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 2006 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 2006 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

	Six months ended 30 June		
	2006 Unaudited	2005 Unaudited *(restated)*	Variance
	HK$'000	HK$'000	%
Interest income	**1,974,240**	1,289,369	53.12
Interest expense	**(1,476,382)**	(724,570)	103.76
Net interest income	**497,858**	564,799	(11.85)
Fee and commission income	**255,582**	200,157	27.69
Fee and commission expense	**(6,916)**	(5,920)	16.82
Net fee and commission income	**248,666**	194,237	28.02
Net trading income	**195,048**	109,896	77.48
Net income from financial instruments designated at fair value through profit or loss	**27,729**	53,047	(47.73)
Net hedging income	**1,465**	91	1,509.89
Other operating income	**17,707**	51,452	(65.59)
Operating income	**988,473**	973,522	1.54
Operating expenses	**(530,812)**	(499,921)	6.18
	457,661	473,601	(3.37)
Impairment losses written back on loans and advances	**6,335**	92,295	(93.14)
Impairment losses written back on held-to-maturity investments	**146**	2,254	(93.52)
Impairment losses on available-for-sale securities	**(4,849)**	(2,817)	72.13
Impairment losses written back on properties	**–**	1,517	N/A
Impairment losses written back	**1,632**	93,249	(98.25)
Net profit on disposal of available-for-sale securities	**18,870**	–	N/A
Operating profit	**478,163**	566,850	(15.65)
Loss on disposal of associates	**–**	(6,155)	N/A
Net profit on disposal of property and equipment	**59,042**	251,069	(76.48)
Revaluation gain on investment properties	**6,867**	–	N/A
Share of profits less losses of associates	**46,087**	12,304	274.57
Profit before taxation	**590,159**	824,068	(28.38)
Income tax	**(98,721)**	(100,892)	(2.15)
Profit after taxation	**491,438**	723,176	(32.04)
Attributable to:			
Equity shareholders of the Company	**491,621**	723,176	
Minority interests	**(183)**	–	
Profit after taxation	**491,438**	723,176	
Dividends payable to equity shareholders of the Company attributable for the period:			
Interim dividend declared HK$0.077 (2005: HK$0.113) per share	**246,516**	361,358	
Earnings per share			
Basic	**15.37¢**	22.62¢	
Diluted	**14.47¢**	21.05¢	

(B) CONSOLIDATED BALANCE SHEET

	As at 30 June 2006 *Unaudited*	As at 31 December 2005 *Audited*	Variance
	HK$'000	HK$'000	%
Assets			
Cash and balances with banks and other financial institutions	**890,256**	1,161,309	(23.34)
Placements with banks and other financial institutions	**10,481,273**	5,265,044	99.07
Trade bills	**372,181**	406,364	(8.41)
Trading assets	**6,656,459**	6,473,029	2.83
Securities designated at fair value through profit or loss	**825,538**	1,139,908	(27.58)
Advances to customers and other accounts	**47,867,573**	44,108,183	8.52
Available-for-sale securities	**5,977,276**	5,945,960	0.53
Held-to-maturity investments	**13,237,149**	17,194,283	(23.01)
Interest in associates	**1,322,877**	1,291,180	2.45
Property and equipment			
– Investment property	**168,725**	64,994	159.60
– Other property and equipment	**865,324**	936,474	(7.60)
Goodwill	**1,007,749**	1,007,749	–
Deferred tax assets	**28,422**	42,201	(32.65)
Total assets	**89,700,802**	85,036,678	5.48
Equity and liabilities			
Deposits and balances of banks and other financial institutions	**4,258,309**	4,157,446	2.43
Deposits from customers	**60,158,563**	54,415,279	10.55
Trading liabilities	**516,778**	661,137	(21.83)
Certificates of deposit issued	**6,263,059**	7,467,961	(16.13)
Debt securities issued	**2,241,122**	2,245,435	(0.19)
Convertible bonds issued	**1,309,089**	1,289,817	1.49
Current taxation	**96,684**	50,478	91.54
Deferred tax liabilities	**46,716**	45,466	2.75
Other liabilities	**767,870**	895,455	(14.25)
Loan capital	**4,275,599**	4,352,351	(1.76)
Total liabilities	**79,933,789**	75,580,825	5.76
Equity			
Share capital	**3,201,423**	3,197,859	0.11
Reserves	**6,565,237**	6,257,458	4.92
Total equity attributable to equity shareholders of the Company	**9,766,660**	9,455,317	3.29
Minority interests	**353**	536	(34.14)
Total equity	**9,767,013**	9,455,853	3.29
Total equity and liabilities	**89,700,802**	85,036,678	5.48

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June			
	2006 Unaudited		2005 Unaudited	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Total equity at 1 January:				
– attributable to equity shareholders of the Company		**9,455,317**		8,965,090
– minority interests		**536**		–
		9,455,853		8,965,090
Net income recognized directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches, subsidiaries and associates	**2,222**		(1,083)	
– related borrowings	**209**		–	
– on disposal of an associate	**–**		627	
		2,431		(456)
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	**–**		11,869	
– transfer to deferred tax	**–**		(2,077)	
		–		9,792
Changes in fair value				
– of available-for-sale securities	**(6,982)**		(29,599)	
– transfer to deferred tax	**1,222**		5,186	
		(5,760)		(24,413)
Net profit for the period		**491,438**		723,176
Total recognized income and expense for the period		**488,109**		717,823
Attributable to:				
– equity shareholders of the Company	**488,292**		717,823	
– minority interests	**(183)**		–	
	488,109		717,823	
Dividends paid during the period		**(192,074)**		(239,839)
Movements in equity arising from capital transactions:				
Shares issued under share option scheme	**3,564**		3,706	
Net share premium received	**12,822**		4,264	
Equity settled share-based transactions, net of tax	**(1,261)**		2,470	
		15,125		10,440
Total equity at 30 June		**9,767,013**		9,453,514

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 2005 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 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 9 March 2006.

(3) The interim results announcement has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements.

(4) 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.

(5) The calculation of basic earnings per share for the six months ended 30 June 2006 is based on profit attributable to equity holders of the Company of HK$491,621,000 (six months ended 30 June 2005: HK$723,176,000) and the weighted average number of ordinary shares of 3,199,247,550 (2005: 3,196,526,236).

(6) The calculation of diluted earnings per share for the six months ended 30 June 2006 is based on adjusted profit attributable to equity holders of the Company of HK$510,659,000 (six months ended 30 June 2005: HK$741,867,000) and the weighted average number of ordinary shares of 3,528,158,751 (2005: 3,523,868,310), after adjusting for the effects of all dilutive potential ordinary shares.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Summary of financial position

	As at 30 June 2006	As at 31 December 2005	Variance
	HK$'000	HK$'000	%
Advances to customers and trade bills	**46,842,096**	43,368,061	8.01
Impairment allowances	**493,161**	568,565	(13.26)
Total assets	**89,700,802**	85,036,678	5.48
Total deposits	**66,421,622**	61,883,240	7.33
Total equity attributable to equity shareholders of the Company	**9,766,660**	9,455,317	3.29
Financial ratios			
Unadjusted capital adequacy ratio*	**14.99%**	16.01%	
Loans to deposits	**70.52%**	70.08%	
Loans to total assets	**52.22%**	51.00%	
Cost to income	**53.70%**	55.55%	
Return on assets	**1.07%**	1.31%	
Return on average total equity attributable to equity shareholders of the Company	**9.69%**	12.41%	

* *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

	As at 30 June 2006	As at 31 December 2005	Variance
	HK$'000	HK$'000	%
Gross advances to customers	**46,469,915**	42,961,697	8.17
Less: Impairment allowances			
– Individually assessed	**(244,309)**	(274,021)	(10.84)
– Collectively assessed	**(248,852)**	(294,544)	(15.51)
	45,976,754	42,393,132	
Advances to banks and other financial institutions	**389,228**	327,521	18.84
Accrued interest and other accounts less impairment allowances	**1,501,591**	1,387,530	8.22
	47,867,573	44,108,183	8.52

(3) Reserves

	As at 30 June 2006	As at 31 December 2005	Variance
	HK$'000	HK$'000	%
Share premium	**1,853,034**	1,840,212	0.70
Other property revaluation reserve	**6,550**	6,550	–
Capital reserve	**2,818**	2,818	–
Fair value reserve	**316,707**	322,467	(1.79)
General reserve	**100,000**	100,000	–
Exchange differences reserve	**5,906**	3,684	60.31
Convertible bond-equity component	**132,907**	132,698	0.16
Share option reserve	**15,343**	16,604	(7.59)
Retained profits*	**4,131,972**	3,832,425	7.82
Total	**6,565,237**	6,257,458	4.92
Proposed dividends, not provided for	**246,516**	361,358	(31.78)

* *The Group complies with the HKMA's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 30 June 2006, an amount of HK$322,300,000 (2005: HK$233,800,000) was included in the retained profits in this respect which was distributable to equity shareholders of the Company subject to consultation with the Hong Kong Monetary Authority.*

(4) Advances to customers analyzed by industry sectors

	As at 30 June 2006		As at 31 December 2005		Variance
	HK$'000	**% on total advances to customers**	HK$'000	% on total advances to customers	%
Loans for use in Hong Kong					
Industrial, commercial and financial					
– Property development	**294,287**	**0.63**	410,595	0.96	(28.33)
– Property investment	**5,147,480**	**11.08**	5,033,111	11.72	2.27
– Financial concerns	**3,073,600**	**6.61**	2,355,699	5.48	30.48
– Stockbrokers	**130,782**	**0.28**	45,606	0.11	186.76
– Wholesale and retail trade	**2,127,591**	**4.58**	2,015,783	4.69	5.55
– Manufacturing	**2,752,262**	**5.92**	2,813,124	6.55	(2.16)
– Transport and transport equipment	**4,360,892**	**9.39**	4,280,529	9.96	1.88
– Others	**2,508,820**	**5.40**	3,093,252	7.20	(18.89)
Individuals					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	**17,513**	**0.04**	18,409	0.04	(4.87)
– Loans for the purchase of other residential properties	**11,565,542**	**24.89**	11,416,704	26.57	1.30
– Credit card advances	**491,657**	**1.06**	586,781	1.37	(16.21)
– Others	**1,428,558**	**3.07**	1,308,935	3.05	9.14
Trade finance	**3,383,416**	**7.28**	2,789,104	6.49	21.31
Loans for use outside Hong Kong	**9,187,515**	**19.77**	6,794,065	15.81	35.23
	46,469,915	**100.00**	42,961,697	100.00	8.17

(5) Impaired loans and advances to customers

	As at 30 June 2006	As at 31 December 2005
	HK$'000	HK$'000
Gross impaired loans and advances to customers	1,255,015	1,170,839
Impairment allowance-individually assessed	(244,309)	(274,021)
	1,010,706	896,818
As a % of total loans and advances to customers		
– Gross impaired loans and advances	2.70%	2.73%

Impaired loans and advances are mainly individually assessed loans with objective evidence of impairment on an individual basis.

There were no impaired loans and advances to banks and other financial institutions as at 30 June 2006 and 31 December 2005.

(6) Overdue advances to customers

	As at 30 June 2006		As at 31 December 2005	
	HK$'000	% on total advances to customers	HK$'000	% on total advances to customers
The gross amount of advances have been overdue for periods of:				
– 6 months or less but over 3 months	49,141	0.11	40,244	0.09
– 1 year or less but over 6 months	293,353	0.63	92,748	0.22
– over 1 year	1,017,571	2.19	933,170	2.17
Total	1,360,065	2.93	1,066,162	2.48
Secured overdue advances	1,139,220		860,601	
Unsecured overdue advances	220,845		205,561	
	1,360,065		1,066,162	
Market value of collateral held against the secured overdue advances	1,826,194		1,236,616	
Individual impairment allowance made	213,039		217,950	

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 30 June 2006 and 31 December 2005.

(7) Other overdue assets

	As at 30 June 2006	As at 31 December 2005
	HK$'000	HK$'000
The gross amount of trade bills which has been overdue for:		
– 1 year or less but over 6 months	–	2,725
– over 1 year	1,197	–
	1,197	2,725
Held-to-maturity securities which have been overdue for:		
– over 1 year	15,535	15,510

(8) Rescheduled loans

	As at 30 June 2006		As at 31 December 2005	
	HK$'000	% on total advances to customers	HK$'000	% on total advances to customers
Rescheduled loans	14,434	0.03	25,077	0.06

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 (6).

There were no advances to banks and other financial institutions which were rescheduled as at 30 June 2006 and 31 December 2005.

(9) Repossessed assets

	As at 30 June 2006	As at 31 December 2005
	HK$'000	HK$'000
Included in advances to customers and other accounts	200,555	207,758

(10) Off-balance sheet exposures

(i) Contingent liabilities and commitments to extend credit

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

	As at 30 June 2006	As at 31 December 2005
	HK$'000	HK$'000
Direct credit substitutes	1,384,373	958,516
Trade-related contingencies	1,269,539	1,058,462
Forward forward deposits placed	530,000	–
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	13,125,114	12,846,765
– with an original maturity of 1 year and over	1,648,353	350,146
	17,957,379	15,213,889
Credit risk-weighted amounts	1,756,997	991,061

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. 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.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 100%.

(ii) Notional amounts of 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:

	As at 30 June 2006			As at 31 December 2005		
	Trading	**Hedging**	**Total**	Trading	Hedging	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Exchange rate contracts						
Forwards	**31,028,925**	**–**	**31,028,925**	18,941,850	–	18,941,850
Swaps	**10,977,114**	**–**	**10,977,114**	11,521,138	–	11,521,138
Options purchased	**157,035**	**–**	**157,035**	91,471	–	91,471
Options written	**146,829**	**–**	**146,829**	84,553	–	84,553
Interest rate contracts						
Forwards and futures	**1,635,028**	**–**	**1,635,028**	3,032,254	–	3,032,254
Swaps	**12,377,446**	**6,819,880**	**19,197,326**	6,897,921	12,074,747	18,972,668
Options purchased	**1,116,556**	**–**	**1,116,556**	1,298,984	–	1,298,984
Options written	**1,116,556**	**–**	**1,116,556**	1,298,984	–	1,298,984
	58,555,489	**6,819,880**	**65,375,369**	43,167,155	12,074,747	55,241,902

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.

Derivatives used for hedging purpose as at 30 June 2006 and 31 December 2005 represented hedging instruments that were qualified for hedging accounting under HKAS 39.

(iii) Fair values and credit-risk weighted amounts of derivatives

	As at 30 June 2006			As at 31 December 2005		
	Fair value Assets	**Fair value Liabilities**	**Credit risk–weighted amount**	Fair value Assets	Fair value Liabilities	Credit risk–weighted amount
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Interest rate derivatives	**120,882**	**384,936**	**62,385**	157,286	387,765	74,175
Currency derivatives	**113,262**	**131,842**	**130,526**	70,858	55,468	85,145
	234,144	**516,778**	**192,911**	228,144	443,233	159,320

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.

The above derivative assets and liabilities, being the positive or negative marked-to-market value of the respective derivative contracts, represent gross replacement costs, as none of these contracts are subject to any bilateral netting arrangements.

(11) Segmental reporting

(i) By 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 and fund management.

Unallocated: It mainly comprises the premises and any items which cannot be reasonably allocated to specific business segments.

	Six months ended 30 June			
	2006 Profit from ordinary activities before taxation	2005 Profit/(loss) from ordinary activities before taxation *(restated)*	**2006 Operating income/ (loss)**	2005 Operating income/ (loss)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commercial banking business	**445,433**	773,441	**988,336**	925,533
Asset management	**21,863**	44,601	**17,249**	62,290
Investment banking	**45,698**	22,028	**–**	–
Unallocated	**77,165**	(16,002)	**(17,112)**	(14,301)
	590,159	824,068	**988,473**	973,522

Profit/(loss) from commercial banking business, asset management and investment banking included share of losses of associates amounting to HK$Nil and profits of HK$389,000 and HK$45,698,000 respectively (2005: share of losses of associates amounting HK$10,501,000 and profits of HK$777,000 and HK$22,028,000 respectively).

Share of an associate's taxation for the period ended 30 June 2005 was reclassified to share of profits less losses of associates in compliance with HKAS 1.

(ii) By geographical areas

	Six months ended 30 June			
	2006 Profit/(loss) from ordinary activities before taxation	2005 Profit from ordinary activities before taxation *(restated)*	**2006 Operating income**	2005 Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**563,171**	809,259	**922,588**	937,388
Mainland China	**12,747**	1,137	**27,633**	9,360
USA	**15,598**	13,672	**33,302**	26,774
Others	**(1,438)**	–	**4,869**	–
Less: Inter-segment items	**81**	–	**81**	–
	590,159	824,068	**988,473**	973,522

Profit/(loss) from Hong Kong included share of profits of associates amounting to HK$46,087,000 (2005: HK$12,304,000).

Share of an associate's taxation for the period ended 30 June 2005 was reclassified to share of profits less losses of associates in compliance with HKAS 1.

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

	As at 30 June 2006			As at 31 December 2005		
	Advances to customers	**Overdue loans and advances**	**Impaired loans**	Advances to customers	Overdue loans and advances	Impaired loans
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Hong Kong	**37,088,807**	**539,727**	**622,417**	34,536,529	473,722	507,111
Mainland China	**6,762,104**	**760,000**	**572,260**	6,534,622	541,945	541,945
USA	**1,111,138**	**50,574**	**50,574**	793,891	50,495	50,495
Others	**1,507,866**	**9,764**	**9,764**	1,096,655	–	71,288
	46,469,915	**1,360,065**	**1,255,015**	42,961,697	1,066,162	1,170,839

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. 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.

Overdue loans and advances are loans that have been overdue more than three months.

Impaired loans are individually assessed loans with objective evidence of impairment on an individual basis.

(12) Capital base after deductions

	As at 30 June 2006	As at 31 December 2005
	HK$'000	HK$'000
Core capital		
Paid up ordinary share capital	**3,201,423**	3,197,859
Share premium	**1,853,034**	1,840,212
Reserves	**3,267,207**	2,953,640
Minority interest	**353**	536
Deduct: Goodwill	**(1,007,749)**	(1,007,749)
Total core capital	**7,314,268**	6,984,498
Eligible supplementary capital		
Reserves on revaluation of holding of securities not held for trading purposes	**366,802**	332,076
Collective impairment allowances for impaired assets and regulatory reserve	**571,500**	528,790
Perpetual subordinated debt	**1,945,210**	2,016,390
Term subordinated debt	**466,078**	467,192
Total eligible supplementary capital	**3,349,590**	3,344,448
Total capital base before deductions	**10,663,858**	10,328,946
Deductions from total capital base	**(964,741)**	(950,528)
Total capital base after deductions	**9,699,117**	9,378,418

(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 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.

Significant foreign currency exposures at the balance sheet date are as follows:

	As at 30 June 2006				As at 31 December 2005			
Equivalent in HK$'000	**US dollars**	**Renminbi**	**Other**	**Total**	US dollars	Renminbi	Other	Total
Spot assets	**33,193,442**	**1,560,729**	**4,076,568**	**38,830,739**	28,078,183	1,327,251	5,453,586	34,859,020
Spot liabilities	**(34,382,545)**	**(781,720)**	**(5,661,016)**	**(40,825,281)**	(31,167,025)	(549,815)	(5,084,950)	(36,801,790)
Forward purchases	**20,789,836**	**–**	**6,184,780**	**26,974,616**	16,617,043	104,658	3,758,734	20,480,435
Forward sales	**(20,416,789)**	**–**	**(4,586,675)**	**(25,003,464)**	(13,674,662)	(104,573)	(4,122,558)	(17,901,793)
Net options position	**1,887**	**–**	**(1,887)**	**–**	(179)	–	179	–
Net (short)/long position	**(814,169)**	**779,009**	**11,770**	**(23,390)**	(146,640)	777,521	4,991	635,872

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

(14) 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 institution, 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	**Public sector entities**	**Others**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
At 30 June 2006				
Asia and Pacific excluding Hong Kong	**9,387,417**	**312,438**	**7,907,099**	**17,606,954**
of which Australia	**2,901,205**	**411**	**12,975**	**2,914,591**
of which Mainland China	**3,322,682**	**311,242**	**6,952,818**	**10,586,742**
Caribbean	**–**	**–**	**4,657,974**	**4,657,974**
of which Cayman Islands	**–**	**–**	**3,978,911**	**3,978,911**
Western Europe	**11,087,671**	**1,125**	**4,820,309**	**15,909,105**
of which France	**1,462,898**	**–**	**777,732**	**2,240,630**
of which Germany	**1,827,070**	**–**	**3,989**	**1,831,059**
of which Netherlands	**872,217**	**–**	**766,995**	**1,639,212**
of which Switzerland	**1,349,159**	**–**	**523,670**	**1,872,829**
of which United Kingdom	**2,604,426**	**332**	**1,396,648**	**4,001,406**
At 31 December 2005				
Asia and Pacific excluding Hong Kong	7,553,502	441,975	7,753,870	15,749,347
of which Australia	3,000,177	763	70,118	3,071,058
of which Mainland China	2,425,439	391,052	7,021,444	9,837,935
Caribbean	–	–	4,392,838	4,392,838
of which Cayman Islands	–	–	3,727,377	3,727,377
Western Europe	11,118,604	1,791	4,861,642	15,982,037
of which France	1,257,160	–	812,763	2,069,923
of which Germany	1,423,132	–	113,916	1,537,048
of which Netherlands	1,061,821	–	821,618	1,883,439
of which United Kingdom	2,492,175	623	1,224,905	3,717,703

INTERIM DIVIDEND

The Board are pleased to declare an interim dividend of HK$0.077 (2005: HK$0.113) per share. The interim dividend will be paid on Tuesday, 12 September 2006 to all shareholders whose names are on the Register of Members of the Company on Tuesday, 5 September 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 4 September 2006 to Tuesday, 5 September 2006, 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 Friday, 1 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

1.0 Review of Operations

Healthy domestic consumption saw Hong Kong's economy grow further in the first half of 2006. Apart from steadily declining unemployment and the buoyant turnover in the local stock market, the economy was also helped by continued strong external trade performance. All these factors, coupled with the widening of the spread between the Prime Lending Rate ("Prime") and the Hong Kong Interbank Offer Rate ("HIBOR"), created a favourable operating environment for the local banking industry. Nonetheless, the growth in commercial and mortgage lending suffered obvious blows as the local interest rate up-cycle persisted well beyond its second year. Loan yields were also depressed by intense industry competition. Meanwhile, the Hong Kong financial sector faced additional challenges brought on by the resilient flattening of the yield curve, the uncertain interest rate outlook, increasing inflationary pressures, as well as the successive macro-economic tightening policies introduced by the Mainland Chinese government in its attempt to further rein in the nation's robust economic growth.

In the first half of 2006, CITIC International Financial Holdings Limited (the "Group") stayed focused on its priorities to defend its core performance, build new competencies, and maximise opportunities for the CITIC financial services brand internationally. On 31 March 2006, the Group kicked off its major strategic development plan with the announcement of its acquisition of a 19.9% stake in China CITIC Bank ("CNCB") (The strategic stake was subsequently lowered to 16.4% following a RMB5 billion capital injection into CNCB by CITIC Group on 30 June 2006). The transaction has been approved by the Group's independent shareholders at an Extraordinary General Meeting held on 19 July 2006, and is now pending final approvals by the relevant regulatory authorities in the PRC. Upon the completion of the transaction, the Group will become the major foreign investor in CNCB. The Group's management hopes to deliver enhanced shareholder value by maximising the synergistic benefits to be derived from leveraging the complementary competencies of the Group and CNCB.

2.0 Business Performance

2.1 Earnings

The Group reported a strong 53.1% increase in interest income in the first half of 2006; however, interest expenses doubled as funding cost soared as a result of the sharp rise in market interest rates. This led to a fall in net interest income by 11.9% year-on-year. However, much of this impact was offset by the Group's continued strong growth in non-interest income at 20.0% in the first half of 2006. Net of operating expenses, operating profit before impairment allowances decreased by 3.4% to HK$458 million. Meanwhile, despite a normalising credit cycle in the first half of 2006, the Group recorded a net release of HK$2 million in impairment allowances during the period. This compared to a net release of HK$93 million in the corresponding period last year that was then helped primarily by asset quality improvements as well as a reversal in collective assessment. As a result, operating profit dropped 16.0% over the same period last year to HK$478 million. Unlike in 2005, when the sale of Ka Wah Bank Centre realised a one-off gain of HK$227 million from the disposal of tangible assets, a similar scale of gain was not repeated in the first half of 2006. After taking into account other items, the Group's profit attributable to shareholders for the first half of 2006 dropped 32.0% year-on-year to HK$492 million.

2.2 Net Interest Income

The Group reported substantial growth in its interest income by 53.1% during the period, driven primarily by strong loan growth resulting from the strengthened core business infrastructure and competencies of CITIC Ka Wah Bank Limited ("CKWB"), as well as by the widening of the Prime-HIBOR spread.

At the same time, the average three-month HIBOR in the first half of 2006 climbed by 2.2 percentage points to 4.4% compared to the same period last year. That, coupled with the prolonged flat yield curve, significantly intensified funding cost pressures on the Group's deposits, held-to-maturity fixed income investment portfolio and fund investments, and led to a 103.8% rise in overall interest expense. As a result, net interest income declined by 11.9% to HK$498 million.

As gross income for the fund investments was recognised as non-interest income, in order to provide an accurate reflection of the Group's interest earning capability, the Group calculated its net interest margin by adding back the portfolio's funding cost to net interest income to arrive at 1.76% for the first half of 2006, as compared to 1.78% restated on the same basis for the first half of 2005.

Looking ahead, note should be taken of several factors that will impact the Group's net interest income. Firstly, CKWB recalled its US$300 million subordinated debt issue in July 2006, which will help to reduce the Group's interest expense. As CKWB does not have any pressing need for capital, any decision to replace the subordinated debt issue will depend on market conditions. Secondly, the Group plans to relieve funding cost pressures from its held-to-maturity fixed income investment portfolio by redeploying capital from maturing securities for better balance sheet management. However, prudent expansion of the Group's fund investments will correspondingly exert further pressures on both funding costs and net interest income.

2.3 Non-Interest Income

The Group delivered an outstanding 20.0% non-interest income growth to HK$491 million in the first half of 2006 as compared to the same period last year. The growth was mainly derived from CKWB's strengthened core business performance in loans, investment and treasury-related products. The share of non-interest income in the Group's operating profit rose to 49.6% for the first half of 2006 from 42.0% for the corresponding period last year. The Group will strive to maintain this ratio above 40%.

2.4 Operating Expenses

The Group's operating expenses for the first half of 2006 rose by 6.2% year-on-year, primarily due to the rise in staff-related costs as well as one-time relocation expenses related to CKWB's office rationalisation plan (Please see 4.124 for details). Cost to income ratio rose to 53.7% from 51.4% for the first half of 2005, but was slightly improved from 55.6% as at 2005 year-end. The Group has already put in place prudent cost control measures, and will strive to further reduce this ratio by the end of 2006.

2.5 Impairment Allowances

The Group lent conservatively and strived to continually improve its risk management and asset quality. With the credit cycle normalising in the first half of 2006, the Group reported a HK$29 million charge for individually assessed loans, and a HK$35 million release for collectively assessed loans, resulting in a net release in loan impairment allowances for the period of HK$6 million. Including impairment on other assets, the Group registered a HK$2 million net release in impairment allowances, compared to a net release of HK$93 million in the corresponding period last year that was then helped by asset quality improvements as well as a reversal in collective assessment.

2.6 Interim Dividend

The Board of Directors proposed an interim dividend of HK$0.077 per share, representing a pay-out ratio of 50.2%. The interim dividend for the first half of 2005 was HK$0.113 per share.

3.0 Asset Quality

3.1 Asset, Loan, and Deposit Sizes

The Group's asset size expanded significantly during the period, and stood at HK$89.7 billion as at 30 June 2006, representing a 5.5% increase from 2005 year-end. Total loans rose 8.0% from the end of 2005 to HK$46.8 billion, driven mainly by a rise in loans for use outside Hong Kong as well as financial sector related loans and trade finance. Total deposits grew by 7.3% from 2005 year-end to HK$66.4 billion.

3.2 Asset Quality Indicators

During the period, the Group reported slight improvements in its asset quality indicators, including an expansion of its coverage ratio to 98.2% from 92.7% at 2005 year-end.

3.3 Financial Position

As at 30 June 2006, the Group's unadjusted capital adequacy ratio was 15.0%. Its loans to deposits ratio was 70.5%, and its loans to total assets ratio was 52.2%.

CITIC International Financial Holdings' Key Financial Indicators

	30 June 2006	31 December 2005
Unadjusted capital adequacy	**15.0%**	16.0%
Loans to deposits	**70.5%**	70.1%
Loans to total assets	**52.2%**	51.0%
Impaired loans	**2.7%**	2.7%
Coverage*	**98.2%**	92.7%
Loan loss coverage	**39.3%**	48.6%
Collective assessment coverage	**0.53%**	0.68%

* *Calculated by dividing the sum of individually assessed impairment allowances and collateral of impaired loans by the gross impaired loans.*

4.0 Core Business Development

4.1 CITIC Ka Wah Bank Limited ("CKWB")

4.11 Operating Environment

CKWB focused on strengthening its fundamentals and building competencies last year in order to enhance its competitive advantages and to drive future business expansion. The results of such efforts were evident in the strong performances delivered by all its major business departments in the first half of 2006.

4.12 Business Performance

4.121 Earnings

CKWB accounted for 74.1% of the Group's net profit, as such its overall results performance was similar to that of the Group. For the first half of 2006, CKWB's interest income grew by a significant 53.1% year-on-year, but soaring funding costs saw its net interest income reduced by 13.7%. Nevertheless, a strong 39.8% non-interest income growth helped to offset the decline in net interest income and the rise in operating expenses. As a result, it reported a 7.1% rise over the same period last year in operating profit before impairment allowances to HK$480 million. A net provision of HK$13 million in impairment losses was recorded in the first half of 2006 as compared to a net release of HK$99 million in the corresponding period last year. As a result, operating profit dropped 11.2% over the same period last year to HK$486 million. CKWB's profit attributable to shareholders for the first half of 2006 dropped 46.7% to HK$364 million on a financial accounting basis as compared to the same period last year; apart from reasons cited above and the fact that the previous year's results included a one-off gain of HK$227 million from the sale of Ka Wah Bank Centre, the current year's results also carried a net book loss of HK$47 million from the sale of bank premises. It should be noted, however, that the property transaction itself did not create a real loss, and it was instead carried as a net disposal gain of $45 million in the Group's consolidated accounts due to the release of a property valuation reserve created in 2002. If the gains from sale of bank premises had been fully taken into account, CKWB's contribution to the Group's profit attributable to shareholders would have been HK$471 million.

4.122 Net Interest Income

CKWB's efforts to strengthen its core business fundamentals have resulted in strong performances in both its wholesale and retail loan portfolios. This, coupled with the widening of the Prime-HIBOR spread, helped push interest income up by 53.1% during the period. However, the sharp rise in market interest rates doubled its funding costs, resulting in a 13.7% year-on-year contraction in its net interest income to HK$492 million in the first half of 2006. After adjusting for the funding cost on its fund investments, CKWB's net interest margin stood at 1.76% for the first half of June 2006 as compared to 1.81% restated on the same basis for the first half of 2005.

4.123 Non-Interest Income
For the first half of 2006, strong performances by CKWB's core businesses contributed to a significant 39.8% growth in its non-interest income to HK$496 million compared to the same period last year. The growth was mainly derived from a 48.4% increase in gross income from fund investments, a 42.7% increase in corporate loans related fees, a 31.3% increase in retail banking fee and commission income as well as a 110.5% increase in foreign exchange trading gains. The share of non-interest income in its operating profit rose significantly to 50.2% for the first half of 2006 from 38.4% for the corresponding period last year. CKWB will strive to maintain this ratio above 40% for the foreseeable future.

4.124 Operating Expenses
CKWB's operating expenses for the first half of 2006 rose by 6.5% year-on-year, primarily due to the rise in staff-related costs as well as one-time relocation expenses related to the consolidation of its retail and back-office operations in Somerset House in Quarry Bay under its office premise rationalisation plan. Its cost to income ratio fall slightly from 51.6% to 51.5% for the first half of 2005, but was better compared to 55.2% recorded at 2005 year-end. With prudent cost control measures in place, CKWB will strive to further reduce this ratio by the end of 2006.

4.125 Impairment Allowances
CKWB lent conservatively and strived to continually improve its risk management and asset quality. With the credit cycle normalising in the first half of 2006, CKWB recorded a HK$49 million charge for individually assessed loans and a HK$36 million release for collectively assessed loans, resulting in a HK$13 million net charge in loan impairment allowances in the first half of 2006. Including impairment on other assets, CKWB still registered a HK$13 million net charge in impairment allowances, compared to a net release of HK$99 million in the corresponding period last year.

4.13 Asset Quality

4.131 Asset, Loan, And Deposit Sizes
In tandem with the continuous growth in CKWB's core businesses, its asset size has also expanded significantly. As at 30 June 2006, CKWB's total assets were HK$86.3 billion, representing a 5.5% increase from 2005 year-end. Total loans rose 8.1% from 2005 year-end to HK$46.4 billion, driven mainly by a rise in loans for use outside Hong Kong as well as financial sector related loans and trade finance. Total deposits grew by 7.3% from 2005 year-end to HK$66.8 billion.

4.132 Asset Quality Indicators
CKWB reported improvements in its asset quality indicators during the period. Its coverage expanded from 87.8% as at 2005 year-end to 97.4% as at 30 June 2006. Its mortgage delinquency ratio in June 2006 fell further from 0.14% as at 2005 year-end to 0.13%. Its credit card charge-off ratio also fell further from 1.36% as at 2005 year-end to 1.33%.

4.133 Financial Position
As at 30 June 2006, CKWB's unadjusted capital adequacy ratio was 15.2%. Its average liquidity ratio was 45.7%. Its loans to deposits ratio was 69.5% and its loans to total assets ratio was 53.8%.

CITIC Ka Wah Bank's Key Financial Indicators

	30 June 2006	31 December 2005
Unadjusted capital adequacy	15.2%	16.4%
Average liquidity	45.7%	51.1%
Loans to deposits	69.5%	69.0%
Loans to total assets	53.8%	52.5%
Impaired loans	1.88%	1.89%
Coverage*	97.4%	87.8%
Loan loss coverage	41.9%	50.9%
Collective assessment coverage	0.54%	0.69%
Mainland loans to total customer advances	14.5%	15.1%

* *Calculated by dividing the sum of individually assessed impairment allowances and collateral of impaired loans by the gross impaired loans.*

4.14 Business Development

4.141 Retail Banking Group
CKWB's Retail Banking Group ("RBG") reported strong business momentum in the first half of 2006, with a healthy improvement in net interest income underpinned by the widened Prime-HIBOR spread, and non-interest income growth supported by its continuous programme of new products and services campaigns.

Its key strategic focus during the period was to develop its new mass affluent wealth management service, CITICfirst. Following its soft launch to existing clients in October 2005, the full marketing launch of CITICfirst was rolled out in March 2006, and by the end of June, CITICfirst had attracted over 4,900 customers with average assets under management exceeding HK$3.5 million. The launch of CITICfirst also boosted CKWB's wealth management income in the first half of 2006, with a 18.4% year-on-year growth in its unit trust income, a 61.8% year-on-year increase in its securities income and a 79.6% year-on-year rise in its equity-linked and foreign currency-linked investment products income. CKWB targets to increase its penetration of the affluent market from 2% to 5% within three years.

In mortgage lending, although CKWB did not match the rate-cutting competition by its peers, its market share of newly drawn residential mortgages grew from 2.6% to 3.6%. This was achieved through the offer of several new mortgage solutions, and was further helped by increased mortgage lending activities in older districts through CKWB's subsidiary, HKCB Finance Limited.

CKWB also experienced good growth momentum in the business segment targeting small- and medium-sized enterprises, registering total loans growth of 35.8% year-on-year, of which trade finance loans increased by 69.9% year-on-year.

4.142 Wholesale Banking Group
CKWB's Wholesale Banking Group ("WBG") took a strategic decision in 2005 to reposition itself from a pure lender to a solutions bank. Its aim is to deepen client relationships by offering value-added solutions, and thereby to broaden its fee income generation capability. This strategy has already yielded encouraging results in the first half of 2006.

Its expanded Syndication Department completed 13 syndicated loans in the first half of 2006, of which it acted as lead arranger for eight of the transactions. Total underwritten amount from these syndicated deals totalled HK$4.3 billion. In March 2006, its Commercial Banking Department launched CITIC Partner, a membership programme for selected corporate clients that contributed to a significant 35.7% growth in trade finance for the first half of 2006. The establishment of CITIC Insurance Brokers Limited in April 2005 enabled CKWB to change its insurance intermediary role from that of an insurance agency to an insurance broker, and it recorded a 15.9% year-on-year increase in total premiums while insurance commission grew by 60.6% year-on-year in just one year's time.

4.143 Treasury and Markets Group
CKWB's Treasury and Markets Group ("TMG") continued to increase its structured product distribution through the bank's own wholesale and retail banking channels, with a total of 16 products launched in the first half of 2006 which attracted total funds of HK$928 million.

Meanwhile, TMG continued to focus on developing its fund investments portfolio. The scale of the portfolio increased from HK$5.4 billion at 2005 year-end to HK$5.9 billion at the end of June 2006; gross revenue generated increased year-on-year by 48.4% to HK$141 million from HK$95 million in the first half of 2005. As a result of rigorous asset allocation and vigilant performance monitoring, the portfolio was able to weather market volatilities in the first half of 2006 and delivered stable and positive returns for the period. As at end of June 2006, its year-to-date annualised return was 5.0% compared to 5.2% for the same period last year, and its annualised return since inception in April 2004 was at 5.6%.

With a two-year solid performance track record, TMG is preparing to establish fund investments as a CKWB core business, and to extend this expertise to corporate and financial institutional clients in the Greater China region. Capitalising on the launch of China's Qualified Domestic Institutional Investors ("QDII") programme, CKWB is also looking closely into collaborative opportunities with CNCB in this area.

Another strategic focus for TMG going forward is to actively manage down its existing held-to-maturity fixed income investment portfolio by redeploying free funds from maturing securities for various uses, including to support CKWB's loan growth and to manage the bank's liquidity through active money market gapping activities.

4.144 China Banking
CKWB's China Banking business continued to deliver improving performances. The share of profit contribution by China International Finance Company Limited (Shenzhen) ("CIFC") to CKWB in the first half of 2006 significantly increased by more than three times as compared to the corresponding period in 2005. Last year, CIFC received approval from the China Banking Regulatory Commission to offer Renminbi services to corporate customers and non-Mainland citizens. Leveraging on this Renminbi licence, CKWB and CIFC will also be able to extend Renminbi services to all Mainland citizens when China opens up its banking sector at the end of 2006.

The Shanghai branch was granted its derivatives licence in April 2006 and successfully launched its first derivative product in early August 2006.A series of additional derivative products will be introduced in the remainder of 2006. Apart from allowing CKWB to deliver more effective solutions to its existing clients, the new derivatives licence will also allow CKWB to strengthen its collaboration with CNCB in the treasury services area and to leverage new opportunities to develop relevant QDII products and services. Meanwhile, the branch also plans to apply for a Renminbi licence at the end of 2006.

Separately in Beijing, CKWB has received regulatory approval to prepare for the upgrade of its representative office to branch status. The Beijing branch is expected to start business in the latter half of 2006.

CKWB will continue to pursue organic growth of its PRC business through its existing network in the Mainland, and will simultaneously tap brand new opportunities arising from its collaboration with CNCB (Please see 4.145).

4.145 Synergistic Collaboration with CNCB

As the Group progresses to complete its acquisition of a strategic stake in CNCB, CKWB and CNCB will collaborate to more effectively optimise their complementary competencies. Broadly speaking, CKWB's priority will be to leverage its international business experience and expertise as well as its network in the Mainland to provide solutions to its Hong Kong and cross-border clientele on the one hand, and on the other hand to cater to PRC customers with two-way business needs between China, Hong Kong and elsewhere. Meanwhile, apart from focusing on building its leadership position in China, CNCB will work with CKWB to deliver domestic banking, trade and other China-based products and services in joint cross-border one-stop solutions for customers.

CKWB and CNCB have already preliminarily identified areas of business collaboration, some of which have started to bring synergistic benefits.

Both banks have established dedicated liaison teams to identify and tap joint business opportunities, and are planning to systematically develop an integrated product and services platform for their corporate clientele, as well as to build complementary competencies in customer resources, professional know-how, product range, service quality and risk management.

In the area of wholesale banking, the two banks plan to develop a common customer set, for which it will develop compatible risk management and underwriting standards. Specific areas for collaboration may include syndications, joint cross-border financing solutions, international trade settlement and remittances.

In the area of treasury services, the two banks will look at sharing skill sets and expertise as well as building scale in international money market management and funds investments.

Training and development will be another area of collaborative opportunities for the two banks, and priority focus will be given to such areas as credit and risk management, private wealth management and bancassurance.

4.2 CITIC International Assets Management Limited ("CIAM")

4.21 Business Performance

CIAM continued its diligence in managing its asset and business portfolio, but the focus in the first half of 2006 has been to consolidate its overall resources and operations as it sought appropriate opportunities to develop its future business. Meanwhile, market volatility also exerted pressures on the performance of its investments activities. For the period ended 30 June 2006, it reported a consolidated operating income of over HK$17 million, which represented a 72.3% decline compared to last year's first-half figure of HK$62 million. A release in net impairment allowances in problem loans and assets amounting to HK$13 million helped to lift its consolidated operating profit before tax to over HK$21 million, which represented a 51.1% decline over the same period last year. Consolidated net profit reported for the period amounted to over HK$17 million, a decline of 51.5% compared to the same period last year of HK$35 million.

4.22 Problem Loans and Assets

Since its establishment in 2002, CIAM has resolved close to 50% of its problem loans and assets portfolio. In the first half of 2006, CIAM continued to make steadfast progress in its efforts to continue to scale down its portfolio and problem loans resolved during the period amounted to HK$7 million. It also sold or signed agreements to sell collateral valued at over HK$25 million. This contributed to aggregate net releases in impairment allowances of over HK$13 million in related problem loans and assets. As at 30 June 2006, the gross book value of its aggregate problem loans amounted to HK$390 million.

4.23 Direct Investment and Structured Loans

During the first half of 2006, CIAM continued to place more focus on strengthening and monitoring its existing investments, thus it did not embark on any new investments or lending activities of this kind. Despite market volatility and impairment charges on certain individually assessed projects, the successful listing of individual investment contributed to an appreciation of over HK$19 million in the original direct investment and structured loan portfolio during the period. In addition, the structured loans also generated over HK$4 million in interest income during the period. In the long run, CIAM is confident that this portfolio will generate more profits and value-added contributions.

4.24 Cooperation With Other Investment Institutions

To pave the way for future business development, CIAM's co-investment entity, Shenzhen Guocheng Century Venture Capital Company Limited, successively increased its investment in quality projects as planned. Meanwhile, the China real estate investment fund jointly developed by CIAM and Bahrain's Shamil Bank B.S.C. has successively received its planned capital injection and has been actively pursuing investments in the latter half of 2006.

4.3 CITIC Capital Holdings Limited ("CCHL")

4.31 Business Performance

The first half of 2006 was a remarkable period for CCHL. The firm underwent a corporate restructuring by transferring its equity capital markets business (comprising Corporate Finance and Brokerage) to CITIC Securities (HK) Company Limited ("CSHK") in May 2006 and repositioned itself as an investment management and advisory firm. Following the restructuring, CCHL is now focused on its core businesses of asset management, private equity, real estate financing, structured finance and financial advisory, and it also keeps a 20% equity stake in CSHK. Its total assets under management reached approximately US$1 billion at the end of June 2006 as a result of the launch of a new property fund (see below) and the growth of its other funds. To reflect its refined business focus, the firm was renamed CITIC Capital Holdings Limited ("CCHL") from CITIC Capital Markets Holdings Limited on 15 June 2006. In the first half of 2006, CCHL achieved a consolidated profit after tax of HK$91 million, a 107.3% increase over the same period in 2005. This sharp rise in profit was largely attributed to the one-time disposal gain arising from the transfer of its equity capital markets business as mentioned above.

4.32 Asset Management

CCHL continued to expand and diversify its investor base in the Asset Management Business both geographically and by investor type. In April, it collaborated with CKWB's RBG and TMG to launch its first structured note linked to its flagship China long/short equity fund.

4.33 Private Equity

CCHL's two existing international private equity funds performed well and continued to pursue private equity investments with a China angle in Japan and the U.S. With a good deal pipeline in China, CCHL has also started marketing its flagship China private equity fund and has received strong investor interest. It is expected that its first third-party closing will take place before the year-end.

4.34 Real Estate, Structured Finance and Advisory

CITIC Capital China Property Investment Fund, an investment property fund managed by CCHL, raised additional capital and made another investment in the first half of 2006. In March 2006, CCHL teamed up with Vanke, a leading Chinese property developer, to launch a new property development fund, CITIC Capital Vanke China Property Development Fund. The fund has secured a blue chip institutional investor in the US as anchor investor and has already invested in two projects by June 2006. CCHL also partnered with Allco Finance, a well-known Australian structured finance group, to manage CITIC Allco Investment Limited, a fund that targets mezzanine finance opportunities in China. In addition, CCHL continued to leverage its financial expertise and China knowledge to provide debt related and financial advisory services to its clients.

4.35 CITIC Securities (HK) Company Limited

Activities in the Hong Kong capital markets were buoyant during the first half of 2006, with significant growth in daily market turnover registered by the stock market and in total funds raised through initial public offerings. The equity capital markets businesses of CSHK have benefited from this favourable environment, although challenges of varying degrees were also experienced in terms of increasing competition and narrowing profit margins. Backed by CITIC Securities' leadership position in China's capital market, CSHK is set to solidify the competitive niches of its equity capital markets businesses in Hong Kong and to become a recognised H-share and red chip expert and market leader. CSHK will also collaborate closely with CITIC Securities to leverage on the vast combined resources to focus on business development and tap into other mutually beneficial business areas.

5.0 Progress in Basel II Accord Implementation

Over the past few years, the Group has dedicated efforts to leverage on the implementation of the Basel II Accord to enhance and position its risk management practices as one of its core competencies to strengthen the Group's business capability. With the help of an external consultant, the Group has already put in use an advanced rating system for effective risk ranking and effective risk-based pricing. The Group is well prepared and confident that it complies with the requirements of the Standardised Approach as per the schedule stipulated by the Hong Kong Monetary Authority.

The implementation of the Basel II Accord will have neutral impact on the Group's capital level from the credit risk and market risk perspectives. The Group is also comfortable that its existing capital levels will be sufficient to meet the additional capital requirements arising from operational risk and undrawn commitments.

6.0 Future Development

Having successfully built the foundations in 2005 to capture growth opportunities, the Group's focus this year will be on building its cross-border capabilities. With this in mind, the Group has undertaken a number of important strategic initiatives. The acquisition of a strategic stake in CNCB will improve the Group's ability to provide one-stop financial solutions to Greater China and overseas customers who are active in cross-border business and trade with the PRC. The transaction also underlines the Group's role as the offshore financial flagship of the CITIC Group, and confirms its role as the platform to build the "CITIC" financial services brand internationally.

Going forward, to prepare for the immense opportunities arising from China's formal accession into the World Trade Organisation, the Group plans to closely collaborate with a suitable strategic international partner, and to embark on a journey for overseas expansion that will position CITIC as a leading financial services brand in the global markets.

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 2006. 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 2006.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. Throughout the six months ended 30 June 2006, 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 following deviations.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

The 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 eligible for re-election at each annual general meeting in accordance with article 98 of the Articles of Association of the Company. The Directors believe that subjecting the Non-executive Directors to annual re-election achieves the intended aims of the Code.

Code Provision B.1.1 stipulates that a majority of the members of the remuneration committee should be independent non-executive directors.

The composition of the Nomination and Remuneration Committee of the Company (the "N&R Committee") does not include a majority of members who are Independent Non-executive Directors of the Company. The Directors believe that the terms of the delegation of duties by the Board subject the decisions of the N&R Committee to the oversight of the full Board, which in itself satisfies the independence requirements under the Code. The members of the N&R Committee shall not vote in decisions concerning each of their own remuneration or any other matters which he/she has any direct or indirect interest. All Non-executive Directors of the Company have the right to attend the meetings of the N&R Committee. The composition and the terms of reference of the N&R Committee shall be reviewed from time to time.

Code Provision E.1.2 stipulates that the chairman of the board should attend the annual general meeting.

Mr. Kong Dan, Chairman of the Board, was unable to attend the annual general meeting of the Company held on 16 May 2006 due to minor medical condition. The Directors presented at that 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 OF LISTED ISSUERS"

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 "Model 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 Model Code.

REVIEW BY THE AUDIT COMMITTEE

The financial statements of the Company for the six months period ended 30 June 2006 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
Director and Chief Executive Officer

Hong Kong, 17 August 2006

As at the date of this announcement, the Chairman of the Company is Mr. Kong Dan; the executive directors of the Company are Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Lo Wing Yat Kelvin, Mr. Roger Clark Spyer and Mr. Zhao Shengbiao; the non-executive directors of the Company are Mr. Chang Zhenming, Mr. Chen Xiaoxian, Mr. Feng Xiaozeng, Mr. Ju Weimin, Mr. Liu Jifu and Mr. Wang Dongming; and the independent non-executive directors of the Company are Mr. Rafael Gil-Tienda, Mr. Lam Kwong Siu and Mr. Tsang Yiu Keung Paul.

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