (as previously presented separately from liabilities and equity at 31 December)	**–**		191	
	8,310,355		7,811,961	
Prior period adjustments arising from changes in accounting policies	**11,648**		4,754	
As restated, before opening balance adjustments	**8,322,003**		7,816,715	
Opening balance adjustments arising from changes in accounting policies	**643,087**		–	
At 1 January, after prior period and opening balance adjustments		**8,965,090**		7,816,715
Net (expense)/income for the period recognised directly in equity:				
Exchange differences:				
– on translation of financial statements of overseas subsidiaries	**(1,083)**		2,105	
– on disposal of an associate	**627**		–	
	(456)		2,105	
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax	**9,724**		–	
Cash flow hedge: effective portion of changes in fair value, net of deferred tax	**9,792**		–	
Changes in fair value of available-for-sale securities, net of deferred tax	**(24,413)**		–	
Net (expense)/income for the period recognised directly in equity	**(5,353)**		2,105	
Net profit for the period:				
As previously reported			423,138	
Minority interests (as previously presented separately from liabilities and equity at 31 December)			(370)	
			422,768	
Prior period adjustments arising from changes in accounting policies			1,624	
Net profit for the period (2004: as restated)	**723,176**		424,392	
Total recognised income and expense for the period		**717,823**		426,497
Attributable to:				
Equity holders of the parent	**717,823**		426,867	
Minority interests	**–**		(370)	
	717,823		426,497	
Dividends paid during the period		**(239,839)**		(201,138)
Minority interest attributable to a subsidiary disposed during the period		**–**		179
Movements in shareholders' equity arising from capital transactions with equity holders of the parent:				
Shares issued under the share option scheme	**3,706**		3,443	
Net share premium received	**4,264**		3,751	
Equity settled share-based transactions	**2,470**		1,850	
		10,440		9,044
Total equity at 30 June		**9,453,514**		8,051,297

Notes:

(1) The financial information in this interim results announcement is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants. It does not constitute statutory financial statements.

(2) The financial information relating to the financial year ended 31 December 2004 that is included in this interim results announcement as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements, as amended for new and revised accounting standards that require prior period adjustments. Statutory financial statements for the year ended 31 December 2004 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 10 March 2005.

(3) The interim results announcement has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these changes in accounting policies are set out in notes 4 and 5.

(4) Summary of the effect of changes in the accounting policies

(i) *Effect on opening balance of total equity at 1 January 2005 (as adjusted)*

The following table sets out the adjustments that have been made to the opening balances at 1 January 2005. These are the aggregate effect of retrospective adjustments to the net assets as at 31 December 2004 and the opening balance adjustments made as at 1 January 2005.

Effect of new policy (increase/(decrease))	**Retained profits**	**Capital and other reserves**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*
Prior period adjustments:			
HKFRS 2			
Share-based payment transactions	–	4,308	4,308
HKAS 28			
Interest in associates	7,340	–	7,340
Total increase in equity before opening balance adjustment	7,340	4,308	11,648
Opening balance adjustments:			
HKAS 32 & 39			
Convertible bonds issued	7,658	133,027	140,685
HKAS 39			
Derivatives and hedging	(86,544)	360,887	274,343
Asset classification and fair values	29,537	13,474	43,011
Impairment	182,471	–	182,471
Associate's opening balance adjustments	2,577	–	2,577
	128,041	374,361	502,402
	135,699	507,388	643,087
Total effect at 1 January 2005	143,039	511,696	654,735

(ii) *Effect on opening balance of total equity at 1 January 2004 (as adjusted)*

The following table sets out the only adjustment that has been made to the opening balances at 1 January 2004.

Effect of new policy (increase/(decrease))	**Retained profits**	**Capital and other reserve**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*
HKAS 28			
Interest in associates	4,754	–	4,754
Total effect at 1 January 2004	4,754	–	4,754

(iii) *Effect on profit after taxation for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the profits for that period are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six month period ended 30 June 2004, the table discloses the adjustments that have been made to the profits as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

	Six months ended 30 June	
Effect of new policy (increase/(decrease))	**2005 Equity holders of the parent**	2004 Equity holders of the parent
	HK$'000	*HK$'000*
HKFRS 2		
Share-based payment transactions	**(1,123)**	–
HKFRS 3		
Amortisation of goodwill	**34,536**	–
HKAS 28		
Interest in associates	**777**	1,624
HKAS 32 & 39		
Convertible bonds issued	**(16,938)**	–
HKAS 39		
Derivatives and hedging	**(54,203)**	–
Asset classification and fair values	**57,527**	–
	3,324	–
HKAS 40		
Investment properties	**1,517**	–
Total effect for the period	**22,093**	1,624

In respect of the six months ended 30 June 2005 it is not practicable to estimate the extent to which the profits for that period are higher or lower than they would have been had the previous policy on impairment of financial assets still been applied in the interim period.

(iv) *Effect on net income recognised directly in equity for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the income or expenses recognised directly in equity are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six month period ended 30 June 2004, the table discloses the adjustments that have been made to the net income or expenses as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

	Six months ended 30 June	
Effect of new policy (increase/(decrease))	**2005 Equity holders of the parent**	2004 Equity holders of the parent
	HK$'000	*HK$'000*
HKAS 39		
Available-for-sale securities	**(24,413)**	–
Hedging derivatives	**9,792**	–
	(14,621)	–
HKAS 40		
Investment properties		
– effect on other property revaluation reserve	**9,724**	–
Total effect for the period	**(4,897)**	–

(v) *Effect on amounts recognised as capital transactions with owners for the six months ended 30 June 2005 (estimated) and 30 June 2004 (as adjusted)*

In respect of the six month period ended 30 June 2005, the following table provides estimates of the extent to which the amounts recorded as capital transactions with owners are higher or lower than they would have been had the previous policies still been applied in the interim period, where it is practicable to make such estimates.

In respect of the six month period ended 30 June 2004, the table discloses the adjustments that have been made to the amounts recorded as capital transactions with owners as previously reported for that period, in accordance with the transitional provisions of the respective HKFRSs. As retrospective adjustments have not been made for all changes in policies, the amounts shown for the six month period ended 30 June 2004 may not be comparable to the amounts shown for the current interim period.

	Six months ended 30 June	
Effect of new policy (increase)	**2005 Equity holders of the parent**	2004 Equity holders of the parent
	HK$'000	*HK$'000*
HKFRS 2		
Employee share option scheme		
– effect recognised in share option reserve	**2,470**	1,850
Total effect for the period	**2,470**	1,850

(5) Changes in accounting policies

(a) *Share-based payment transactions (HKFRS 2, Share-based payment)*

(i) Employee share option scheme

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group recognises the fair value of such share options as an expense in the income statement. A corresponding increase is recognised in a share option reserve within equity.

As the employees are required to meet vesting conditions before they become entitled to the options, the Group recognises the fair value of the options granted over the vesting period.

If an employee chooses to exercise options, the related share option reserve is transferred to share capital and share premium, together with the exercise price. If the options lapse unexercised the related share option reserve is transferred directly to retained earnings.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2, except that the Group has taken advantage of the transitional provisions set out in paragraph 53 of HKFRS 2 under which the new recognition and measurement policies have not been applied to the following grants of options:

– all options granted to employees on or before 7 November 2002; and

– all options granted to employees after 7 November 2002 but which had vested before 1 January 2005."

The amount charged to the income statement as a result of the change of policy increased staff costs for the six months ended 30 June 2005 by $2,470,000 (six months ended 30 June 2004: $1,850,000) with the corresponding amounts credited to the share option reserve.

(ii) Employee Equity Linked Deferred Award

In prior years, when employees (which term includes directors) were granted Equity Linked Deferred Award ("ELDA"), provision for the ELDA was made and recognised immediately as expenses in the year in which the awards were granted.

With effect from 1 January 2005, in order to comply with HKFRS 2, the fair value of the amount payable is recognised as an expense in the income statement over the relevant vesting period with a corresponding increase in liabilities. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2. As a result of the change of policy, staff costs for the six months ended 30 June 2005 has reduced by $1,152,000 (six months ended 30 June 2004: $1,850,000), with the corresponding amounts debited to the liabilities.

(b) *Investment properties (HKAS 40, Investment property)*

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment properties revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances movements in the fair value were recognised in the income statement.

In addition, in prior years premises (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the cost model in SSAP 17, Property, plant and equipment, whereby the premises was carried at cost less accumulated depreciation and impairment.

Upon adoption of HKAS 40 as from 1 January 2005:

– all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40; and

– land held for an undetermined future purpose is recognised as "investment property" if the property is freehold or, if the property is leasehold, the Group has chosen to recognise such land as investment property rather than as land held under an operating lease. As such, movements in the fair value of premises held for an undetermined future purpose are also now recognised directly in the income statement as they arise in accordance with the fair value model."

Despite these changes in accounting policy have to be adopted retrospectively, no adjustment to the opening balances as at 1 January 2004 and 1 January 2005 are required because the net surplus on revaluation of investment properties for the year ended 31 December 2003 and 31 December 2004 was taken to the income statement as a deficit/surplus on revaluation in respect of the portfolio of investment properties had previously been charged to the income statement.

As at 30 June 2005, in accordance with HKAS 40, premises held for an undetermined future purpose is reclassified as investment property at its fair value resulting to an increase in the Group's profit before taxation for the six months ended 30 June 2005 by $1,517,000 and in other property revaluation reserve (before deferred tax) by $8,174,000.

(c) *Interest in associates (HKAS 28, Investments in associates)*

In prior years, investments held by the Group with 20% or more of the voting power of the investees that were acquired and held exclusively with a view to subsequent disposal in the near future were classified as other investments in securities and stated at fair value.

With effect from 1 January 2005, and in accordance with HKAS 28, such investments are reclassified as an investment in associate and accounted for in the consolidated financial statements under the equity method.

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKAS 28. As a result of the change of policy, the Group's profit before taxation for the six months ended 30 June 2005 has increased by $914,000 (six months ended 30 June 2004: $1,980,000), with the corresponding amounts debited to interest in associates.

(d) *Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)*

(i) Convertible bonds issued

In prior years, convertible bonds issued were recorded as liability and stated at cost.

With effect from 1 January 2005, and in accordance with HKAS 32 and HKAS 39, convertible notes issued are split into their liability and equity components at initial recognition by recognising the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortised cost. The equity component is recognised in the convertible bond – equity component until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

(ii) Derivatives and hedging

In prior years, derivatives that were held for trading purposes were accounted for at fair value and carried as assets when the fair value was positive and as liabilities when the fair value was negative. Gains or losses from changes in fair value were recognised in the income statement. Derivatives held for non-trading purposes and qualified as hedges were accounted for on an equivalent basis to the underlying assets, liabilities and positions.

With effect from 1 January 2005 and in accordance with HKAS 39, all derivatives are initially recognised at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Subsequent changes in fair value are recognised depending on the intended use of the derivatives as follows:

Derivatives designated as hedges will apply hedge accounting provided certain qualifying criteria are met. There are two types of hedges:

– Fair value hedge, a hedge against the fair value of recognised assets or liabilities. This will be accounted for with the changes in fair value of the derivatives, together with the changes in fair value of the hedged assets or liabilities that are attributable to the hedged risk, recorded in the income statement.

– Cash flow hedge, a hedge against the cash flows attributable to recognised assets or liabilities. This is accounted for with changes in the fair value of the derivatives initially through equity, and subsequently released into the income statement in line with the recognition of income or expense of the assets or liabilities being hedged.

Derivatives held for trading purposes and those that do not qualify for hedge accounting, will be accounted for with changes in fair value reported in the income statement.

Interest receipts and payments of interest rate derivatives of qualifying hedges are accounted as interest income or interest expenses following the underlying recognised assets or liabilities. Interest receipts and payments of other interest rate derivatives are recognised as part of "Other operating income" in the income statement.

(iii) Asset classification and fair value

Financial assets

In prior years, all financial assets were carried at cost or amortised cost, net of provisions, except for securities held for trading purposes were held at fair value. Gains and losses from change in fair value were recognised in the income statement in respect of securities held for trading.

In accordance with HKAS 39, financial assets are recognised based on the following classifications.

Loans and receivables

Loans and receivables not intended for trading are carried at amortised cost less impairment allowances.

Held-to-maturity

Non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has the positive intention and ability to hold to maturity are carried at amortised cost less impairment allowances.

At fair value through profit or loss

Non-derivative financial assets that have been acquired or incurred principally for the purpose of selling or repurchasing in the near term are classified as held for trading.

If a financial asset meets the criteria set out below, and is so designated by management at inception, it is classified as financial assets designated at fair value through profit or loss. The Group designates financial instruments at fair value because the designation:

– eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or

– relates to financial instruments containing one or more embedded derivatives which significantly modify the cash flows resulting from the financial instruments, and which would otherwise require separate accounting.

Available-for-sale

Available-for-sale investments are those non-derivative financial assets that are designated as available for sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Gains and losses from changes in fair value are recognised in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity will be transferred to the income statement.

Financial assets except for those classified at fair value are initially recognised at fair value plus transaction costs and carried at amortised costs using the effective interest method. Financial assets classified at fair value are recognised initially at fair value and transaction costs taken directly to the income statement. The changes in fair value are recognised in the income statement as they arise.

Financial liabilities

In prior years, all financial liabilities except trading securities short positions were carried at cost or amortised cost. Trading securities short positions were carried at fair value and any gains and losses from changes in fair value were recognised in the income statement.

In accordance with HKAS 39, the Group's financial liabilities are recognised based on the following classifications:

Financial liabilities designated as at fair value through profit or loss

Financial liabilities that are held for trading, including trading securities short positions, are carried at fair value. Gains and losses from change in fair value are recognised in the income statement as they arise.

Financial liabilities designated as at fair value through profit or loss, including own debt securities in issue, are designated as such at inception and the classification criteria are set out above under "Financial assets – At fair value through profit or loss". Gains and losses from the changes in fair value are recognised in the income statement as they arise.

Deposits, debt securities in issue and other liabilities

Deposits and debt securities in issue, other than those designated as trading liabilities or at fair value, and other financial liabilities, are carried at amortised cost.

Interest income and expense

Interest income and interest expense of trading assets and liabilities and financial assets and liabilities designated as at fair value are recognised as part of "Other operating income", instead of "Interest income" and "Interest expense" as for those arising from other financial assets and liabilities.

(iv) Impairment

Loans and receivables

In prior years, provisions for bad and doubtful debts were classified into specific and general provisions. Specific provisions on loans were assessed individually or, for individually insignificant loans, on a portfolio basis. General provisions were assessed on loans which were not identified as impaired individually. When a loan was considered doubtful, interest was suspended and ceased to accrue.

In accordance with HKAS 39, impairment allowances are made on a loan when objective evidence of impairment loss has been incurred. Impairment loss is assessed either individually for individually significant loans, or collectively for loan portfolios with similar credit risk characteristics.

Impairment loss of an individually assessed loan is measured as the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

For the purpose of collective assessment of impairment, individually insignificant loans and loans which have been assessed individually and determined to have no objective evidence of impairment are grouped on the basis of similar credit risk characteristics and collectively assessed based on historical loss experience of each type of loans and management judgement of the current economic and credit environment.

Interest will continue to be recognised on impaired financial assets using the interest rate for discounting future cash flows for the purpose of measuring the related impairment loss. Subsequent unwinding of discount allowance is recognised as interest income.

Other financial assets

In prior years, financial assets, other than loans and receivables, were reviewed on each balance sheet date to determine whether there was any indication of impairment. Provisions were made when carrying amounts were not expected to be fully recovered and recognised as an expense in the income statement.

In accordance with HKAS 39, held-to-maturity investments and available-for-sale financial assets are assessed for objective evidence of impairment at each balance sheet date. Impairment loss for held-to-maturity investments is recognised in the income statement. When an available-for-sale financial asset is determined to be impaired, the cumulative loss previously recognised in equity will be transferred to the income statement.

(v) Opening balance adjustments

The new accounting policies have been applied prospectively with effect from 1 January 2005, and as in accordance with HKAS 39, no restatement of comparative amounts has been made. Adjustments to the opening balances of the retained profits and reserves as at 1 January 2005 are shown in note 4(i).

(e) Amortisation of positive goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)

In prior periods, positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30 June 2005. This has increased the Group's profit before taxation for the six months ended 30 June 2005 by $34,536,000.

(f) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the period were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

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

(7) The calculation of basic earnings per share for the six months ended 30 June 2005 is based on profit attributable to equity holders of parent of $723,176,000 (six months ended 30 June 2004 restated: $424,762,000) and the weighted average number of ordinary shares of 3,196,526,236 (2004: 3,190,812,579).

(8) The calculation of diluted earnings per share for the six months ended 30 June 2005 is based on adjusted profit attributable to equity holders of the parent of $741,867,000 (six months ended 30 June 2004 restated: $426,505,000) and the weighted average number of ordinary shares of 3,523,868,310 (2004: 3,520,548,969), after adjusting for the effects of all dilutive potential ordinary shares.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Summary of financial position

	The Group		
	As at 30 June 2005	As at 31 December 2004 (restated)	Variance
	HK$'000	*HK$'000*	*%*
Loans and advances	**43,613,033**	42,921,282	1.61
Impairment allowances for loan and advances	**717,813**	N/A	N/A
Loan loss provision	**N/A**	1,058,893	N/A
Total assets	**87,475,483**	83,577,357	4.66
Total deposits	**63,586,810**	62,411,417	1.88
Total equity	**9,453,514**	8,322,003	13.60
Financial ratios			
Capital adequacy – unadjusted*	**16.36%**	15.88%	
Loans to deposits	**68.59%**	68.77%	
Loans to total assets	**49.86%**	51.36%	
Property lending	**38.07%**	35.57%	
Cost to income	**51.35%**	N/A	
Cost to income (before goodwill)	**N/A**	49.06%	
Cost to income (after goodwill)	**N/A**	51.85%	
Return on assets	**1.42%**	1.11%	
Return on equity	**13.24%**	11.21%	

* *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.*

(2) Advances to customers and other accounts

	The Group		
	As at 30 June 2005	As at 31 December 2004	Variance
	HK$'000	*HK$'000*	*%*
Advances to customers	**43,397,266**	42,672,715	1.70
Individual impairment allowances	**(422,179)**	–	
Collective impairment allowances	**(295,634)**	–	
Specific provisions for bad and doubtful debts	**–**	(537,056)	
General provisions for bad and doubtful debts	**–**	(519,351)	
	42,679,453	41,616,308	
Advances to banks and other financial institutions	**150,932**	20,000	654.66
Accrued interest and other accounts less impairment allowances	**1,856,166**	1,686,992	10.03
	44,686,551	43,323,300	3.15

(3) Reserves

	The Group		
	As at 30 June 2005	As at 31 December 2004 (restated)	Variance
	HK$'000	*HK$'000*	*%*
Share premium	**1,840,212**	1,835,948	0.23
Other property revaluation reserve	**9,724**	11,945	(18.59)
Capital reserve	**2,818**	2,818	–
General reserve	**100,000**	100,000	–
Exchange differences	**(770)**	(314)	(145.22)
Fair value reserve	**357,673**	–	
Hedging reserve	**2,067**	–	
Convertible bond – equity component	**133,027**	–	
Share option reserve	**6,778**	4,308	57.34
Retained profits	**3,804,126**	3,173,145	19.89
Total	**6,255,655**	5,127,850	21.99
Proposed dividends, not provided for	**361,358**	210,756	71.46

In accordance with the HKMA guideline "Impact of the New Hong Kong Accounting Standards on Authorised Institutions' Capital Base and Regulatory Reporting", the Group has earmarked a "Regulatory Reserve" of $233,800,000 from retained profits as at 30 June 2005.

(4) Advances to customers – By industry sectors

	The Group				
	As at 30 June 2005		As at 31 December 2004		Variance
	HK$'000	***%***	*HK$'000*	*%*	*%*
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	**333,413**	**0.77**	350,668	0.82	(4.92)
– Property investment	**4,976,023**	**11.47**	4,313,945	10.11	15.35
– Financial concerns	**2,507,854**	**5.78**	2,702,487	6.33	(7.20)
– Stockbrokers	**83,208**	**0.19**	39,835	0.09	108.88
– Wholesale and retail trade	**2,094,413**	**4.83**	2,000,654	4.69	4.69
– Manufacturing	**3,009,046**	**6.93**	3,372,328	7.90	(10.77)
– Transport and transport equipment	**5,410,146**	**12.47**	5,404,016	12.67	0.11
– Others	**3,446,885**	**7.93**	3,690,455	8.65	(6.60)
Individuals					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**17,559**	**0.04**	19,394	0.05	(9.46)
– Loans for the purchase of other residential properties	**11,211,016**	**25.83**	10,512,764	24.64	6.64
– Credit card advances	**527,762**	**1.22**	538,041	1.26	(1.91)
– Others	**1,215,626**	**2.80**	1,161,561	2.72	4.65
Trade finance	**2,814,407**	**6.49**	2,287,943	5.36	23.01
Loans for use outside Hong Kong	**5,749,908**	**13.25**	6,278,624	14.71	(8.42)
	43,397,266	**100.00**	42,672,715	100.00	1.70

(5) Impaired/Non-performing loans

(a) Impaired loans

Impaired loans are loans which have been classified and subject to individual impairment assessment.

	The Group			
	Total amount of impaired loans		**Market value of collateral held**	**Individual impairment allowances made**
	HK$'000	***%****	***HK$'000***	***HK$'000***
As at 30 June 2005	**1,744,132**	**4.02**	**1,536,439**	**422,179**

(b) Non-performing loans

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

	The Group				
	Total amount of loans on which interest is placed in suspense		Market value of collateral held	Specific provisions made	Amount of interest suspense
	HK$'000	*%**	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2004	1,883,882	4.41	1,550,423	460,587	383,689

* *Based on total advances to customers*

There were no impaired advances to banks and other financial institutions as at 30 June 2005 nor advances on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004; nor were there any individual impairment allowances and specific provisions made for them on these two respective dates.

(6) Overdue advances to customers

The gross amount of advances have been overdue for periods of:

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	HK$'000	***%****	*HK$'000*	*%**
– 6 months or less but over 3 months	**48,636**	**0.11**	90,905	0.21
– 1 year or less but over 6 months	**269,245**	**0.62**	213,538	0.50
– over 1 year	**1,461,612**	**3.37**	1,657,563	3.89
Total	**1,779,493**	**4.10**	1,962,006	4.60
Secured overdue advances	**1,342,620**		1,449,690	
Unsecured overdue advances	**436,873**		512,316	
	1,779,493		1,962,006	
Market value of collateral held against the secured overdue advances	**2,032,854**		1,607,051	
Individual impairment allowances made	**380,295**			
Specific provisions made			473,671	

* *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 30 June 2005 and 31 December 2004.

(7) Other overdue assets

	The Group	
	As at 30 June 2005	As at 31 December 2004
	HK$'000	*HK$'000*
The gross amount of trade bills which has been overdue for:		
– 6 months or less but over 3 months	**1,198**	2,565
Held-to-maturity securities which have been overdue for:		
– 1 year or less but over 6 months	**41,974**	–
– over 1 year	**15,546**	15,549
	57,520	15,549

(8) Rescheduled loans

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	HK$'000	***%****	*HK$'000*	*%**
Rescheduled loans	**53,848**	**0.12**	226,093	0.53

* *Based on total advances to customers*

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2005 and 31 December 2004.

(9) Repossessed assets

	The Group	
	As at 30 June 2005	As at 31 December 2004
	HK$'000	*HK$'000*
Included in advances to customers and other accounts	**228,162**	309,332

(10) 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	
	As at 30 June 2005	As at 31 December 2004
	HK$'000	*HK$'000*
Direct credit substitutes	**1,019,581**	943,362
Trade-related contingencies	**1,089,160**	1,165,944
Forward forward deposits placed	**435,283**	–
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	**12,415,460**	10,576,584
– with an original maturity of 1 year and over	**517,498**	588,078
	15,476,982	13,273,968

(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					
	As at 30 June 2005			As at 31 December 2004		
	Trading	**Hedging**	**Total**	Trading	Hedging	Total
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Exchange rate contracts						
Forwards	**8,968,196**	**–**	**8,968,196**	2,637,254	–	2,637,254
Swaps	**21,936,089**	**–**	**21,936,089**	7,447,460	3,504,209	10,951,669
Options purchased	**244,619**	**–**	**244,619**	241,068	–	241,068
Options written	**244,619**	**–**	**244,619**	238,249	–	238,249
Interest rate contracts						
Forwards and futures	**4,145,152**	**–**	**4,145,152**	427,590	–	427,590
Swaps	**3,803,195**	**13,038,840**	**16,842,035**	3,570,070	11,615,697	15,185,767
Options purchased	**1,486,568**	**–**	**1,486,568**	1,671,487	–	1,671,487
Options written	**1,486,568**	**–**	**1,486,568**	1,849,231	–	1,849,231
Equity contracts						
Options purchased	**2,736**	**–**	**2,736**	–	1,083	1,083
Options written	**–**	**–**	**–**	–	1,083	1,083
	42,317,742	**13,038,840**	**55,356,582**	18,082,409	15,122,072	33,204,481

(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 period/year and accordingly these amounts are shown on a gross basis:

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	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**	**1,187,968**	N/A	1,072,223
Exchange rate contracts	**103,844**	**95,575**	119,532	66,096
Interest rate contracts	**277,925**	**91,965**	325,439	105,037
Equity contracts	**–**	**82**	1	46
	381,769	**1,375,590**	444,972	1,243,402

(11) Segmental information

(a) *By geographical area*

	The Group			
	Six months ended 30 June			
	2005	2004	**2005**	2004
	Profit/(loss)*	Profit/(loss)* (restated)	**Operating income/(loss)**	Operating income/(loss)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**814,470**	516,687	**937,388**	997,762
Mainland China	**1,137**	(6,724)	**9,360**	(1,597)
United States	**13,672**	5,912	**26,774**	21,036
Less: Inter-segment items	**–**	–	**–**	(663)
	829,279	515,875	**973,522**	1,016,538

* *Profit/(loss) from ordinary activities before taxation*

Profit/(loss) from Hong Kong included share of profits of associates amounting to $17,515,000 (2004: $24,354,000).

	The Group					
	As at 30 June 2005			As at 31 December 2004		
	Total assets	**Total liabilities**	**Contingent liabilities**	Total assets (restated)	Total liabilities (restated)	Contingent liabilities
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong	**86,916,762**	**72,999,883**	**15,001,539**	83,004,397	70,380,944	12,921,806
Mainland China	**941,058**	**467,513**	**3,353**	690,143	322,158	–
United States	**1,459,916**	**1,380,682**	**472,090**	1,742,424	1,674,194	352,162
Others	**683,625**	**683,625**	**–**	466,479	466,479	–
Less: Inter-segment items	**(2,525,878)**	**(1,980,516)**	**–**	(2,326,086)	(1,864,317)	–
	87,475,483	**73,551,187**	**15,476,982**	83,577,357	70,979,458	13,273,968

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

	The Group			
	As at 30 June 2005		As at 31 December 2004	
	Advances to customers	**Overdue loans and advances**	Advances to customers	Overdue loans and advances
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Hong Kong	**35,657,925**	**1,131,531**	34,431,875	1,314,119
Mainland China	**5,903,753**	**597,297**	5,899,197	596,904
United States	**717,752**	**50,610**	714,454	50,620
Others	**1,117,836**	**55**	1,627,189	363
	43,397,266	**1,779,493**	42,672,715	1,962,006

The above 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.

(b) *By business segment*

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, corporate 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.

	The Group			
	Six months ended 30 June			
	2005 Profit/(loss)*	2004 Profit/(loss)* (restated)	**2005 Operating income**	2004 Operating income
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Commercial banking business	**773,843**	505,010	**925,533**	999,214
Asset management	**44,738**	13,983	**62,290**	4,238
Investment banking	**26,700**	39,845	**–**	–
Unallocated	**(16,002)**	(42,963)	**(14,301)**	13,086
	829,279	515,875	**973,522**	1,016,538

* *Profit/(loss) from ordinary activities before taxation*

Profit/(loss) from commercial banking, asset management and investment banking included share of losses of associates amounting to $10,099,000 and profits of $914,000 and $26,700,000 respectively (2004: share of losses of $17,471,000 from commercial banking and profits of $41,825,000 from investment banking).

(12) Capital base after deductions

	As at 30 June 2005	As at 31 December 2004 (restated)
	HK$'000	*HK$'000*
Core capital		
Paid up ordinary share capital	**3,197,859**	3,194,153
Share premium	**1,840,212**	1,835,948
Reserves	**2,817,964**	2,584,437
Deduct: Goodwill	**(1,007,749)**	(1,007,749)
Total core capital	**6,848,286**	6,606,789
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	**–**	8,362
Reserves on revaluation of holding of securities not held for trading purposes	**320,259**	–
Collective impairment allowances for impaired assets and regulatory reserve	**529,434**	–
General provision for doubtful debts	**–**	521,837
Perpetual subordinated debt	**2,100,678**	1,943,589
Term subordinated debt	**948,041**	932,923
Total eligible supplementary capital	**3,898,412**	3,406,711
Total capital base before deductions	**10,746,698**	10,013,500
Deductions from total capital base	**(959,149)**	(1,056,629)
Total capital base after deductions	**9,787,549**	8,956,871

(13) 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.

	The Group							
	As at 30 June 2005				As at 31 December 2004			
Equivalent in HK$'000	**US dollars**	**Renminbi**	**Other**	**Total**	US dollars	Renminbi	Other	Total
Spot assets	**26,559,694**	**872,968**	**4,759,497**	**32,192,159**	28,674,000	757,264	4,981,384	34,412,648
Spot liabilities	**(26,590,278)**	**(174,241)**	**(5,311,645)**	**(32,076,164)**	(30,836,628)	(134,181)	(4,656,405)	(35,627,214)
Forward purchases	**15,338,049**	**1,409**	**3,646,086**	**18,985,544**	7,309,008	–	2,629,869	9,938,877
Forward sales	**(15,858,320)**	**–**	**(3,083,614)**	**(18,941,934)**	(5,848,312)	–	(2,943,565)	(8,791,877)
Net options position	**–**	**–**	**–**	**–**	693	–	(693)	–
Net (short)/long position	**(550,855)**	**700,136**	**10,324**	**159,605**	(701,239)	623,083	10,590	(67,566)

The net options position is calculated using the model user approach.

Appendix 1
Consolidated Balance Sheet at 31 December 2004
Reconciliation of HKGAAP and HKFRS

	As at 31 December 2004 As reported	Effect of changes in accounting policies (except HKAS 39)	As at 31 December 2004 As restated	Opening balance adjustments for HKAS 32 & HKAS 39	As at 1 January 2005 As reported
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Cash and short-term funds	8,345,790	–	8,345,790	–	8,345,790
Placements with banks and other financial institutions maturing after one month	364,307	–	364,307	–	364,307
Trade bills less provisions	246,081	–	246,081	2,486	248,567
Certificates of deposit held	1,366,315	–	1,366,315	–	1,366,315
Securities measured at fair value through profit or loss	–	–	–	4,739,053	4,739,053
Other investments in securities	3,968,263	(14,745)	3,953,518	(3,953,518)	–
Advances to customers and other accounts	43,323,300	–	43,323,300	398,528	43,721,828
Available-for-sale securities	–	–	–	6,322,122	6,322,122
Held-to-maturity securities	22,254,992	–	22,254,992	(6,309,110)	15,945,882
Investment securities	39,841	–	39,841	(39,841)	–
Interest in associates	1,312,357	22,085	1,334,442	2,577	1,337,019
Goodwill	1,007,749	–	1,007,749	–	1,007,749
Deferred tax assets	93,562	–	93,562	(51,107)	42,455
Tangible fixed assets	1,247,460	–	1,247,460	–	1,247,460
Total assets	83,570,017	7,340	83,577,357	1,111,190	84,688,547
Equity and Liabilities					
Deposits and balances of banks and other financial institutions	3,555,852	–	3,555,852	–	3,555,852
Deposits from customers	55,451,727	–	55,451,727	–	55,451,727
Certificates of deposit issued	6,959,690	–	6,959,690	5,694	6,965,384
Debt securities issued	2,322,798	–	2,322,798	(8,004)	2,314,794
Convertible bonds issued	1,399,384	–	1,399,384	(140,685)	1,258,699
Current taxation	6,446	–	6,446	45,933	52,379
Deferred tax liabilities	8	–	8	56,113	56,121
Other accounts and provisions	1,287,861	(4,308)	1,283,553	280,630	1,564,183
Total liabilities	70,983,766	(4,308)	70,979,458	239,681	71,219,139
Share capital	3,194,153	–	3,194,153	–	3,194,153
Reserves	5,116,202	11,648	5,127,850	643,087	5,770,937
Total equity attributable to equity holders of the parent	8,310,355	11,648	8,322,003	643,087	8,965,090
Loan capital	4,275,896	–	4,275,896	228,422	4,504,318
Total	12,586,251	11,648	12,597,899	871,509	13,469,408
Total equity and liabilities	83,570,017	7,340	83,577,357	1,111,190	84,688,547

Appendix 2
Consolidated Balance Sheet at 30 June 2004
Reconciliation of HKGAAP and HKFRS

	As at 30 June 2004 As reported	Effect of changes in accounting policies (except HKAS 39)	As at 30 June 2004 As restated
	HK$'000	*HK$'000*	*HK$'000*
Assets			
Cash and short-term funds	6,102,919	–	6,102,919
Placements with banks and other financial institutions maturing after one month	174,239	–	174,239
Trade bills less provisions	185,671	–	185,671
Certificates of deposit held	1,787,584	–	1,787,584
Other investments in securities	4,352,912	(14,843)	4,338,069
Advances to customers and other accounts	40,855,895	–	40,855,895
Held-to-maturity securities	22,544,755	–	22,544,755
Investment securities	39,979	–	39,979
Interest in associates	1,259,271	21,221	1,280,492
Goodwill	1,047,419	–	1,047,419
Deferred tax assets	80,931	–	80,931
Tangible fixed assets	1,333,609	–	1,333,609
Total assets	79,765,184	6,378	79,771,562
Equity and Liabilities			
Deposits and balances of banks and other financial institutions	3,748,533	–	3,748,533
Deposits from customers	56,758,356	–	56,758,356
Certificates of deposit issued	4,507,819	–	4,507,819
Convertible bonds issued	1,403,936	–	1,403,936
Current taxation	81,990	–	81,990
Deferred tax liabilities	15	–	15
Other accounts and provisions	931,662	(1,850)	929,812
Total liabilities	67,432,311	(1,850)	67,430,461
Share capital	3,193,278	–	3,193,278
Reserves	4,849,791	8,228	4,858,019
Total equity attributable to equity holders of the parent	8,043,069	8,228	8,051,297
Loan capital	4,289,804	–	4,289,804
Total	12,332,873	8,228	12,341,101
Total equity and liabilities	79,765,184	6,378	79,771,562

Appendix 3
Consolidated Income Statement for the year ended 31 December 2004
Reconciliation of HKGAAP and HKFRS

	For the year ended 31 December 2004 As reported	Effect of changes in accounting policies (except HKAS 39)	For the year ended 31 December 2004 As restated
	HK$'000	*HK$'000*	*HK$'000*
Interest income	2,241,410	–	2,241,410
Interest expense	(767,953)	–	(767,953)
Net interest income	1,473,457	–	1,473,457
Fees and commission income	461,307	–	461,307
Fees and commission expenses	(26,880)	–	(26,880)
Other operating income	248,551	(1,409)	247,142
Non-interest income	682,978	(1,409)	681,569
Operating income	2,156,435	(1,409)	2,155,026
Operating expenses	(1,117,485)	–	(1,117,485)
Operating profit before provisions	1,038,950	(1,409)	1,037,541
Charge for bad and doubtful debts	(78,065)	–	(78,065)
Operating profit	960,885	(1,409)	959,476
Net profit on disposal of tangible fixed assets	11,862	–	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 profits less losses of associates	75,978	4,287	80,265
Profit before taxation	1,056,460	2,878	1,059,338
Income tax	(155,491)	(292)	(155,783)
Profit after taxation	900,969	2,586	903,555
Attributable to:			
Equity holders of the parent	901,339	2,586	903,925
Minority interests	(370)	–	(370)
	900,969	2,586	903,555

Appendix 4
Consolidated Income Statement for the period ended 30 June 2004
Reconciliation of HKGAAP and HKFRS

	For the period ended 30 June 2004 As reported	Effect of changes in accounting policies (except HKAS 39)	For the period ended 30 June 2004 As restated
	HK$'000	*HK$'000*	*HK$'000*
Interest income	1,102,019	–	1,102,019
Interest expense	(322,271)	–	(322,271)
Net interest income	779,748	–	779,748
Fees and commission income	216,860	–	216,860
Fees and commission expenses	(16,213)	–	(16,213)
Other operating income	36,143	–	36,143
Non-interest income	236,790	–	236,790
Operating income	1,016,538	–	1,016,538
Operating expenses	(495,917)	–	(495,917)
Operating profit before provisions	520,621	–	520,621
Charge for bad and doubtful debts	(38,075)	–	(38,075)
Operating profit	482,546	–	482,546
Net profit on disposal of tangible fixed assets	8,895	–	8,895
Provision written back on held-to-maturity securities	80	–	80
Share of profits less losses of associates	22,374	1,980	24,354
Profit before taxation	513,895	1,980	515,875
Income tax	(91,127)	(356)	(91,483)
Profit after taxation	422,768	1,624	424,392
Attributable to:			
Equity holders of the parent	423,138	1,624	424,762
Minority interests	(370)	–	(370)
	422,768	1,624	424,392

INTERIM DIVIDEND

The Board are pleased to declare an interim dividend of HK$0.113 (2004: HK$0.066) per share. The interim dividend will be paid on Thursday, 15 September 2005 to all shareholders whose names are on the Register of Members of the Company on Friday, 9 September 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 6 September 2005 to Friday, 9 September 2005, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong by 4:00 p.m. on Monday, 5 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

1.0 Review of Operations

Hong Kong's economy continued to see satisfactory performance in the first half of 2005. Led by the booming property market and the steady improvement in employment, domestic consumption remained buoyant, and domestic lending also began to show signs of recovery. Nevertheless, local banks were confronted with the double challenge of soaring funding costs and severe net interest margin pressures, as the Hong Kong Interbank Offer Rate ("HIBOR") surged on the one hand and sparked a migration of funds to time deposits which commanded correspondingly higher rates, yet the rise in prime lending rate on the other hand failed to keep pace with the rise in HIBOR. Margin pressures only started to ease after mid-May when HIBOR stabilised and the prime lending rate started to move up progressively, following the refinements that the Hong Kong Monetary Authority introduced to the operation of the Hong Kong dollar linked exchange rate system. Yet the Hong Kong financial industry continued to be tested by intense competition and rising operating costs.

CITIC International Financial Holdings Limited (the "Group") has adopted the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("the new accounting standards") which came into effect on 1 January 2005. The required change in accounting policies has been described in detail in note 5. The resulting changes in accounting treatment and presentation of various profit and loss and balance sheet items may render certain comparative figures not strictly comparable.

2.0 Business Performance

2.1 Profit

The Group's operating profit before impairment allowances for the six months ended June 2005 was HK$474 million, representing a fall of 9.0% compared to the same period last year. The fall in profit was mainly attributed to a 27.6% decline in net interest income as a result of the substantial rise in HIBOR and intense competitive pressures on loan margins. On a brighter note, however, the Group delivered an outstanding non-interest income performance for the period with a growth of over 70% over last year, while prudent cost control measures also helped contain operating costs at basically the same level as last year. These have combined to help alleviate the impact of the sharp decline in net interest income. Meanwhile, an improvement in asset quality and a reversal in collective assessment allowances resulted in a release of impairment allowances of HK$92 million. This led to a 17.3% increase in operating profit to HK$566 million as compared to the same period last year. During the period, the disposal of tangible fixed assets realised a net profit of HK$251 million, which included the HK$227 million gain from the sale of Ka Wah Bank Centre. The Group's share of profits from associates amounted to HK$18 million, as market-driven volatility in the performance of CITIC Capital Active Partner Fund Limited was offset by contributions from CITIC Capital Markets Holdings Limited ("CCMH"). After taking into account other items, the Group's profit attributable to shareholders rose a significant 70.3% to HK$723 million for the first half of 2005 as compared to the same period last year.

2.2 Net Interest Income

The surge of HIBOR and the corollary climb in time deposit interest rates led to a migration of funds from savings and demand deposits to time deposits. As at 30 June 2005, the Group's overall interest expenses grew substantially by 124.8% year-on-year. Meanwhile, net interest margin came under severe pressure with the sustained narrowing of the Prime-HIBOR gap, and was further exacerbated by intense competition amongst banks. Net interest income and net interest margin were also adversely impacted by certain changes in accounting treatment, for instance, interest income from the funding swap and trading portfolio is to be treated as non-interest income; dealer commission expenses incurred in the hire purchase business are to be offset against interest income, and incremental interest expense is incurred from the treatment of effective interest rate of convertible bonds.

As a result, the Group's net interest income for the first half of 2005 dropped by 27.6% to HK$565 million. Under the new accounting standards, the Group's net interest margin for the first half of 2004 was adjusted from 2.19% to 2.07%, and stood at 1.60% for the first half of 2005.

2.3 Non-Interest Income

For the first half of 2005, the Group's non-interest income grew substantially by 72.6% year-on-year to HK$409 million. The growth was derived mainly from the treasury and retail banking businesses of CITIC Ka Wah Bank Limited ("CKWB") as well as from CITIC International Assets Management Limited ("CIAM"). The proportion of non-interest income to operating income rose significantly to 42.0%, up from 23.3% in the first half of 2004.

2.4 Operating Expenses

The Group's prudent cost control measures, coupled with the exclusion of goodwill amortisation under the new accounting standards, led to a slight increase of 0.8% only in operating expenses to HK$500 million for the first half of 2005. Goodwill amortisation amounting to HK$30 million in the first half of 2005 was saved. However, the Group's operating income was affected by a rise in HIBOR and pressure on loan margins. As a result, the cost to income ratio rose to 51.4% from 48.8% during the same period last year.

2.5 Impairment Allowances

The Group lent conservatively and strived to continually improve its asset quality. With the rebound in both the Hong Kong economy and property market and the benefit of a reversal in collective assessment allowances, the Group recorded a HK$92 million release in impairment allowances for the first half of 2005, as compared to a charge of HK$38 million for the first half of 2004. The addition in provision for individually assessed loans was HK$9.7 million while the net release in provision for collectively assessed loans was HK$52 million.

2.6 Interim Dividend

The Board of Directors proposed an interim dividend of HK$0.113 per share, representing a pay-out ratio of 50.0%. The interim dividend for the first half of 2004 was HK$0.066 per share.

3.0 Asset Quality

3.1 Asset, Loan, and Deposit Sizes

As at 30 June 2005, the Group's total assets were HK$87.5 billion, representing a 4.7% increase from 2004 year-end. Total loans rose 1.6% from the end of 2004 to HK$43.6 billion, driven mainly by a rise in residential mortgage, property investment and trade finance related lending. Total deposits grew by 1.9% from 2004 year-end to HK$63.6 billion.

3.2 Asset Quality Indicators

During the period, the Group has improved several asset quality indicators. As at 30 June 2005, classified exposure fell to 4.0% from 5.4% at the end of 2004. Under the new accounting standards, the Group's impaired loan ratio as at 30 June 2005 improved to 4.0% from 5.4% as at 1 January 2005. Coverage as calculated on the basis of the new accounting standards expanded from 89.6% as at 1 January 2005 to 96.6%. The loan loss coverage ratio improved from 21.3% as at 1 January 2005 to 24.2%.

3.3 Financial Position

As at 30 June 2005, the Group's unadjusted capital adequacy ratio was 16.4%. The loans to deposits ratio was 68.6%, and the loans to total assets ratio was 49.9%.

CITIC International Financial Holdings' Asset Quality Indicators

	30 Jun 2005	**1 Jan 2005**	31 Dec 2004
Unadjusted capital adequacy	16.4%	16.2%	15.9%
Loans to deposits	68.6%	68.8%	68.8%
Loans to total assets	49.9%	50.7%	51.4%
Classified exposure	4.0%	5.4%	5.4%
Impaired loans *	4.0%	5.4%	–
Coverage *	96.6%	89.6%	–
Loan loss coverage *	24.2%	21.3%	–
Collective assessment coverage *	0.68%	0.84%	–

* *Calculated on the basis of the new accounting standards*

4.0 Core Business Development

4.1 Commercial Banking Business – CITIC Ka Wah Bank Limited

4.11 Operating Environment

The operating environment of Hong Kong's banking sector during the first half of 2005 was characterised by rising costs, narrowing interest margins and intense competition. However, CKWB successfully leveraged opportunities from the sustained economic revival by growing its wealth management business, in particular in the area of bancassurance, and managed to achieve a substantial increase in non-interest income. Another achievement came from CKWB's wholly-owned subsidiary, China International Finance Company Limited (Shenzhen) ("CIFC"), which successfully obtained a Renminbi licence in June and thus helped CKWB embark on a new chapter in the development of its China business.

4.12 Business Performance

4.121 Earnings

CKWB reported operating profit before impairment allowances of HK$448 million for the six months ended June 2005. This represents a fall of 20.1% compared to same period last year, attributed mainly to a 25.9% decline in net interest income as a result of the substantial rise in HIBOR and intense competitive pressures on loan margins. However, this was partially offset by the sustained outstanding performance in its non-interest income by 54.7% during the period. Additionally, improvements in its asset quality and a reversal in collective assessment allowances led to a HK$97 million release in impairment allowances. As a result, CKWB reported a 7.4% increase in operating profit to HK$545 million as compared to the same period last year. During the period, the disposal of tangible fixed assets realised a net profit of HK$244 million, which included the HK$227 million gain from the sale of Ka Wah Bank Centre. Nevertheless, as the performance of CITIC Capital Active Partner Fund Limited was adversely impacted by market volatility during the period, CKWB registered a HK$10 million share of loss from this associate. After taking into account other items, CKWB's profit attributable to shareholders for the first half of 2005 rose 62.7% to HK$684 million compared to the same period last year.

4.122 Net Interest Income

The surge of HIBOR and the corollary climb in time deposit interest rates led to a migration of funds from savings and demand deposits to time deposits. As at 30 June 2005, CKWB's overall interest expenses rose substantially by 116.5% year-on-year. Meanwhile, net interest margin came under severe pressure with the sustained narrowing of the Prime-HIBOR gap, and was further exacerbated by intense competition amongst banks. Net interest income and net interest margin were also adversely impacted by certain changes in accounting treatment, for instance, interest income from funding swap and trading portfolio is to be treated as non-interest income, while dealer commission expenses incurred in the hire purchase business are to be offset against interest income.

CKWB's net interest income for the first half of 2005 dropped by 25.9% to HK$571 million. Under the new accounting standards, CKWB's net interest margin for the first half of 2004 has been adjusted from 2.18% to 2.06%, and stood at 1.63% for the first half of 2005.

4.123 Non-Interest Income

For the first half of 2005, CKWB recorded a strong 54.7% growth in its non-interest income to HK$355 million compared to the same period last year; this lifted the share of its non-interest income in its operating profit to 38.4% for the first half of 2005 from 23.0% for the corresponding period last year. The main contributor of this performance came from its Retail Banking Group which registered a 26.9% increase in non-interest income to HK$156 million – including a sharp rise of 83.8% in insurance-related non-interest income. The other key contributor was its Treasury business, whose non-interest income soared 19 times to HK$116 million as a result of satisfactory returns from its fund investment activities launched since the latter half of 2004.

4.124 Operating Expenses

CKWB's operating expenses rose by 8.9% year-on-year for the first half of 2005 due to three key factors. The first stemmed from the fact that CKWB only re-entered the personal lending market in the second quarter of 2004 and as such, advertising expenses were comparatively higher in the first half of 2005. The second stemmed from the increase in rental expenses arising from the sale and leaseback agreement of Ka Wah Bank Centre after its disposal as part of the bank's office premise rationalisation plan. The third was due to an acceleration in depreciation charge resulting from a change in accounting estimates since 2004 on computer software and equipment. As a result, the cost to income ratio rose to 51.6% from 43.9% in the same period last year.

4.125 Impairment Allowances

CKWB lent conservatively and strived to continually improve its asset quality. With the rebound in both the Hong Kong economy and property market and the benefit of a reversal in collective assessment allowances, the Group recorded a HK$97 million release in impairment allowances for the first half of 2005, as compared to a charge of HK$54 million for the first half of 2004. The addition in provision for individually assessed loans was HK$3.9 million while the net release in provision for collectively assessed loans was HK$52 million.

4.13 Asset Quality

4.131 Asset, Loan, And Deposit Sizes

Total assets of CKWB were HK$84.2 billion as at 30 June 2005, representing a 4.9% increase over the previous year-end. Total loans rose 1.8% to HK$43.0 billion on the back of increases in residential mortgage, property investment and trade finance related lending. Despite a slight 0.1% decline in customer deposits to HK$55.6 billion, total deposits stood at HK$63.9 billion, or a 2.1% increase from the previous year-end.

4.132 Asset Quality Indicators

As at 30 June 2005, CKWB reported improvements in several asset quality indicators. Classified exposure fell to 3.1% from 4.3% at the end of 2004. Under the new accounting standards, CKWB's impaired loan ratio improved to 3.1% from 4.3% as at 1 January 2005. The coverage as calculated under the new accounting standards expanded from 86.8% as at 1 January 2005 to 95.3%. Its mortgage delinquency ratio at 0.12% was not just lower than the 0.34% as at 2004 year-end, but also better than the industry average of 0.22% as released by the Hong Kong Monetary Authority. Its credit card charge-off ratio fell further from 3.03% as at the end of 2004 to 2.19%, as compared to the industry average of 3.19% as released by the Hong Kong Monetary Authority.

In July, Fitch Ratings upgraded CKWB's long-term rating from 'BBB' to 'BBB+'. According to the credit rating agency, the upgrade reflected CKWB's improved financials, the continued enhancement of its risk management procedures and systems, as well as its innovative management.

4.133 Financial Position

As at 30 June 2005, CKWB's unadjusted capital adequacy ratio was 16.9%. The average liquidity ratio was 54.3%. The loans to deposits ratio was 67.4%. The loans to total assets ratio was 51.1%.

CITIC Ka Wah Bank's Asset Quality Indicators

	30 Jun 2005	**1 Jan 2005**	31 Dec 2004
Unadjusted capital adequacy	16.9%	16.8%	16.5%
Average liquidity	54.3%	47.9%	47.9%
Loans to deposits	67.4%	67.6%	67.6%
Loans to total assets	51.1%	52.0%	52.7%
Classified exposure	3.1%	4.3%	4.3%
Impaired loans *	3.1%	4.3%	–
Coverage *	95.3%	86.8%	–
Loan loss coverage *	20.6%	19.2%	–
Collective assessment coverage *	0.69%	0.85%	–
Mainland loans to total loans	13.3%	13.6%	13.6%

* *Calculated on the basis of the new accounting standards*

4.14 Business Development

CKWB continued to broaden the range of its products and services in 2005. To meet the changing needs of its retail and corporate clientele, CKWB launched a series of high-yield deposit products. These included several retail certificates of deposits, as well as a "three-month USD yield enhancement deposit" jointly introduced by the Wholesale Banking Group and the Treasury and Markets Department in March.

New Products And Services Launched In The First Half Of 2005

Month	**New Products And Services**
January	• Five-year HKD callable certificates of deposit • Three-year USD callable step-up certificates of deposit • Credit card "Enjoy Buy-One-Get-One-Free Offer With Your Sales Draft" spending programme • Credit card online bill payment double reward programme • Credit card acquisition campaign
February	• Credit card travel insurance plan • Dollar$mart personal intalment loan express approval
March	• Three-month USD yield enhancement deposit • NOW Account "Monthly Step-up Bonus Interest Rate Offer" • Credit card "HKD500,000 Jackpot Sharing Programme" • Credit card "Easy Cash-In" programme • Earn double bonus points by settling second tax payment with credit card • Credit card balance transfer programme
April	• Two-year HKD callable step-up certificates of deposit • Dollar$mart revolving cash card programme
May	• Three-year HKD callable step-up certificates of deposit • Three-year USD callable step-up certificates of deposit • "Guaranteed Retirement Income Plan" • "Business Instalment Loan And Overdraft" services • Credit card spending programme – up to 10 times cash rebate • Credit card personal line of credit
June	• Gold margin trading • Dual option i-banking two-factor authentification • RMB credit card and ATM card • Credit card online bill payment reward programme • Credit card acquisition campaign • Dollar$mart interest-free personal instalment loan programme

Following an overwhelming response towards its inaugural retail certificates of deposits in 2004, CKWB launched further programmes of HKD and USD certificates of deposits in the first half of 2005. These were met with strong customer subscriptions, drawing in total funding of HK$1,140 million.

CKWB's credit card business also launched several card acquisition and card spending campaigns which met with resounding successes. As at 30 June 2005, total new sales increased sharply by 80.0% year-on-year to HK$1,170 million and account receivables by 27.8% year-on-year to HK$528 million. These compared favourably with the industry's average growth rate for new sales and account receivables at 18.3% and 4.9% respectively, according to the data released by VISA International. In March, CITIC Ka Wah Credit Card was awarded the "Outstanding Retail Sales Volume – Gold Prize" by VISA International, in recognition of its outstanding achievements in retail sales between October 2003 and September 2004.

Building on its earlier success in bancassurance, CKWB further strengthened its business in this area by entering into a strategic alliance with Manulife (International) Limited this year. Indeed, the first insurance solution launched under this new alliance, the Guaranteed Retirement Income Plan, made a remarkable impact and generated HK$10 million in fee income in less than two months' time. Separately in May, CKWB launched its wholly-owned subsidiary, CITIC Insurance Brokers Limited ("CIBL"), to provide insurance brokerage service to package tailor-made insurance solutions for its corporate clientele.

4.15 China Banking

CKWB has also made several breakthrough developments in its China business in 2005. On 21 June 2005, CIFC received approval from the China Banking Regulatory Commission to offer Renminbi services. As a result, CKWB became the first Hong Kong bank whose subsidiary has obtained a Renminbi licence in the Mainland under the preferential measures prescribed in the Closer Economic Partnership Agreement ("CEPA"). Leveraging on the platform of CIFC, CKWB will now be able to offer Renminbi services in 18 designated Mainland cities to its corporate clients as well as to individual clients who are non-Mainland citizens. In July 2005, CIFC was granted a property insurance agency licence by the China Insurance Regulatory Commission which allows it to partner with Ming An Insurance to offer foreign currency and Renminbi property insurance products.

In August 2005, CKWB received regulatory approval from Macau to set up a local branch. Once the necessary business registration procedures are completed, the branch will begin operations within this year to serve as an important platform for CKWB's business development in the Pan Pearl River Delta region.

Meanwhile, CKWB will be applying to upgrade its Beijing representative office to branch status within 2005 with a view to further expand its foothold on the Mainland.

4.2 *Asset Management Business – CITIC International Assets Management Limited*

4.21 Business Performance

CIAM continues its diligence in managing its asset portfolio in 2005. For the first half of 2005, it recorded an operating income of over HK$62 million. This represents a 13 times increase over the previous year's performance of HK$4 million. During the period, CIAM's operating profit before impairment allowances and tax rose 15 times over the same period last year to over HK$51 million. After accounting for over HK$7 million worth of net loan and asset impairment and over HK$8 million in anticipated taxation expenses for the first half of 2005, CIAM reported 2005 first-half net profit of over HK$35 million, close to 200% increase compared to last year's first-half performance of HK$14 million.

4.22 Problem Loans/Assets

For the first half of 2005, CIAM realised a gain of over HK$39 million from the disposal of problem loan assets. It also resolved over HK$88 million worth of problem loans during the period, which included the recovery of over HK$8 million worth of loans and the sale of over HK$80 million worth of collateral. These have combined to help reduce the book value of its aggregate problem loans to HK$428 million, representing a 14.9% decline as compared to 2004 year-end. Further improvement is expected in the latter half of 2005 in its effort to reduce problem loans.

4.23 Direct Investment/Structured Loans

During the first half of 2005, CIAM has placed more focus on strengthening and monitoring its investments, and has thus slowed down the pace of its new investments and lending activities. Although the structure and scale of its related portfolio have, as a result, remained similar to that at 2004 year-end, it was still able to generate over HK$10 million in total revenue in the first half of 2005. It is expected that as some projects start to mature in the latter half of 2005, these are likely to generate larger profits or value-added contributions.

4.24 Cooperation With Other Investment Institutions

CIAM's co-investment project, Shenzhen Guocheng Century Venture Capital Company Limited, was fully funded in the first half of 2005 and began to increase its investment in quality projects as planned. Separately, CIAM's negotiations with overseas partners to expand the scope of collaboration are on-going and are expected to achieve meaningful progress within this year.

4.3 *Investment Banking Business – CITIC Capital Markets Holdings Limited*

4.31 Business Performance

The first half of 2005 was fraught with challenges for CCMH. Demand from mainland Chinese clients to pursue Hong Kong listings has slowed down as a result of the promulgation in January of Circular 11 by China's State Administration of Foreign Exchange which sought to tighten control on cross-border capital movement by Chinese companies or individuals establishing investments outside of Mainland China. That, coupled with the successive rate hikes in Hong Kong, has dampened the market considerably. Apart from a few mega-sized initial public offerings, it was not until June that the market started to see a revival of activities. Notwithstanding such a difficult environment, CCMH managed to achieve a consolidated profit after tax of HK$44 million.

4.32 Investment Banking

On the corporate finance front, CCMH advised a major mainland Chinese automobile company on its corporate restructuring as well as its joint venture with another major domestic auto producer. It has also co-managed the Hong Kong tranche of China Shenhua Energy Company Limited's global initial public offering. Meanwhile, CCMH continued to provide advisory service to the investment consortium on their participation in Harbin Pharmaceutical Group Holding Co., Ltd. On the debt capital markets front, it has completed a RMB450 million syndication financing for Nanjing International Plaza. Arrangements for a number of other loan syndication deals are currently underway.

4.33 Asset Management

CCMH's assets under management reached over US$500 million as at the end of June 2005, with growth registered in both its pubic market and private equity funds during the period.

In addition to broadening the investor base of its Public Market Funds division, it has also enhanced its product offerings with the launch of CITIC Capital Greater China Discovery Fund and CITIC Capital China Century Fund, as well as with the launch of the US parallel funds of its two flagship funds, CITIC Capital Global Macro Fund and CITIC Capital China Plus Fund. CITIC Capital Global Macro Fund was nominated the "Best Asia Macro Fund in the Asian Masters of Hedge Awards" in May this year, presented by Eurekahedge and hedge.fundsworld. CITIC Capital Global Macro Fund delivered an annualised return of 15.6% as at the end of June 2005, while CITIC Capital China Plus Fund delivered a 25.9% annualised return for the same period, both comparing favourably with industry benchmark index performances.

4.34 Private Equity Investments

CCMH made a number of private equity investments during the past six months through funds affiliated and managed by it. Investments by CITIC Equity Partners, L.P. included one in a leading global manufacturer of lubrication systems and equipment and another in a leading designer and manufacturer of branded jewellery, lighters and accessories as well as clocks. Separately, its recently established CITIC Capital China Property Investment Fund purchased a major office and serviced apartment building in central Shanghai.

4.35 Securities Brokerage

In line with its business development objectives, CCMH made continuous efforts during the period to boost its capabilities to serve corporate and institutional clients as well as to grow its high net worth client base. Concurrently, its high quality research products are gaining increased recognition from the international institutional investors community, thus enabling it to steadily expand its institutional investor client base.

5.0 Future Development

The outlook for the second half of 2005 remains promising, supported by a still-robust Chinese economy and a continuing export and domestic consumption-led economic growth in Hong Kong. As the financial flagship of the CITIC Group outside Mainland China, the Group will continue to look for new horizons to expand its business, explore new business opportunities, broaden its revenue streams and further strengthen its synergistic collaboration with CITIC Group's other financial institutions. Meanwhile, the Group is committed to developing its business on the Mainland, especially in the Pan Pearl River Delta and the Yangtze River Delta regions so as to fully capitalise on the tremendous business opportunities arising from China's accession to the World Trade Organisation and the further implementation of CEPA.

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

The Company has not redeemed any of its listed securities during the six months ended 30 June 2005. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the six months ended 30 June 2005.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. Throughout the six months ended 30 June 2005, the Company has complied with the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the followings:–

With respect to Code A.4.1, non-executive Directors of the Company are not appointed for a specific term, but same as all other Directors of the Company, are subject to retirement and re-election at each annual general meeting in accordance with article 98 of the Articles of Association of the Company.

With respect to Code B.1.1, the Company is in the process of setting up a nomination and remuneration committee and is considering the composition and terms of reference of the committee in compliance with this code provision.

With respect to Code E.1.2, the Chairman had originally scheduled to attend the annual general meeting of the Company held on 19 May 2005; however, due to the occurrence of certain event which he must attend in the meantime, he had no alternative but to reschedule his itinerary. The Directors presented at the meeting had elected Mr. Dou Jianzhong, the Chief Executive Officer of the Company, to chair the meeting in accordance with article 67 of the Articles of Association of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Company (the "Code"). Having made specific enquiry of the Directors of the Company, all Directors of the Company had complied with the required standards as set out in the Code.

REVIEW BY THE AUDIT COMMITTEE

The financial statements of the Company for the six months period ended 30 June 2005 have been reviewed by the Company's Audit Committee, which comprises three Independent Non-executive Directors and one Non-executive Director of the Company.

By Order of the Board
CITIC International Financial Holdings Limited
Dou Jianzhong
Chief Executive Officer

Hong Kong, 16 August 2005

*As at the date of this announcement, the Board of Directors of the Company comprises Mr. Kong Dan (Chairman), Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Chang Zhenming, Mr. Chen Xiaoxian, Mr. Rafael Gil-Tienda**, Mr. Ju Weimin, Mr. Kong Siu Chee Kenneth, Mr. Lam Kwong Siu**, Mr. Liu Jifu, Mr. Lo Wing Yat Kelvin, Mr. Tsang Yiu Keung Paul**, Mr. Wang Dongming, Mr. Yang Chao and Mr. Zhao Shengbiao. (** Independent Non-executive Directors)*

"Please also refer to the published version of this announcement in South China Morning Post."