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 FINAL RESULTS

The Board of Directors of CITIC International Financial Holdings Limited ("the Company") is pleased to announce the consolidated results of the Company and its subsidiaries ("the Group") for the year ended 31 December 2006. This financial report, which has been reviewed by the Group's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2005 annual accounts.

(A) CONSOLIDATED INCOME STATEMENT

	2006	2005	Variance
	HK$'000	HK$'000	%
Interest income	4,106,324	3,007,372	36.5
Interest expense	(3,036,786)	(1,908,115)	59.2
Net interest income	1,069,538	1,099,257	(2.7)
Fee and commission income	574,695	439,662	30.7
Fee and commission expense	(14,668)	(12,837)	14.3
Net fee and commission income	560,027	426,825	31.2
Net trading income	651,327	343,466	89.6
Net (expense)/income from financial instruments designated at fair value through profit or loss	(69,736)	22,481	(410.2)
Net hedging gain/(loss)	129	(679)	119.0
Other operating income	48,507	79,301	(38.8)
Operating income	2,259,792	1,970,651	14.7
Operating expenses	(1,145,306)	(1,094,688)	4.6
Operating profit before impairment	1,114,486	875,963	27.2
Impairment losses (charged for)/written back on loans and advances	(35,100)	57,544	(161.0)
Impairment losses (charged for)/written back on held-to-maturity investments	(3,957)	6,306	(162.7)
Impairment losses on available-for-sale securities	(17,461)	(7,817)	123.4
Impairment losses written back on properties	–	1,517	N/A
Impairment losses (charged for)/written back	(56,518)	57,550	(198.2)
Net profit on disposal of available-for-sale securities	90,199	–	N/A
Net loss on disposal of held-to-maturity investments	(22,306)	–	N/A
Operating profit	1,125,861	933,513	20.6
Profit on disposal of a subsidiary	1,073	–	N/A
Loss on disposal of associates	–	(6,352)	N/A
Net profit on disposal of property and equipment	71,884	240,222	(70.1)
Revaluation gain on investment properties	3,376	2,140	57.8
Share of profits of associates	131,450	46,123	185.0
Profit before taxation	1,333,644	1,215,646	9.7
Income tax	(206,126)	(112,206)	83.7
Profit for the year	1,127,518	1,103,440	2.2
Attributable to:			
Equity shareholders of the Company	1,126,135	1,103,395	2.1
Minority interests	1,383	45	2,973.3
Profit for the year	1,127,518	1,103,440	2.2
Dividends payable to equity shareholders of the Company attributable to the year:			
Interim dividend declared and paid during the year	246,517	361,358	(31.8)
Final dividend proposed after the balance sheet date	321,000	191,872	67.3
	567,517	553,230	2.6
Earnings per share			
Basic	34.66¢	34.51¢	
Diluted	32.58¢	32.38¢	
Dividend per share			
Interim	7.70¢	11.30¢	
Proposed final	5.60¢	6.00¢	
Total	13.30¢	17.30¢	

(B) CONSOLIDATED BALANCE SHEET

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK$'000	HK$'000	%
Assets			
Cash and balances with banks and other financial institutions	1,267,871	1,161,309	9.2
Placements with banks and other financial institutions	12,038,714	5,265,044	128.7
Trade bills	491,994	406,364	21.1
Trading assets	6,414,870	6,473,029	(0.9)
Securities designated at fair value through profit or loss	1,003,579	1,139,908	(12.0)
Loans and advances to customers and other accounts	52,382,962	44,108,183	18.8
Available-for-sale securities	4,973,450	5,945,960	(16.4)
Held-to-maturity investments	10,176,493	17,194,283	(40.8)
Interest in associates	11,354,374	1,291,180	779.4
Property and equipment			
– Investment property	124,776	64,994	92.0
– Other property and equipment	874,989	936,474	(6.6)
Goodwill	1,007,749	1,007,749	–
Deferred tax assets	29,904	42,201	(29.1)
Total assets	102,141,725	85,036,678	20.1

Equity and liabilities			
Deposits and balances of banks and other financial institutions	**831,973**	4,157,446	(80.0)
Deposits from customers	**65,421,831**	54,415,279	20.2
Trading liabilities	**428,648**	661,137	(35.2)
Certificates of deposit issued	**7,257,719**	7,467,961	(2.8)
Debt securities issued	**2,300,889**	2,245,435	2.5
Convertible bonds issued	**247,191**	1,289,817	(80.8)
Current taxation	**112,681**	50,478	123.2
Deferred tax liabilities	**22,586**	45,466	(50.3)
Other liabilities	**1,384,810**	895,455	54.6
Loan capital	**3,901,326**	4,352,351	(10.4)
Total liabilities	**81,909,654**	75,580,825	8.4
Equity			
Share capital	**5,023,422**	3,197,859	57.1
Reserves	**15,208,649**	6,257,458	143.1
Total equity attributable to equity shareholders of the Company	**20,232,071**	9,455,317	114.0
Minority interests	**–**	536	N/A
Total equity	**20,232,071**	9,455,853	114.0
Total equity and liabilities	**102,141,725**	85,036,678	20.1

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2006		2005	
	HK$'000	**HK$'000**	HK$'000	HK$'000
Total equity at 1 January		**9,455,853**		8,960,819
Net income recognized directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches, subsidiaries and associates	**7,056**		3,371	
– related borrowings	**363**		(329)	
– on disposal of associates	**–**		627	
		7,419		3,669
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax		**9,488**		6,785
Release of revaluation reserve on disposal of properties		**(1,549)**		–
Cash flow hedge				
– effective portion of changes in fair value	**–**		9,364	
– transfer to deferred tax	**–**		(1,639)	
		–		7,725
Changes in fair value				
– of available-for-sale securities	**(37,338)**		(59,442)	
– transfer from equity to deferred tax	**20,398**		10,403	
– transfer to income statement on disposal of available-for-sale securities	**(79,221)**		–	
		(96,161)		(49,039)
Disposal of a subsidiary				
– exchange differences reserve	**(199)**		–	
– fair value reserve	**(28,513)**		–	
– retained profits	**29,530**		–	
		818		–
Share of associates				
– share option reserve	**9,644**		6,500	
– fair value reserve	**(423)**		2,894	
		9,221		9,394
Profit for the year		**1,127,518**		1,103,440
Total recognized income and expense for the year		**1,056,754**		1,081,974
Attributable to:				
– equity shareholders of the Company	**1,055,371**		1,081,929	
– minority interests	**1,383**		45	
	1,056,754		1,081,974	
Dividends paid during the year		**(438,591)**		(601,197)
Minority interests attributable to associates/subsidiaries acquired/disposed during the year		**(1,919)**		491
Movements in equity arising from capital transactions:				
Shares issued under the share option scheme				
– share capital	**5,012**		3,706	
– share premium	**17,942**		4,264	
– transfer of share option reserve to share premium	**(4,761)**		–	
		18,193		7,970
Conversion of convertible bonds into ordinary shares				
– share capital	**266,061**		–	
– share premium	**869,754**		–	
– equity component	**(61,294)**		–	
		1,074,521		–

Issuance of shares for investment in China CITIC Bank				
– share capital	**1,554,490**		–	
– share premium	**3,746,322**		–	
– general reserve	**3,761,867**		–	
		9,062,679		–
Equity-settled share-based transactions		**4,581**		5,796
		10,159,974		13,766
Total equity at 31 December		**20,232,071**		9,455,853

Notes:

(1) The financial information relating to the financial year ended 31 December 2006 included in this final results announcement does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 will be available from the website of the Stock Exchange of Hong Kong Limited and the Company's registered office.

(2) The financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2005 annual accounts.

(3) The calculation of basic earnings per share for the year ended 31 December 2006 is based on profit attributable to the ordinary equity shareholders of the Company of HK$1,126,135,000 (2005: HK$1,103,395,000) and on the weighted average number of ordinary shares of 3,248,931,032 (2005: 3,197,198,285).

(4) The calculation of diluted earnings per share for the year ended 31 December 2006 is based on adjusted profit attributable to ordinary equity shareholders of the Company of HK$1,154,284,000 (2005: HK$1,141,126,000) and the weighted average number of ordinary shares of 3,543,462,848 (2005: 3,524,437,109), after adjusting the effects of all dilutive potential ordinary shares.

SUPPLEMENTARY FINANCIAL INFORMATION

(a) Summary of financial position

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK$'000	HK$'000	%
Loans and advances to customers and trade bills	**51,177,344**	43,368,061	18.0
Impairment allowances	**329,526**	568,565	(42.0)
Total assets	**102,141,725**	85,036,678	20.1
Average interest earning assets	**72,898,108**	70,383,962	3.6
Total deposits	**72,679,550**	61,883,240	17.4
Total equity attributable to equity shareholders of the Company	**20,232,071**	9,455,317	114.0
Financial ratios			
Loans to deposits	**70.42%**	70.08%	
Loans to total assets	**50.10%**	51.00%	
Collective assessment coverage	**0.49%**	0.68%	
Property lending	**33.58%**	39.25%	
Cost to income	**50.68%**	55.55%	
Return on assets	**1.30%***	1.31%	
Return on average total equity attributable to equity shareholders of the Company	**11.28%****	12.41%	

* *Return on asset for 2006 was based on the monthly average of total asset for the year ended 2006 in considering the impact of investment in China CITIC Bank on 29 December 2006.*

** *Return on average total equity for 2006 was based on the monthly average of total equity attributable to equity shareholders of the Company for the year ended 2006 in considering the impact of investment in China CITIC Bank on 29 December 2006.*

(b) Fee and commission income

	2006	2005	Variance
	HK$'000	HK$'000	%
Bills commission	**49,255**	40,152	22.7
Cards related income	**36,929**	35,064	5.3
General banking services	**49,273**	50,518	(2.5)
Insurance	**81,001**	77,964	3.9
Investment and structured investment products	**120,203**	75,888	58.4
Loans, overdrafts and facilities fees	**237,226**	159,256	49.0
Others	**808**	820	(1.5)
	574,695	439,662	30.7

(c) Net trading income

	2006	2005	Variance
	HK$'000	HK$'000	%
Gains less losses from dealing in foreign currencies	**157,090**	98,707	59.1
Gains less losses from trading securities	**242,375**	137,827	75.9
Gains less losses from other dealing activities	**49,051**	(51,738)	194.8
Interest income on trading assets			
– Listed	**44,697**	26,807	66.7
– Unlisted	**131,186**	120,050	9.3
Interest expense on trading liabilities	**(2,089)**	(8,592)	(75.7)
Dividend income from listed trading securities	**164**	–	N/A
Dividend income from unlisted trading securities	**28,853**	20,405	41.4
	651,327	343,466	89.6

(d) Net (expense)/income from financial instruments designated at fair value through profit or loss

	2006	2005	Variance
	HK$'000	HK$'000	%
Net (losses)/gains	**(13,319)**	93,941	(114.2)
Interest income			
– Listed	**31,106**	31,348	(0.8)
– Unlisted	**10,134**	3,395	198.5
Interest expense	**(97,657)**	(106,203)	(8.0)
	(69,736)	22,481	(410.2)

(e) Net hedging gain/(loss)

	2006	2005	Variance
	HK$'000	HK$'000	%
Fair value hedge	**129**	(679)	119.0

(f) Other operating income

	2006	2005	Variance
	HK$'000	HK$'000	%
Dividend income from available-for-sale securities			
– Unlisted investments	**4,147**	5,312	(21.9)
Rental income from investment properties less direct outgoings of HK$15,000 (2005: HK$43,000)	**5,227**	3,188	64.0
Others	**39,133**	70,801	(44.7)
	48,507	79,301	(38.8)

(g) Operating expenses

	2006	2005	Variance
	HK$'000	HK$'000	%
Staff costs			
Salaries and other staff costs	**596,520**	555,101	7.5
Retirement costs	**39,270**	37,914	3.6
Share-based payment expenses:			
– Equity-settled share-based payment expenses	**4,581**	5,796	(21.0)
– Cash-settled share-based payment expenses	**11,650**	9,029	29.0
	652,021	607,840	7.3
Depreciation			
Depreciation of property and equipment			
– Assets held for use under operating leases	**10,819**	2,571	320.8
– Other assets	**99,511**	110,266	(9.8)
	110,330	112,837	(2.2)
Other operating expenses			
Property and equipment expenses, excluding depreciation			
– Rental of property	**73,589**	54,054	36.1
– Others	**67,984**	77,467	(12.2)
Auditor's remuneration	**5,102**	4,325	18.0
Advertising	**54,890**	63,659	(13.8)
Communication, printing and stationery	**60,003**	57,636	4.1
Legal and professional fee	**16,807**	22,876	(26.5)
Others	**104,580**	93,994	11.3
	382,955	374,011	2.4
Total operating expenses	**1,145,306**	1,094,688	4.6

Included in other operating expenses are minimum lease payment under operating leases of HK$1,759,000 (2005: HK$931,000) for hire of equipment and HK$67,943,000 (2005: HK$50,248,000) for hire of other assets (including property rentals).

(h) Income tax in the consolidated income statement

	2006	2005	Variance
	HK$'000	HK$'000	%
Current tax – Hong Kong Profits Tax			
Provision for the year	**174,406**	129,827	34.3
Under/(over)-provision in respect of prior years	**11,596**	(19,180)	160.5
	186,002	110,647	68.1
Current tax – Overseas			
Provision for the year	**6,888**	1,727	298.8
Deferred tax			
Origination and (reversal) of temporary differences	**13,236**	(168)	7,978.6
	206,126	112,206	83.7

The provision for Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

(i) Dividends

	2006	2005	Variance
	HK$'000	HK$'000	%
Interim dividend declared and paid of HK$0.077 (2005: HK$0.113) per ordinary share	**246,517**	361,358	(31.8)
Final dividend proposed after the balance sheet date of HK$0.056 (2005: HK$0.060) per ordinary share	**321,000**	191,872	67.3
	567,517	553,230	2.6

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

(j) Loans and advances to customers and other accounts less impairment allowances

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK$'000	HK$'000	%
Gross loans and advances to customers	**50,685,350**	42,961,697	18.0
Impairment allowances			
– Individually assessed	**(76,360)**	(274,021)	(72.1)
– Collectively assessed	**(253,166)**	(294,544)	(14.0)
	50,355,824	42,393,132	18.8
Advances to banks and other financial institutions	**353,824**	327,521	8.0
Accrued interest and other accounts less impairment allowances	**1,673,314***	1,387,530	20.6
	52,382,962	44,108,183	18.8

* *The other accounts included the amounts due from an associate, CITIC International Assets Management Limited, of HK$123,136,000 (2005: HK$Nil).*

(k) Reserves

	As at 31 Dec 2006	As at 31 Dec 2005	Variance
	HK$'000	HK$'000	%
Share premium	**6,474,230**	1,840,212	251.8
Capital reserve	**2,818**	2,818	–
General reserve	**3,861,867**	100,000	3,761.9
Exchange differences reserve	**10,541**	3,684	186.1
Other property revaluation reserve	**16,038**	6,550	144.9
Fair value reserve	**197,370**	322,467	(38.8)
Convertible bond-equity component	**71,767**	132,698	(45.9)
Share option reserve	**26,068**	16,604	57.0
Retained profits*	**4,547,950**	3,832,425	18.7
Total	**15,208,649**	6,257,458	143.1
Proposed dividends, not provided for	**321,000**	191,872	67.3

* *The Group complies with the Hong Kong Monetary Authority's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 31 December 2006, an amount of HK$376,300,000 (2005: HK$233,800,000) was included in the retained profits as regulatory reserve in this respect which was distributable to equity shareholders of the Bank subject to consultation with the Hong Kong Monetary Authority.*

Included in the retained profits is an amount of HK$577,403,000 (2005: HK$445,954,000) being the retained profits attributable to associates.

(l) Loans and advances to customers – By industry sectors

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority.

	As at 31 Dec 2006		As at 31 Dec 2005		Variance
	HK$'000	**%**	HK$'000	%	%
Industrial, commercial and financial					
– Property development	**205,155**	**0.40**	410,595	0.96	(50.0)
– Property investment	**5,370,620**	**10.60**	5,033,111	11.72	6.7
– Financial concerns	**3,315,125**	**6.54**	2,355,699	5.48	40.7
– Stockbrokers	**50,000**	**0.10**	45,606	0.11	9.6
– Wholesale and retail trade	**2,885,044**	**5.69**	2,015,783	4.69	43.1
– Manufacturing	**3,370,282**	**6.65**	2,813,124	6.55	19.8
– Transport and transport equipment	**3,467,330**	**6.84**	4,280,529	9.96	(19.0)
– Others	**2,664,446**	**5.26**	3,093,252	7.20	(13.9)
Individuals					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**16,054**	**0.03**	18,409	0.04	(12.8)
– Loans for the purchase of other residential properties	**11,446,698**	**22.58**	11,416,704	26.57	0.3
– Credit card advances	**535,293**	**1.06**	586,781	1.37	(8.8)
– Others	**1,693,327**	**3.34**	1,308,935	3.05	29.4
Gross loans for use in Hong Kong	**35,019,374**		33,378,528		4.9
Trade finance	**3,508,201**	**6.92**	2,789,104	6.49	25.8
Gross loans for use outside Hong Kong	**12,157,775**	**23.99**	6,794,065	15.81	78.9
Gross loans to customers	**50,685,350**	**100.00**	42,961,697	100.00	18.0

(m) Loans and advances to customers – By geographical areas

	As at 31 Dec 2006			As at 31 Dec 2005		
	Loans and advances to customers	**Overdue loans and advances**	**Impaired loans and advances**	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Hong Kong	**39,910,144**	**197,448**	**184,848**	34,536,529	473,722	507,111
Mainland China	**6,703,093**	**469,794**	**469,794**	6,534,622	541,945	541,945
USA	**1,429,400**	**–**	**–**	793,891	50,495	50,495
Others	**2,642,713**	**191,997**	**191,997**	1,096,655	–	71,288
	50,685,350	**859,239**	**846,639**	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.

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

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

(n) Impaired loans and advances to customers

	As at 31 Dec 2006	As at 31 Dec 2005
	HK$'000	HK$'000
Gross impaired loans and advances to customers	**846,639**	1,170,839
Impairment allowance – Individually assessed	**(76,360)**	(274,021)
	770,279	896,818
Gross impaired loans and advances as a % of total loans and advances to customers	**1.67%**	2.73%

Individually assessed impairment allowance was made to write down the carrying value of the advances to the discounted value of future recoverable amounts, including from realization of collateral.

(o) Overdue loans and advances to customers

	As at 31 Dec 2006		As at 31 Dec 2005	
	HK$'000	**% on total loans and advances to customers**	HK$'000	% on total loans and advances to customers
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	**36,759**	**0.07**	40,244	0.09
– 1 year or less but over 6 months	**258,965**	**0.51**	92,748	0.22
– over 1 year	**563,515**	**1.11**	933,170	2.17
	859,239	**1.69**	1,066,162	2.48
Secured overdue loans and advances	**767,533**		860,601	
Unsecured overdue loans and advances	**91,706**		205,561	
	859,239		1,066,162	
Market value of collateral held against the secured overdue loans and advances	**1,179,363**		1,236,616	
Individual impairment allowance made	**70,702**		217,950	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the year-end, loans repayable on demand are classified as overdue either when a demand for repayment has been served on the borrower but repayment has not been made in accordance with the demand notice, and/or when the loans have remained continuously outside the approved limit advised to the borrower for more than the overdue period in question.

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

(p) Other overdue assets

	As at 31 Dec 2006	As at 31 Dec 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	**1,198**	–
	1,198	2,725
Held-to-maturity investments which have been overdue for:		
– over 1 year	**15,553**	15,510

(q) Rescheduled loans

	As at 31 Dec 2006		As at 31 Dec 2005	
	HK$'000	**% on total loans and advances to customers**	HK$'000	% on total loans and advances to customers
Rescheduled loans	**16,393**	**0.03**	25,077	0.06

Rescheduled loans 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 loans to customers are stated net of any advances that have subsequently become overdue for over 3 months and reported as overdue advances in note (o).

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

(r) Repossessed assets

	As at 31 Dec 2006	As at 31 Dec 2005
	HK$'000	HK$'000
Included in loans and advances to customers and other accounts	**176,216**	207,758

(s) 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 31 Dec 2006	As at 31 Dec 2005
	HK$'000	HK$'000
Direct credit substitutes	**1,796,951**	958,516
Trade-related contingencies	**1,659,341**	1,058,462
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	**15,471,735**	12,846,765
– with an original maturity of 1 year or over	**2,938,186**	350,146
	21,866,213	15,213,889
Credit risk-weighted amounts	**2,762,347**	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) Derivatives

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

	As at 31 Dec 2006			As at 31 Dec 2005		
	Trading	**Hedging**	**Total**	Trading	Hedging	Total
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Currency derivatives						
Forwards	**29,142,597**	**–**	**29,142,597**	18,941,850	–	18,941,850
Swaps	**8,649,601**	**–**	**8,649,601**	11,521,138	–	11,521,138
Options purchased	**182,800**	**–**	**182,800**	91,471	–	91,471
Options written	**179,579**	**–**	**179,579**	84,553	–	84,553
Interest rate derivatives						
Forwards and futures	**–**	**–**	**–**	3,032,254	–	3,032,254
Swaps	**12,325,280**	**6,238,456**	**18,563,736**	6,897,921	12,074,747	18,972,668
Options purchased	**933,162**	**–**	**933,162**	1,298,984	–	1,298,984
Options written	**933,162**	**–**	**933,162**	1,298,984	–	1,298,984
	52,346,181	**6,238,456**	**58,584,637**	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.

Trading includes the Group's and the Company's proprietary positions in financial instruments, positions which arise from the execution of trade orders from customers and market making, and positions taken in order to hedge other elements of the trading book.

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

	As at 31 Dec 2006			As at 31 Dec 2005		
	Fair value		**Credit**	Fair value		Credit
	Assets	**Liabilities**	**risk-weighted amount**	Assets	Liabilities	risk-weighted amount
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Interest rate derivatives	**104,010**	**307,380**	**44,213**	157,286	387,765	74,175
Currency derivatives	**251,081**	**121,268**	**158,912**	70,858	55,468	85,145
	355,091	**428,648**	**203,125**	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 Group did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

(t) Segment reporting

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

(i) Business segments

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

Commercial banking business: It mainly comprises banking business, which includes retail banking, corporate 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.

	2006					
	Commercial banking	**Asset management**	**Investment banking**	**Unallocated**	**Inter-segment elimination**	**Consolidated**
	HKD'000	**HKD'000**	**HKD'000**	**HKD'000**	**HK$'000**	**HKD'000**
Net interest income	**1,061,497**	**37,832**	**–**	**(29,791)**	**–**	**1,069,538**
Other operating income	**1,152,558**	**15,335**	**–**	**22,361**	**–**	**1,190,254**
Operating income	**2,214,055**	**53,167**	**–**	**(7,430)**	**–**	**2,259,792**
Operating expenses	**(1,093,600)**	**(26,618)**	**–**	**(25,088)**	**–**	**(1,145,306)**
Operating profit before impairment	**1,120,455**	**26,549**	**–**	**(32,518)**	**–**	**1,114,486**
Impairment losses (charged for)/ written back on loans and advances	**(53,757)**	**18,657**	**–**	**–**	**–**	**(35,100)**
Impairment losses on held-to-maturity investments and available-for-sale securities	**(3,970)**	**(17,448)**	**–**	**–**	**–**	**(21,418)**
Impairment losses (charged for)/ written back	**(57,727)**	**1,209**	**–**	**–**	**–**	**(56,518)**
Net profit on disposal of held-to-maturity investments and available-for-sale securities	**67,893**	**–**	**–**	**–**	**–**	**67,893**
Operating profit/(loss)	**1,130,621**	**27,758**	**–**	**(32,518)**	**–**	**1,125,861**
Profit on disposal of a subsidiary	**–**	**1,073**	**–**	**–**	**–**	**1,073**
Net (loss)/profit on disposal of property and equipment	**(24,368)**	**(436)**	**–**	**96,688**	**–**	**71,884**
Revaluation gain on investment properties	**3,376**	**–**	**–**	**–**	**–**	**3,376**
Share of profits of associates	**3,437**	**10,844**	**117,169**	**–**	**–**	**131,450**
Profit before taxation	**1,113,066**	**39,239**	**117,169**	**64,170**	**–**	**1,333,644**
Income tax	**(191,380)**	**(3,051)**	**–**	**(11,695)**	**–**	**(206,126)**
Profit for the year	**921,686**	**36,188**	**117,169**	**52,475**	**–**	**1,127,518**

Attributable to:						
Equity shareholders of the Company	**921,686**	**34,805**	**117,169**	**52,475**	**–**	**1,126,135**
Minority interests	**–**	**1,383**	**–**	**–**	**–**	**1,383**
Profit for the year	**921,686**	**36,188**	**117,169**	**52,475**	**–**	**1,127,518**
Depreciation for the year	**112,688**	**392**	**–**	**(2,750)**	**–**	**110,330**
Segment assets	**89,671,917**	**–**	**–**	**1,499,224**	**(383,790)**	**90,787,351**
Interest in associates	**9,107,342**	**937,255**	**1,309,777**	**–**	**–**	**11,354,374**
Total asset	**98,779,259**	**937,255**	**1,309,777**	**1,499,224**	**(383,790)**	**102,141,725**
Segment liabilities	**82,389,578**	**–**	**–**	**287,219**	**(767,143)**	**81,909,654**
Capital expenditure incurred during the year	**9,314,641**	**2,628**	**–**	**15**	**–**	**9,317,284**

	2005					
	Commercial banking	Asset management	Investment banking	Unallocated	Inter-segment elimination	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HK$'000	HKD'000
Net interest income	1,100,952	34,821	–	(36,516)	–	1,099,257
Other operating income	798,698	61,221	–	11,475	–	871,394
Operating income	1,899,650	96,042	–	(25,041)	–	1,970,651
Operating expenses	(1,049,390)	(24,436)	(9)	(20,853)	–	(1,094,688)
Operating profit before impairment	850,260	71,606	(9)	(45,894)	–	875,963
Impairment losses written back/ (charged for) on loans and advances	83,379	(25,835)	–	–	–	57,544
Impairment losses (charged for)/ written back on held-to-maturity investments and available-for-sale securities	(2,567)	(2,818)	–	3,874	–	(1,511)
Impairment losses (charged for)/ written back on properties	(354)	–	–	1,871	–	1,517
Impairment losses written back/ (charged for)	80,458	(28,653)	–	5,745	–	57,550
Operating profit/(loss)	930,718	42,953	(9)	(40,149)	–	933,513
Loss on disposal of associates	–	–	–	(6,352)	–	(6,352)
Net profit on disposal of property and equipment	226,347	–	–	13,875	–	240,222
Revaluation gain on investment properties	2,140	–	–	–	–	2,140
Share of (losses)/profits of associates	(10,501)	(3,135)	59,759	–	–	46,123
Profit before taxation	1,148,704	39,818	59,750	(32,626)	–	1,215,646
Income tax	(101,661)	(7,160)	–	(3,385)	–	(112,206)
Profit for the year	1,047,043	32,658	59,750	(36,011)	–	1,103,440
Attributable to:						
Equity shareholders of the Company	1,047,043	32,613	59,750	(36,011)	–	1,103,395
Minority interests	–	45	–	–	–	45
Profit for the year	1,047,043	32,658	59,750	(36,011)	–	1,103,440
Depreciation for the year	116,800	298	–	(4,261)	–	112,837
Segment assets	81,777,136	1,295,604	–	1,035,367	(362,609)	83,745,498
Interest in associates	–	108,284	1,182,896	–	–	1,291,180
Total asset	81,777,136	1,403,888	1,182,896	1,035,367	(362,609)	85,036,678
Segment liabilities	74,660,342	12,869	–	1,396,145	(488,531)	75,580,825
Capital expenditure incurred during the year	53,237	585	–	112	–	53,934

(ii) *Geographical segments*

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

	2006					
	Hong Kong	**Mainland China**	**USA**	**Others**	**Inter-segment elimination**	**Consolidated**
	HKD'000	**HKD'000**	**HKD'000**	**HKD'000**	**HK$'000**	**HKD'000**
Operating income from external customers	**2,106,118**	**70,394**	**70,019**	**13,261**	**–**	**2,259,792**
Total assets	**90,309,891**	**13,043,465**	**1,792,687**	**2,789,290**	**(5,793,608)**	**102,141,725**
Capital expenditure incurred during the year	**201,606**	**9,115,098**	**205**	**375**	**–**	**9,317,284**

	2005					
	Hong Kong	Mainland China	USA	Others	Inter-segment elimination	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HK$'000	HKD'000
Operating income from external customers	1,878,501	36,844	54,853	453	–	1,970,651
Total assets	83,788,186	2,060,081	1,776,016	612,632	(3,200,237)	85,036,678
Capital expenditure incurred during the year	45,931	2,718	460	4,825	–	53,934

(u) Capital adequacy ratio

	As at 31 Dec 2006	As at 31 Dec 2005
Unadjusted capital adequacy ratio	**17.09%**	16.01%

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 for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

(v) Capital base after deductions

	As at 31 Dec 2006	As at 31 Dec 2005
	HK$'000	HK$'000
Core capital		
Paid up ordinary share capital	**5,023,422**	3,197,859
Share premium	**6,474,230**	1,840,212
Reserves	**6,722,949**	2,953,640
Minority interests	**–**	536
Deduct: Goodwill	**(1,007,749)**	(1,007,749)
Total core capital	**17,212,852**	6,984,498
Eligible supplementary capital		
Reserves on revaluation of holding of securities not held for trading purposes	**461,135**	332,076
Collective impairment allowances for impaired assets and regulatory reserve	**629,686**	528,790
Perpetual subordinated debt	**1,958,353**	2,016,390
Term subordinated debt	**1,942,973**	467,192
Total eligible supplementary capital	**4,992,147**	3,344,448
Total capital base before deductions	**22,204,999**	10,328,946
Deductions from total capital base	**(10,811,460)**	(950,528)
Total capital base after deductions	**11,393,539**	9,378,418

(w) 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 Hong Kong Monetary Authority.

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

	As at 31 Dec 2006				As at 31 Dec 2005			
Equivalent in HK$'000	**US dollars**	**Renminbi**	**Other**	**Total**	US dollars	Renminbi	Other	Total
Spot assets	**29,281,696**	**755,622**	**3,166,650**	**33,203,968**	28,078,183	1,327,251	5,453,586	34,859,020
Spot liabilities	**(27,368,864)**	**(443,806)**	**(4,589,986)**	**(32,402,656)**	(31,167,025)	(549,815)	(5,084,950)	(36,801,790)
Forward purchases	**18,010,065**	**996**	**7,523,379**	**25,534,440**	16,617,043	104,658	3,758,734	20,480,435
Forward sales	**(19,944,897)**	**–**	**(6,086,158)**	**(26,031,055)**	(13,674,662)	(104,573)	(4,122,558)	(17,901,793)
Net options position	**869**	**–**	**(869)**	**–**	(179)	–	179	–
Net (short)/long position	**(21,131)**	**312,812**	**13,016**	**304,697**	(146,640)	777,521	4,991	635,872
Net structural position	**–**	**199,226**	**48,565**	**247,791**	–	–	–	–

The net options position is calculated using the model user approach, which has been approved by the Hong Kong Monetary Authority.

(x) 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
As at 31 Dec 2006				
Asia and Pacific excluding Hong Kong	**8,531,581**	**93,794**	**8,001,926**	**16,627,301**
of which Australia	**2,607,386**	**649**	**17,401**	**2,625,436**
of which Mainland China	**2,667,315**	**92,325**	**6,604,283**	**9,363,923**
Caribbean	**–**	**–**	**4,611,483**	**4,611,483**
of which Bermuda	**–**	**–**	**840,479**	**840,479**
of which Cayman Islands	**–**	**–**	**3,450,214**	**3,450,214**
Western Europe	**10,491,879**	**1,880**	**4,138,607**	**14,632,366**
of which France	**705,617**	**–**	**818,122**	**1,523,739**
of which Germany	**1,785,231**	**–**	**3,963**	**1,789,194**
of which Netherlands	**912,490**	**–**	**828,935**	**1,741,425**
of which United Kingdom	**2,933,954**	**734**	**1,036,088**	**3,970,776**

As at 31 Dec 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

FINAL DIVIDEND

At the annual general meeting to be held on Thursday, 17 May 2007 ("**Annual General Meeting**"), the Directors will propose a final dividend of HK$0.056 per share which, together with the interim dividend of HK$0.077 per share paid on 12 September 2006, will constitute a total dividend of HK$0.133 per share for the year 2006. Shareholders whose names are on the Register of Members at the close of business on Thursday, 17 May 2007 will be entitled to the proposed final dividend. The dividend warrants will be sent to Shareholders by ordinary mail on or about Wednesday, 23 May 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 15 May 2007 to Thursday, 17 May 2007, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged 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 for registration not later than 4:30 p.m. on Monday, 14 May 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

1.0 Review of Operations

Hong Kong benefited from its increasing economic integration with China and enjoyed a year of prosperity in 2006. Fuelled by China's robust economic growth, its trade and cross-border bilateral capital flows via the local entrepot flourished and led to a substantial increase in related lending activities in Hong Kong. Meanwhile, fervent interest by global investors in Chinese investment opportunities attracted an abundance of initial public offerings by Chinese state-owned enterprises and large Chinese state-owned banks. The strong liquidity inflows resulting from that and from the continued appreciation of the Renminbi ("RMB") kept the Hong Kong Interbank Offer Rate ("HIBOR") at depressed levels, and drove the spread between the local Prime lending rate and HIBOR to as high as 4%. Buoyant turnover also saw the local stock market breaching new highs during the year, which in turn generated a multiplier wealth effect and boosted local consumption sentiment. Domestic demand was further supported by the record six-year low unemployment rate and by rising wages.

While the performance of banks thrived under such favourable economic conditions, the industry as a whole was not free from concerns. Questions remain as to the impact on the market of the Mainland Chinese government's continued tightening measures to curb economic overheating. The uncertain US interest rate outlook and growing domestic inflation in Hong Kong also pose additional challenges to the local financial industry.

2.0 Corporate Developments

In 2006, CITIC International Financial Holdings Limited (the "Group") stood firm on its resolve to reinforce its core business performance and to strive for strategic breakthrough on strengthened foundations. Accordingly, the Group took steps to grasp all necessary market opportunities during the year. As the offshore financial flagship of the CITIC Group ("CITIC"), the Group's mission is to establish the CITIC brand in international banking and financial services. The Group has put in place a unique strategic business development framework that is designed to maximise the synergies between CITIC's onshore and offshore financial services businesses, and to showcase CITIC's outstanding international business competencies and management standards.

During the year, the Group put in motion a series of strategic plans and moves. On 31 March 2006, the Group announced its acquisition of a 19.9% stake in China CITIC Bank ("CNCB") at a purchase price equivalent to 1.153 times 19.9% of the audited RMB net book value of CNCB for the year ended 31 December 2005 prepared in accordance with International Accounting Standards. Subsequent to the announcement, CITIC increased CNCB's capital again through a RMB 5 billion cash injection on 30 June 2006, and later through an additional injection of RMB 2.4 billion of CNCB's retained profits at end-December 2006. As a result, the Group's stake in CNCB was diluted to 15.17%. The enhanced depth of collaboration between the Group and CNCB is expected to create better leverage for the Group to capture the enormous potential in the PRC banking industry.

On 23 November 2006, the Group announced that it has forged a strategic alliance with the world-renowned Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA"), through which BBVA was to subscribe for an initial effective 15% of the Group's enlarged issued share capital (post its stake acquisition in CNCB) at a price of HK$5.83 per share. The 15% stake was to comprise 12% new shares to be issued by the Group and 3% existing shares of the Group to be sold by CITIC. The Group has also immediately commenced second-stage discussions with BBVA to integrate their businesses in Asia, and targets to complete the discussions within a six-to nine-month time frame. The initial focus will be to leverage on the Group's wholly-owned subsidiary, CITIC Ka Wah Bank Limited ("CKWB") as the single platform for the development of corporate banking and global financial markets businesses in Asia. This transaction is meaningful as this allows the Group to build regional competencies and to establish effective global linkages for its commercial banking platform. In addition to establishing a business cooperation framework, the second-stage discussions will also include arrangements for the merger and acquisition of BBVA's existing wholesale banking business in Asia by CKWB, which will be aligned with an increase by BBVA of its shareholding interest in the Group.

BBVA is one of the leading global banks with operations that span retail, wholesale and investment banking businesses in 32 countries. It is currently the leading bank by assets in Spain, and has a strong presence in the European and Latin American markets. As at 31 December 2006, BBVA had total assets of approximately EUR 411.9 billion (or HK$4,217.6 billion), and reported net profit for the full year of 2006 of approximately EUR 4.7 billion (or HK$48.5 billion).

The Group is pleased to announce that its acquisition of a strategic stake in CNCB was completed on 29 December 2006. Meanwhile, the first-stage sale of the Group's shares to BBVA was also approved by its independent shareholders at the Extraordinary General Meeting on 9 February 2007, and was duly completed on 1 March 2007. It is expected that the second-stage discussions will be completed in August 2007 at the latest.

The Group is confident that the strong strategic alliance created by the above share transactions will greatly enhance the Group's cross-border capabilities. The synergies generated by the complementary competencies of CNCB, BBVA and CKWB in their unique "tripartite" commercial banking business model will form a solid infrastructural framework for realising the Group's vision to create the CITIC international banking franchise.

The Group's non-bank financial businesses also successfully went through meaningful corporate restructurings in 2006 that are expected to have important and far-reaching impact on their respective efforts to reposition their businesses and on their future developments.

In May 2006, CITIC Capital Holdings Limited ("CCHL") transferred its equity capital markets ("ECM") business (comprising Corporate Finance and Brokerage) to CITIC Securities (HK) Company Limited and repositioned itself as an investment management and advisory firm. Following the restructuring, CCHL is now focused on its core businesses of private equity, asset management, real estate financing and structured finance.

In December 2006, CITIC International Assets Management Limited ("CIAM") significantly strengthened its capital base with the introduction of three foreign strategic investors. By allowing CIAM to leverage on the different but complementary strengths of these new investors and to benefit from synergies generated from their collaboration, CIAM will have an enhanced base from which to accelerate the development of its direct investment business in China.

3.0 Business Performance

3.1 Earnings

For the year ended 31 December 2006, the Group reported operating profit before impairment allowances of HK$1,114 million, representing a significant 27.2% over 2005. The growth was mainly attributed to a strong 36.6% growth in non-interest income, which helped to offset a slight 2.7% decline in net interest income and a 4.6% rise in operating expenses. As the credit cycle normalised, the Group recorded a HK$57 million charge in impairment losses in 2006, as compared to a HK$58 million release in impairment losses in 2005. Profits from associated companies also rose sharply by 185.0% over 2005 to HK$131 million during the year. Although the sizable one-off gain of HK$227 million from the sale of Ka Wah Bank Centre recorded in 2005 was not repeated in 2006, the Group still managed to register a slight year-on-year growth of 2.1% in its profit attributable to shareholders for 2006 to HK$1,126 million.

3.2 Net Interest Income

During the year, the Group's interest income rose markedly by 36.5% to HK$4,106 million, helped by the persistently healthy Prime-HIBOR spread during the year, and also by strong loan growth as CKWB's efforts to strengthen its core business fundamentals started to generate positive results.

However, the three-month HIBOR climbed significantly by 1.2 percentage points to 4.3% over 2005. That, coupled with the 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 59.2% rise in overall interest expense. As a result, net interest income declined by 2.7% to HK$1,070 million.

Nevertheless, this represents a notable improvement from the sharp 11.9% year-on-year decline in net interest income as recorded in the first half of 2006. Apart from the increase in interest income generated by the strong loan growth momentum that continued into the second half of 2006, CKWB undertook two initiatives during the period that helped to substantially reduce interest expense. It recalled its US$300 million subordinated debt in July 2006, and took decisive steps to reduce its held-to-maturity fixed income investment portfolio from approximately HK$17.2 billion at the end of 2005 to HK$10.2 billion at the end of 2006.

Although CKWB issued a US$250 million subordinated debt in December 2006, it was at a much reduced coupon rate compared to the issue recalled in July. (Please see 5.143.)

Indeed, after adjusting for the funding cost on its fund investments by deducting it from interest expenses, the Group's net interest margin stood at 1.84% in 2006, up 4 basis points as compared to 1.80% in 2005.

3.3 Non-Interest Income

The Group delivered an outstanding 36.6% growth in non-interest income to HK$1,190 million as compared to 2005. The growth was mainly derived from CKWB's fund investments, corporate loans related fee income as well as retail banking fee and commission income. The share of non-interest income in the Group's operating income rose significantly to 52.7% in 2006 from 44.2% in 2005.

3.4 Operating Expenses

Faced with a return of inflation as well as rising wages and rents, the Group's operating expenses rose 4.6% compared to a year ago to HK$1,145 million. Apart from the rise in staff-related costs, the Group reported one-time relocation expenses related to CKWB's office premise rationalisation plan. However, the reduction in equipment and depreciation expenses and the significant rise in operating income helped to reduce the Group's cost to income ratio from 55.6% in 2005 to 50.7% in 2006.

3.5 Impairment Allowances

The Group lent conservatively and strived to continually improve its asset quality. However, with the credit cycle normalising in 2006, the Group reported a HK$98 million charge for its individually assessed loans and a HK$21 million release for its collectively assessed loans during the period. That, coupled with a recovery of HK$42 million in bad debts, resulted in HK$35 million in net impairment losses charged on loans and advances in 2006. Including impairment losses on other assets, the Group registered a HK$57 million net charge in impairment losses in 2006, as compared to a net release of HK$58 million in 2005.

3.6 Final Dividend

The Board of Directors proposed a final dividend of HK$0.056 per share. Together with an interim dividend of HK$0.077 per share, the total dividend for 2006 will amount to HK$0.133 per share, representing a total dividend pay-out ratio of 50.3% for the year.

4.0 Asset Quality

4.1 Asset, Loan, and Deposit Sizes

The Group's asset size expanded significantly by 20.1% from the end of 2005 to HK$102.1 billion as at 31 December 2006. This was mainly attributed to a 18.0% rise in total loans from 2005 year-end to HK$51.2 billion and to the successful stake acquisition in CNCB. During the year, loan growth was driven mainly by a rise in loans for use outside Hong Kong, financial sector related loans, wholesale and retail loans, and trade finance. Total deposits grew by 17.4% year-on-year to HK$72.7 billion.

4.2 Asset Quality Indicators

During the year, the Group made improvements in several asset quality indicators. Its impairment loans ratio was reduced from 2.73% as at 31 December 2005 to 1.67% as at 31 December 2006. In addition to the general improvement in asset quality, it was due more significantly to the exclusion of the impaired loans of CIAM in the Group's consolidated account as at year-end date following the reduction of the Group's stake in it to 40%. The Group's coverage expanded from 92.7% as at 2005 year-end to 98.0% as at 31 December 2006.

4.3 Financial Position

As at 31 December 2006, the Group's unadjusted capital adequacy ratio was 17.1%. Its loans to deposits ratio was 70.4%, and its loans to total assets ratio was 50.1%.

CITIC International Financial Holdings' Key Financial Indicators

	31 Dec 2006	31 Dec 2005
Unadjusted capital adequacy	**17.1%**	16.0%
Loans to deposits	**70.4%**	70.1%
Loans to total assets	**50.1%**	51.0%
Impaired loans	**1.67%**	2.73%
Coverage*	**98.0%**	92.7%
Loan loss coverage	**38.9%**	48.6%
Collective assessment coverage	**0.49%**	0.68%

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

5.0 Core Business Development

Commercial Banking Business

5.1 CITIC Ka Wah Bank Limited ("CKWB")

5.11 Operating Environment

CKWB reported outstanding performances by all its major business lines in 2006, as its efforts to strengthen its core businesses and to build new competencies started to yield results. It also benefited by grasping opportunities arising from the robust economic growth in Hong Kong and China.

More significantly, however, the results affirmed the validity of its strategy to transform itself from a traditional money-lending commercial bank into a solutions bank catering to the financial needs of its customers, and gave evidence that the right conditions have been put in place to enhance its future growth. With its tripartite commercial banking model with CNCB and BBVA largely confirmed which will enable all parties to leverage synergistic capabilities, CKWB is now well placed to strive for its transformation to become the best PRC Asian regional bank.

5.12 Business Performance

5.121 Earnings

In 2006, CKWB accounted for 81.4% of the Group's net profit, as such its overall results performance was largely in line with that of the Group. During the year, CKWB reported operating profit before impairment allowances of HK$1,120 million, representing a significant 31.8% over 2005. The growth was mainly attributed to a strong 44.3% growth in non-interest income, which helped to offset a slight 3.6% decline in net interest income and a 4.2% rise in operating expenses. As the credit cycle normalised, CKWB recorded a HK$58 million charge in impairment losses in 2006, as compared to a HK$80 million release in impairment losses in 2005. Given that the sizable one-off gain of HK$227 million from the sale of Ka Wah Bank Centre recorded in 2005 was not repeated in 2006, CKWB reported a 12.3% decline in profit attributable to shareholders to HK$918 million as compared to 2005.

5.122 Net Interest Income

During the year, the persistently healthy Prime-HIBOR spread and CKWB's efforts to strengthen its core business fundamentals resulted in strong performances by both its wholesale and retail loan portfolios. As a result, its interest income rose significantly by 37.1% to HK$4,082 million. However, the sharp rise in market interest rates led to a 60.9% rise in interest expenses, and caused its net interest income to contract mildly by 3.6% to HK$1,061 million in 2006. After adjusting for the funding cost of its fund investments, CKWB's net interest margin stood at 1.85% in 2006, up 3 basis points as compared to 1.82% in 2005.

5.123 Non-Interest Income

In 2006, strong performances by CKWB's core businesses contributed to a significant 44.3% growth in its non-interest income to HK$1,153 million as compared to 2005. The growth was mainly derived from a 81.2% increase in gross income from fund investments, a 51.4% increase in corporate loans related fee income, a 39.7% increase in retail banking fee and commission income as well as a 62.8% increase in foreign exchange trading gains. The share of non-interest income in its operating income rose significantly to 52.1% in 2006 from 42.0% in 2005.

5.124 Operating Expenses

CKWB's operating expenses for 2006 rose by 4.2% over 2005, 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. However, the reduction in its equipment and depreciation expenses and the significant rise in its operating income helped to reduce its cost to income ratio from 55.2% in 2005 to 49.4% in 2006.

5.125 Impairment Allowances

CKWB lent conservatively and strived to continually improve its asset quality. With the credit cycle normalising in 2006, CKWB recorded a HK$115 million charge in individually assessed loans and a HK$20 million release in collectively assessed loans. That, coupled with a recovery of HK$41 million in bad debts, resulted in HK$54 million in impairment losses charged on loans and advances in 2006. Including impairment on other assets, CKWB registered a HK$58 million net charge in impairment losses in 2006, as compared to a net release of HK$80 million in 2005.

5.13 Asset Quality

5.131 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 31 December 2006, CKWB's total assets were HK$89.7 billion, representing a 9.7% increase over 2005 year-end. Total loans rose significantly by 19.2% from 2005 year-end to HK$51.2 billion, driven mainly by a rise in loans for use outside Hong Kong, financial sector related loans, wholesale and retail loans, and trade finance. Total deposits grew by 17.6% from 2005 year-end to HK$73.2 billion.

5.132 Asset Quality Indicators

During the year, CKWB made improvements in several asset quality indicators. Its impairment loans ratio reduced from 1.89% as at 31 December 2005 to 1.67% as at 31 December 2006. Its coverage expanded from 87.8% as at 2005 year-end to 98.0% as at 31 December 2006. Meanwhile, its mortgage delinquency ratio and credit card charge-off ratio remained at 0.14% and 1.4% respectively as at 2006 year-end.

5.133 Financial Position

As at 31 December 2006, CKWB's unadjusted capital adequacy ratio was 16.8%. Its average liquidity ratio was 40.4%. Its loans to deposits ratio was 69.9% and its loans to total assets ratio was 57.1%.

CITIC Ka Wah Bank's Key Financial Indicators

	31 Dec 2006	31 Dec 2005
Unadjusted capital adequacy	**16.8%**	16.4%
Average liquidity	**40.4%**	51.1%
Loans to deposits	**69.9%**	69.0%
Loans to total assets	**57.1%**	52.5%
Impaired loans	**1.67%**	1.89%
Coverage*	**98.0%**	87.8%
Loan loss coverage	**38.9%**	50.9%
Collective assessment coverage	**0.49%**	0.69%
Mainland loans to total customer advances	**13.2%**	15.1%

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

5.14 Business Development

5.141 Retail Banking Group ("RBG")

RBG delivered excellent performance in 2006. Supported by the successful launch of its uniquely positioned wealth management platform and underpinned by the healthy interest rate and investment environment, its net interest income and non-interest income grew by 31.5% and 14.6% respectively over 2005. Coupled that with prudent cost control and good asset quality, RBG achieved outstanding results of HK$358 million in profit before tax, representing a remarkable growth of 93.4% compared to 2005.

During the year, RBG focused its strategic development on the launch of its unique CITIC*first* wealth management platform. CITIC*first* aims at setting new standards for private wealth management by bringing private banking services and products to the retail segment. CITIC*first* was strongly received by customers since its full-scale marketing launch in March 2006. As at 2006 year-end, it has attracted close to 6,000 customers, of whom about 20% were new-to-bank customers. Total assets under management amounted to HK$21.4 billion. The launch of CITIC*first* also boosted CKWB's wealth management income in 2006, with a 42.0% year-on-year growth in its unit trust income, a 58.3% year-on-year growth in its securities income and a 106.3% year-on-year growth in its investment-linked products income. With the successful launch of CITIC*first*, CKWB's penetration of the affluent market rose significantly from 2% as at 2005 year-end to 4% as at 2006 year-end.

In mortgage lending, although CKWB did not match the rate-cutting competition by its peers, its market share of newly drawn residential mortgages in 2006 grew by 0.6 percentage points to 3.6% and its mortgage loan balances increased by 10.2%. This was achieved through the offer of a diversified range of mortgage solutions and other value-added services.

Meanwhile, CKWB also experienced good growth momentum in the small- and medium-sized enterprises business, registering total loans growth of 32.1% year-on-year, of which trade loans increased by 47.0% year-on-year.

5.142 Wholesale Banking Group ("WBG")

WBG kicked off its strategic repositioning in 2005 to transform itself from a pure lender to a full-service value-added solutions provider for its customers. It also focused on establishing key Centres of Excellence, and worked closely with the China Banking Division to promote business collaboration and referrals with CNCB. Such efforts yielded encouraging initial results in 2006. WBG achieved a 27.1% increase in its lending business and a significant 63.2% rise in its non-interest income while managing to hold its costs steady in 2006. As a result, WBG recorded a satisfactory 12.1% growth in its profit before tax.

During the year, all Centres of Excellence performed well and significantly contributed to WBG's operating income growth. Its expanded Syndication Department completed 24 syndicated loans in 2006, including 17 syndicated loans for which it acted as lead manager. Total underwritten amount for these syndicated deals totalled HK$8.8 billion. Meanwhile, its Commercial Banking Department also delivered strong results, with its trade finance growth outperforming the overall market.

5.143 Treasury and Markets Group ("TMG")

TMG continued to strengthen its cooperation with RBG and WBG to promote the development of its customer-driven business, and to broaden its structured product distribution channels and strengthen its cross-selling capabilities. During the year, its fund investments portfolio continued to record steady and satisfactory returns, providing an important source of non-interest income for CKWB.

In December 2006, CKWB successfully issued a US$250 million five-year subordinated debt. Issued at par, this subordinated debt carries a coupon of three-month USD LIBOR plus 168 basis points, with an option to redeem after one year at a discount of 99%. As a replacement for the US$300 million subordinated debt that CKWB redeemed in July 2006, this issue helps to significantly reduce CKWB's related interest expense. The proceeds from the issue will be used to maintain CKWB's capital adequacy ratio in order to support its normal business growth. Its shorter tenor and one-year callable feature also give CKWB greater flexibility as it reviews its capital structure needs following its business integration with BBVA's Asian operations.

5.144 China Banking

CKWB's China Banking business continued to make good progress. China International Finance Company Limited (Shenzhen) ("CIFC") continued to record steady growth in its earnings, and has received approval from the China Banking Regulatory Commission to apply for an upgrade to a locally incorporated bank. CKWB is confident that the upgraded CIFC will create a lot more possibilities for collaboration with CNCB and BBVA in the future.

Its Shanghai branch achieved profitability again in 2006. Its China mortgage business delivered satisfactory performance, and it has also begun to offer wealth management products. Having received its derivatives licence in April 2006, it has tested the market with the launch of two structured deposit products. Meanwhile, in October 2006, CKWB's Beijing representative office was formally upgraded to a branch. The new branch will allow CKWB to offer a diversified range of cross-border solutions and services to customers in the Pan-Bohai economic region and in the northern China region in order to cater to their financing needs.

Looking ahead, CKWB will focus on developing a cross-border business platform to offer a full range of financing solutions to Greater China and overseas customers who are active in the two-way business between China and the rest of the world and in international trade, in particular to support and serve the Mainland operations of overseas customers as well as to help Mainland customers in their overseas development needs.

In order to position itself as the ideal business partner for its customers, CKWB will deepen its collaboration with CNCB to leverage each other's complementary strengths, provide one-stop cross-border value-enhancing solutions, and jointly maximise the value of the "CITIC" financial services brand.

5.15 Awards

CKWB received several awards in 2006. These included the "Hong Kong Awards for Industries 2006: Productivity and Quality Certificate of Merit" bestowed by the Hong Kong Productivity Council, the "2005 Outstanding Retail Sales Volume – Gold Prize" awarded by VISA International, and the "Caring Company Logo" awarded by the Hong Kong Council of Social Service for the third consecutive year. Additionally, CKWB also received recognition for the quality of its talent pool, with one of its best performing staff winning both The Hong Kong Institute of Bankers Outstanding Financial Planner Grand Award 2006 and the Fourth Annual Hong Kong Financial Planner of the Year Bronze Award.

5.2 China CITIC Bank ("CNCB")

The Group completed its acquisition of a 15.17% stake in CNCB on 29 December 2006, and has also appointed two directors to the Board of CNCB. Through this board representation, the Group will be in a position to exercise influence over CNCB. This is particularly important to strengthen management communication and cooperation between CNCB and the Group's subsidiaries. It will also further enhance the tripartite cooperation between CKWB, CNCB and BBVA in order to complement each other's strengths, and to build a solid commercial banking platform to drive strong business growth in the future. The Group looks forward to providing support for the development of CNCB in such areas as risk management and corporate governance.

CNCB plans for an initial public offering are underway. To enable the Group to top up its investment holdings in CNCB upon its listing to maintain a minimum 15% stake, the Group has already secured shareholders' approval at an extraordinary general meeting to subscribe for additional shares in CNCB in due course.

Non-Bank Financial Businesses

5.3 CITIC International Assets Management Limited ("CIAM")

5.31 Business Performance

In 2006, CIAM diligently pursued and completed its efforts to restructure itself and to consolidate its portfolio of existing investments in order to establish a solid foundation for future growth. During the year, CIAM's performance was affected by the fact that the huge gain from the disposal of problem assets recorded in 2005 was not repeated and that its investment activities were affected by market volatility, as a result, its consolidated income fell 39.8% to HK$58 million as compared to 2005. After taking into account increased expenses related to its corporate restructuring, its operating profit fell 57.3% to HK$30 million as compared to 2005. A release in impairment losses in problem loans helped to lift its profit before tax to HK$42 million, which represented a 21.9% decline over 2005. Profit attributable to shareholders amounted to HK$38 million, a decline of 24.9% compared to the previous year.

5.32 Problem Loans and Assets

CIAM continued to make progress in managing its problem loans and asset portfolio. During the year, in addition to successfully receiving HK$15 million cash for problem loan principal, it sold collaterals at favourable prices which totalled approximately HK$40 million. As a result, it registered over HK$12 million net release in impairment losses on its aggregate problem loans and debt-swapped assets. As at 2006 year-end, the gross book value of its aggregate problem loans was reduced by 6.7% over 2005 year-end to over HK$342 million. With continuous efforts over the past few years, CIAM has successfully resolved close to 52.0% of its aggregate problem loans portfolio since its establishment in 2002.

5.33 Direct Investment and Structured Loans

Given CIAM's continued focus on its corporate restructuring during the year, it only registered a modest increase in its investment activities. Despite market volatility and impairment charges on certain individually assessed projects, the successful listing of individual investments contributed to an appreciation of HK$22 million in its original direct investment and structured loan portfolio during the year. In the long run, CIAM is confident that this portfolio will generate more profits and value-added contributions.

5.34 Introduction of Strategic Shareholders

After months of selection and negotiation, CIAM successfully completed its corporate restructuring at the end of 2006 with the introduction of strategic investors through the issuance of new shares and the sale of part of its existing shares by the Group. The Group remains the single largest shareholder in CIAM. The three foreign investors all come from different backgrounds and offer different areas of know-how to CIAM. They include Japan's Asset Managers Co., Ltd, Bahrain's Ithmaar Bank B.S.C., and Mega Rider Offshore Limited which is backed by business persons in Southeast Asia. The three parties will invest about HK$1.4 billion in aggregate in exchange for a combined 60% shareholding in CIAM's enlarged share capital. Accordingly, the Group's shareholding in CIAM's enlarged share capital has been diluted to 40%. Through this shareholding restructuring, the Group received a cash consideration of HK$394 million for selling down part of its existing shares in CIAM as well as an interim dividend of HK$123 million declared by CIAM. Capitalising on the different backgrounds, regional networks and competencies of all the shareholders, CIAM will exploit synergies to turn a new page in its journey of exploring new direct investment opportunities in the Mainland.

5.4 CITIC Capital Holdings Limited ("CCHL")

5.41 Business Performance

CCHL underwent a corporate restructuring during the year to reposition itself as a leading China-focused international investment management and advisory firm with the most comprehensive alternative investments product coverage. As part of the restructuring, CCHL transferred its ECM business (comprising Corporate Finance and Brokerage) to CITIC Securities (HK) Company Limited ("CSHK"), whose parent company, CITIC Securities Co. Ltd., is a leading listed investment bank in China. Following the restructuring, CCHL is now focused on its core businesses in private equity, asset management, real estate financing and structured finance.

Leveraging its strong China-based business platform, CCHL reported remarkable year-on-year growth in its assets under management ("AUM") to more than US$1.1 billion at the end of 2006. Its profit attributable to equity shareholders grew 96.1% from a year ago to HK$234 million, partly attributed to the one-time gain from the above-mentioned restructuring.

5.42 Private Equity

In September 2006, CITIC Capital China Partners, L.P. ("CCCP"), CCHL's flagship China private equity fund, made a first closing at US$220 million. Given very strong investor interest, the fund is expected to well exceed its target fund size of US$250 million at its final closing scheduled in the first quarter of 2007. CCCP, which focuses on buy-outs and privatisations of state-owned enterprises, will be the largest and first-time private equity fund ever raised for China. Capitalising on CITIC Group's unrivalled business network in China, CCCP has developed a strong deal pipeline and has already made its first investment.

On the international front, CCHL's strategy is to invest in US and Japanese companies for which the firm can offer value-add with a China angle. During the year, CCHL closed its third investment in Japan, which was a defining management buy-out ("MBO") that it sourced and led as the sole investor. CCHL also made its third MBO investment in the US and clearly set itself out as the preferred partner for US mid-market buyout firms in investments that require China value-add.

5.43 Asset Management

CCHL continued to expand and diversify its investor base in the asset management business in 2006, both geographically and by investor type. Capturing the bullish sentiment of the China equity markets, its China equity products, in particular, performed well during the year. Given continuous overseas interest to invest in the region, CCHL plans to launch new products to capture these opportunities in 2007.

5.44 Real Estate and Structured Finance

CITIC Capital China Property Investment Fund, an investment property fund with a single property investment in Shanghai, raised additional capital and made an add-on investment in the same project in early 2006. To capture the positive market sentiment in China properties, the firm is now looking for opportunities to monetise this investment.

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. With a blue chip institutional investor in the US as anchor investor, the fund received overwhelming interest from investors and was over-subscribed at its final close. In less than a year, the fund was already more than 50% invested in five projects in different locations in China.

CCHL also partnered with Allco Finance Group, a well-known Australian structured finance group, to manage CITIC Allco Investments Limited, a fund that targets mezzanine finance opportunities in China. Launched at the end of 2005, the fund made three investments in 2006.

5.45 CITIC Securities (HK) Company Limited

CCHL continues to maintain a stake in the ECM business through a 20% ownership in CSHK. Activities in the Hong Kong capital markets were buoyant during 2006, with significant growth in daily market turnover registered by the stock market and in capital raised through initial public offerings. The ECM 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, a clear market leader in China's capital markets, CSHK is set to solidify the competitive niches of its ECM 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 their vast combined resources to focus on business development and tap into other mutually beneficial business areas.

6.0 Progress in Basel II Accord Implementation

The entry into force of the New Basel Capital Accord ("Basel II") in 2006 marked a monumental year for the Group's risk management efforts. Basel II is an effort by international banking supervisors to update the original international standards for measuring the adequacy of a bank's capital against credit risk, market risk and operational risk. Following years of preparation, CKWB successfully implemented in September 2006 a self-developed system that calculates and reports capital charges in accordance with the regulatory requirements of the Standardised Approach.

To calibrate probability of credit default, customer credit risk is quantitatively differentiated through a 14-grade expert judgment model. By 2006 year-end, CKWB has completed the regrading of all its corporate loans. Given the increasing importance of the PRC market, CKWB also enhanced its internal credit control system in the fourth quarter of 2006 to capture and monitor PRC loan exposures not only at the customer level but also at the transaction level. A non-PRC related customer to whom the loan is advanced for use in the PRC has been deemed an exposure to the PRC since then.

For market risk management, CKWB (from which the Group's main exposure is derived) has established a hierarchy of market risk limits, including policy, business and transaction limits with reference to the Bank's business goals, risk appetites and product scope. Each level consists of a series of limits, including profit and loss, position and sensitivity limits. Any excesses in limits will alert the attention of senior management and trigger appropriate actions when necessary.

CKWB has adopted value-at-risk (VaR), back-testing, stress testing, risk factor sensitivities, loss limits and other types of advanced and sophisticated tools for market risk control. At the same time, control policies and framework have been revised and refined. With such foundation, CKWB has successfully widened its financial product range and offered the best solutions to customers.

On operational risk management, the Group endeavoured to identify with international best practice through the revamp of its operational risk management framework. Accordingly, CKWB's operational risk is now anchored to the Risk Management Group to be managed as a separate category of risks besides credit risk and market risk at the bank level. CKWB's operational risk management policies are currently being revised and its framework is also being refined.

7.0 Human Resources Development

True to its vision and mission, the Group strives to adopt the best international standards and to build capabilities, and attributes its strategic accomplishments in 2006 to the dedication, diligence and innovativeness of its talented staff force.

The continuous economic boom and the thriving financial services industry in Hong Kong and China have created tremendous demand on qualified professionals and world-class managers. As a result, the banking industry as a whole experienced high staff turnover during the year. The Group places high priority on its on-going efforts to attract and retain talent through a combination of prudent people management practices, employee care and recreation programmes, and market-aligned compensation schemes (including the Share Option Scheme for long-term reward). Emphasis is also placed on performance management, with variable reward linked to results through differentiation and levelling.

At the same time, training and development remain at the core of the Group's talent development and retention strategy. The Group invests in building its talent pipeline by recruiting top graduates from reputable educational institutes for its Management Trainee Programme. In 2006, a total of 34 graduates from the PRC joined the programme. Meanwhile, the Group's staff force of 1,552 employees at year-end received an average of five training days during the year, covering business, technical, managerial, and personal effectiveness training as well as attainment of professional qualifications.

8.0 Future Development

The Group laid down its focus in 2006 to execute its blueprint for strategic business development. To ensure that it can strive for strategic breakthrough on solid foundations, the Group made improvements to the operational model of its fundamental businesses to raise its competitiveness and profitability. Meanwhile, to align with CITIC's vision to establish itself into a well-managed large-scale financial conglomerate with strong integrated cross-border capability, in particular with commercial banking at the core, the Group worked incessantly to design and construct an international business framework with unique competitive advantages and strong growth potential. In doing so, the Group strives to successfully execute its mission to build the CITIC international banking and financial services brand on the one hand, and to deliver on its promise to customers, shareholders and staff to drive growth and create value on the other hand.

Looking ahead into 2007, the Group will place priority on completing its second-stage cooperation discussions with BBVA as soon as possible. It will also seek to deepen its strategic cooperation with CNCB and BBVA. The offshore platform to be jointly built by the Group and BBVA will offer strong cross-border products and distribution support to complement CNCB's high growth business platform in the Mainland China, and will unleash the synergies that can be generated by the three-way strategic collaboration. The Group's management is confident that with its differentiated positioning under its unique tripartite commercial banking business model, it is well-placed to capture the immense cross-border business opportunities brought about by China's rapid economic growth, and the Group is also poised to work towards its goal to transform into the best PRC Asian regional banking group.

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

The Company had not redeemed any of its listed securities during the year ended 31 December 2006. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2006 except for the deviations from Code Provisions of A.4.1, B.1.1 and E.1.2 which are explained as follows:–

With respect to Code A.4.1, the Non-executive Directors of the Company are not appointed for a specific term. However, same as all other Directors of the Company, the Non-executive Directors 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 has, on 16 August 2005, established a Nomination and Remuneration Committee of which is chaired by Mr. Kong Dan, and its other members are Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Liu Jifu and Mr. Lo Wing Yat Kelvin. Although majority of the members of this Nomination and Remuneration Committee are Executive Directors of the Company, they cannot vote in decisions on 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 this Committee.

With respect to Code E.1.2, 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, Chief Executive Officer of the Company, to chair the meeting in accordance with Article 67 of the Articles of Association of the Company.

REVIEW BY THE AUDIT COMMITTEE

The financial statements of the Company for the year ended 31 December 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, 15 March 2007

As at the date of this announcement, the Chairman of the Company is Mr. Kong Dan; the Vice Chairman of the Company is Mr. Chang Zhenming; 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. Jose Barreiro, Mr. Chen Xiaoxian, Mr. Feng Xiaozeng, Mr. Manuel Galatas, 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."