



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 2007 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 2007. 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 2006 audited accounts.

Consolidated Income Statement for the year ended 31 December 2007

(Expressed in Hong Kong dollars)

	2007	2006
	HK\$'000	HK\$'000
Interest income	5,057,246	4,106,324
Interest expense	(3,698,377)	(3,036,786)
Net interest income	1,358,869	1,069,538
Fee and commission income	835,875	574,695
Fee and commission expense	(13,835)	(14,668)
Net fee and commission income	822,040	560,027
Net loss and write down on structured investment vehicles	(1,311,170)	–
Other net trading income	589,257	651,327
Net trading (loss)/income	(721,913)	651,327
Net expense from financial instruments designated at fair value through profit or loss	(249,014)	(69,736)
Net hedging gain	2,455	129
Other operating income	61,695	48,507
Operating income	1,274,132	2,259,792
Operating expenses	(1,233,664)	(1,145,306)
Operating profit before impairment	40,468	1,114,486
Impairment losses on loans and advances	(72,476)	(35,100)
Impairment losses written back/(charged for) on held-to-maturity investments	242	(3,957)
Impairment losses on available-for-sale securities	–	(17,461)
Impairment losses	(72,234)	(56,518)
Net profit on disposal of available-for-sale securities	6,905	90,199
Net loss on disposal of held-to-maturity investments	–	(22,306)

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Operating (loss)/profit	(24,861)	1,125,861
Gain on dilution of investment in associates	198,313	–
Profit on disposal of a subsidiary	–	1,073
Net profit on disposal of property and equipment	18,167	71,884
Revaluation gain on investment properties	60,104	3,376
Share of profits of associates	1,600,954	131,450
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Profit before taxation	1,852,677	1,333,644
Income tax	(216)	(206,126)
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Profit for the year	1,852,461	1,127,518
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Attributable to:		
Equity shareholders of the Company	1,852,461	1,126,135
Minority interests	–	1,383
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Profit for the year	1,852,461	1,127,518
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Dividends payable to equity shareholders of the Company attributable to the year:		
Interim dividend declared and paid during the year	–	246,517
Final dividend proposed after the balance sheet date	–	321,000
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	–	567,517
	<hr/>	<hr/>
Earnings per share		
<i>Basic</i>	32.86¢	34.66¢
<i>Diluted</i>	32.79¢	32.58¢

Consolidated Balance Sheet
as at 31 December 2007
(Expressed in Hong Kong dollars)

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Assets		
Cash and balances with banks, central banks and other financial institution	1,502,876	1,267,871
Placements with and advances to banks, central banks and other financial institutions	12,647,588	12,392,538
Trade bills	1,523,200	491,994
Trading assets	3,479,009	6,414,870
Securities designated at fair value through profit or loss	531,025	1,003,579
Loans and advances to customers and other accounts	67,704,297	51,906,002
Available-for-sale securities	22,125,403	4,973,450
Held-to-maturity investments	–	10,176,493
Interest in associates	20,635,639	11,477,510
Property and equipment		
– Investment property	238,380	124,776
– Other property and equipment	836,239	874,989
Goodwill	1,007,749	1,007,749
Tax recoverable	71,248	–
Deferred tax assets	82,374	29,904
Total assets	<u>132,385,027</u>	<u>102,141,725</u>
Equity and liabilities		
Deposits and balances of banks and other financial institutions	6,649,030	831,973
Deposits from customers	83,794,961	65,421,831
Trading liabilities	879,690	428,648
Certificates of deposit issued	6,863,124	7,257,719
Debt securities issued	2,314,394	2,300,889
Convertible bonds issued	7,648	247,191
Current taxation	6,760	112,681
Deferred tax liabilities	–	22,586
Other liabilities	1,459,451	1,384,810
Loan capital	3,926,390	3,901,326
Total liabilities	<u>105,901,448</u>	<u>81,909,654</u>
Equity		
Share capital	5,757,321	5,023,422
Reserves	20,726,258	15,208,649
Total equity attributable to equity shareholders of the Company	<u>26,483,579</u>	<u>20,232,071</u>
Total equity and liabilities	<u>132,385,027</u>	<u>102,141,725</u>

Consolidated Statement of Changes in Equity
for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	2007		2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January		20,232,071		9,455,853
Net income recognised directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches, subsidiaries and associates		787,384		7,056
– related borrowings		200		363
		787,584		7,419
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax		33,670		9,488
Release of revaluation reserve on disposal of properties		6,011		(1,549)
Available-for-sale securities				
– change in fair value		(337,476)		(37,338)
– transfer from equity to income statement on disposal		(7,356)		(79,221)
– transfer from equity to deferred tax		60,346		20,398
		(284,486)		(96,161)
Disposal of a subsidiary				
– exchange differences reserve		–		(199)
– fair value reserve		–		(28,513)
– retained profits		–		29,530
		–		818
Share of associates				
– fair value reserve		(10,910)		(423)
– share option reserve		8,167		9,644
		(2,743)		9,221
Profit for the year		1,852,461		1,127,518

	2007		2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total recognised income and expense for the year		2,392,497		1,056,754
Attributable to:				
– equity shareholders of the Company		2,392,497		1,055,371
– minority interests		–		1,383
		2,392,497		1,056,754
Dividends paid during the year		(322,056)		(438,591)
Minority interests attributable to associates/ subsidiaries acquired/disposed during the year		–		(1,919)
Movements in equity arising from capital transactions:				
Shares issued under the share option scheme		20,468		18,193
Conversion of convertible bonds into ordinary shares		240,205		1,074,521
Issuance of shares		3,897,789		9,062,679
Equity-settled share-based transactions		22,605		4,581
		4,181,067		10,159,974
Total equity at 31 December		26,483,579		20,232,071

Consolidated Cash Flow Statement
for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	2007	2006
	HK\$'000	HK\$'000
Operating activities		
Profit before taxation	1,852,677	1,333,644
Adjustments for non-cash items:		
Net loss and write down on structured investment vehicles	1,311,170	–
Impairment losses on loans and advances	72,476	35,100
Share of profits of associates	(1,600,954)	(131,450)
Revaluation gain on investment properties	(60,104)	(3,376)
Net profit on disposal of property and equipment	(18,167)	(71,884)
Net profit on disposal of available-for-sale securities	(6,905)	(90,199)
Net loss on disposal of held-to-maturity investments	–	22,306
Impairment losses (written back)/charged for on held-to-maturity investments	(242)	3,957
Impairment losses on available-for-sale securities	–	17,461
Profit on disposal of a subsidiary	–	(1,073)
Equity-settled share-based payment expenses	22,605	4,581
Amortisation of deferred expenses	71,852	65,978
Interest expense on convertible bonds	1,908	34,121
Depreciation on property and equipment	82,087	110,330
Dividend income from equity securities	(20,291)	(33,164)
Interest expense on loan capital	318,035	266,781
Gain on dilution of investment in associates	(198,313)	–
Foreign exchange differences	35,946	24,382
	<u>1,863,780</u>	<u>1,587,495</u>
(Increase)/decrease in operating assets		
Placements with and advances to banks, central banks and other financial institutions with original maturity beyond three months	(2,469,812)	(1,356,567)
Treasury bills with original maturity beyond three months	(499,609)	99,468
Certificates of deposit held with original maturity beyond three months	(100,043)	449,923
Trading assets	1,624,691	58,159
Securities designated at fair value through profit or loss	472,554	76,213
Loans and advances to customers, other accounts and trade bills	(16,525,959)	(8,566,774)
Held-to-maturity investments	9,988,152	6,432,528
Available-for-sale securities	(16,768,424)	970,777
	<u>(24,278,450)</u>	<u>(1,836,273)</u>
Increase/(decrease) in operating liabilities		
Deposits and balances of banks and other financial institutions	5,817,057	(3,325,473)
Deposits from customers	18,373,130	11,006,552
Trading liabilities	451,042	(232,489)
Certificates of deposit issued	(399,015)	(210,242)
Debt securities issued	4,944	6,284
Other liabilities	12,914	617,850
	<u>24,260,072</u>	<u>7,862,482</u>
Net cash generated from operations	<u>1,845,402</u>	<u>7,613,704</u>

	2007	2006
	HK\$'000	HK\$'000
Income tax paid		
Hong Kong Profits Tax paid	(192,373)	(130,325)
Overseas tax paid	(7,505)	(4,283)
Net cash generated from operating activities	1,645,524	7,479,096
Investing activities		
Dividends received from equity securities	20,291	33,164
Dividends received from associates	52,450	597
Purchase of property and equipment	(59,595)	(213,379)
Proceeds from disposal of property and equipment	29,143	186,985
Net cash outflow from disposal of a subsidiary	–	(340,828)
Purchase of an associate	(6,657,505)	–
Net cash used in investing activities	(6,615,216)	(333,461)
Financing activities		
Ordinary dividends paid	(322,056)	(438,591)
Interest paid on convertible bonds	(20)	(2,467)
Interest paid on loan capital	(319,337)	(355,061)
Proceeds from loan capital issued	1,949,500	1,942,230
Redemption of loan capital	(1,949,363)	(2,331,346)
Proceeds from debt securities issued	–	41,125
Proceeds from shares issued	3,918,256	18,193
Net cash generated from/(used in) financing activities	3,276,980	(1,125,917)
Net (decrease)/increase in cash and cash equivalents	(1,692,712)	6,019,718
Cash and cash equivalents at 1 January	12,031,996	6,012,278
Cash and cash equivalents at 31 December	10,339,284	12,031,996
Cash flows from operating activities include:		
Interest received	5,046,225	4,095,834
Interest paid	(3,246,327)	(2,711,111)

Notes:*(Expressed in Hong Kong dollars unless otherwise indicated)***1 Basis of preparation**

- (1) The financial information relating to the financial year ended 31 December 2007 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 2007 will be available from the Company's website and registered office.
- (2) The financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2006 annual accounts.
- (3) As a result of adopting HKFRS 7, Financial instruments: Disclosures, the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, and complying with the Banking (Disclosure) Rules, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.
- (4) The provision of Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for overseas branches of wholly-owned subsidiary, CITIC Ka Wah Bank Limited ("CKWB"), 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 is based on profit attributable to ordinary equity shareholders of the Company of HK\$1,852,461,000 (2006: HK\$1,126,135,000) and the weighted average of 5,636,649,176 ordinary shares (2006: 3,248,931,032 shares) in issue during the year.
- (6) The calculation of diluted earnings per share is based on adjusted profit attributable to ordinary equity shareholders of the Company of HK\$1,853,877,000 (2006: HK\$1,154,284,000) and the weighted average number of ordinary shares of 5,653,802,374 shares (2006: 3,543,462,848 shares), after adjusting for the effect of all dilutive potential ordinary shares.

2 Interest income

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Listed securities	450,986	518,780
Unlisted securities	488,512	398,183
Others	4,117,748	3,189,361
	<u>5,057,246</u>	<u>4,106,324</u>

All interest income and interest expenses included in the income statement refer to those interest income on financial assets or interest expense on financial liabilities that are not at fair value through profit or loss for the year ended 31 December 2007 and 31 December 2006.

Included in the above is interest income accrued on impaired financial assets of HK\$18,172,000 (2006: HK\$35,684,000) which includes interest income on unwinding of discount on loan impairment losses of HK\$1,820,000 (2006: HK\$28,766,000) for the year ended 31 December 2007.

3 Net fee and commission income

	2007	2006
	HK\$'000	HK\$'000
Fee and commission income:		
Bills commission	67,184	49,255
Cards related income	36,549	36,929
General banking services	52,373	49,273
Insurance	125,543	81,001
Investment and structured investment products	270,818	120,203
Loans, overdrafts and facilities fees	282,509	237,226
Others	899	808
	<u>835,875</u>	<u>574,695</u>
Fee and commission expense	(13,835)	(14,668)
	<u>822,040</u>	<u>560,027</u>
Net fee and commission income		
of which:		
Net fee and commission income (other than the amounts included in determining the effective interest rate) relating to financial assets and liabilities not at fair value through profit or loss		
– Fee and commission income	319,058	274,155
– Fee and commission expense	(4,641)	(3,754)
	<u>314,417</u>	<u>270,401</u>

4 Net trading (loss)/income

	2007	2006
	HK\$'000	HK\$'000
Net loss and write down on structured investment vehicle	(1,311,170)	–
Other net trading income:		
Gains less losses from dealing in foreign currencies	141,115	157,090
Gains less losses from trading securities	183,615	242,375
Gains less losses from other dealing activities	160,407	49,051
Interest income on trading assets		
– Listed	13,752	44,697
– Unlisted	73,937	131,186
Interest expense on trading liabilities	–	(2,089)
Dividend income from listed trading securities	–	164
Dividend income from unlisted trading securities	16,431	28,853
	<u>589,257</u>	<u>651,327</u>
	<u>(721,913)</u>	<u>651,327</u>

The Group's investments in structured investment vehicles ("SIVs") recorded a net loss and write down on SIVs of HK\$1,311,170,000 during the year, which represented the changes in fair value of the investments.

5 Net expense from financial instruments designated at fair value through profit or loss

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Net losses	(103,020)	(13,319)
Interest income		
– Listed	11,304	31,106
– Unlisted	22,899	10,134
Interest expense	(180,197)	(97,657)
	<u>(249,014)</u>	<u>(69,736)</u>

6 Net hedging gain

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Fair value hedge gain	<u>2,455</u>	<u>129</u>

7 Other operating income

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Dividend income from available-for-sale securities – Unlisted investments	3,860	4,147
Rental income from investment properties		
less direct outgoings of HK\$217,000 (2006: HK\$15,000)	5,201	2,918
Others	52,634	41,442
	<u>61,695</u>	<u>48,507</u>

8 Operating expenses

	2007	2006
	HK\$'000	HK\$'000
(a) Staff costs		
Salaries and other staff costs	646,596	596,520
Retirement costs	41,576	39,270
Share-based payment expenses		
– Equity-settled share-based payment expenses	22,605	4,581
– Cash-settled share-based payment expenses	12,828	11,650
	<u>723,605</u>	<u>652,021</u>
(b) Depreciation		
Depreciation of property and equipment		
– Assets held for use under operating leases	13,212	10,819
– Other assets	68,875	99,511
	<u>82,087</u>	<u>110,330</u>
(c) Other operating expenses		
Property and equipment expenses, excluding depreciation		
– Rental of property	84,565	73,589
– Others	71,317	67,984
Auditor's remuneration	5,484	5,102
Advertising	67,279	54,890
Communication, printing and stationery	63,085	60,003
Legal and professional fee	16,701	16,807
Others	119,541	104,580
	<u>427,972</u>	<u>382,955</u>
Total operating expenses	<u>1,233,664</u>	<u>1,145,306</u>

9 Impairment losses on loans and advances

	2007	2006
	HK\$'000	HK\$'000
Individual assessment		
– Additions	(158,954)	(155,899)
– Releases	11,037	57,999
– Recoveries	53,559	31,903
	<u>(94,358)</u>	<u>(65,997)</u>
Collective assessment written back	21,882	30,897
	<u>(72,476)</u>	<u>(35,100)</u>

10 Net profit on disposal of available-for-sale securities

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Net revaluation gain transferred from reserves	7,356	79,221
Net (loss)/profit arising in current year	<u>(451)</u>	<u>10,978</u>
	<u>6,905</u>	<u>90,199</u>

11 Income tax in the consolidated income statement

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	9,544	174,406
Under-provision in respect of prior years	<u>3,655</u>	<u>11,596</u>
	<u>13,199</u>	<u>186,002</u>
Current tax – Overseas		
Provision for the year	<u>10,761</u>	<u>6,888</u>
Deferred tax		
(Reversal)/origination of temporary differences	<u>(23,744)</u>	<u>13,236</u>
	<u>216</u>	<u>206,126</u>

The provision of Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the year. Taxation for overseas branches of the wholly-owned subsidiary, CITIC Ka Wah Bank Limited (“CKWB”), and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

12 Segment reporting

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, corporate banking and treasury activities.

Asset management: It mainly comprises direct investment and distressed assets management.

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

Business segments

	2007				
	Commercial banking	Asset management	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000 <i>(Note)</i>	HK\$'000	HK\$'000	HK\$'000
Net interest income	1,399,828	–	(40,959)	–	1,358,869
Other operating income	(98,019)	–	18,560	(5,278)	(84,737)
Operating income	1,301,809	–	(22,399)	(5,278)	1,274,132
Operating expenses	(1,179,048)	–	(59,894)	5,278	(1,233,664)
Operating profit before impairment	122,761	–	(82,293)	–	40,468
Impairment losses charged for on loans and advances	(72,476)	–	–	–	(72,476)
Impairment losses written back on held-to-maturity investments and available-for-sale securities	242	–	–	–	242
Impairment losses (charged for)/written back on properties	(30,068)	–	–	30,068	–
Impairment losses (charged for)/written back	(102,302)	–	–	30,068	(72,234)
Net profit on disposal of held-to-maturity investments and available-for-sale securities	6,905	–	–	–	6,905
Operating profit/(loss)	27,364	–	(82,293)	30,068	(24,861)
Gain on dilution of investment in associates	–	–	198,313	–	198,313
Net profit/(loss) on disposal of property and equipment	18,859	–	(692)	–	18,167
Revaluation gain on investment properties	60,104	–	–	–	60,104
Share of profits of associates	1,337,833	263,121	–	–	1,600,954
Profit before taxation	1,444,160	263,121	115,328	30,068	1,852,677
Income tax	38	–	(254)	–	(216)
Profit for the year	1,444,198	263,121	115,074	30,068	1,852,461
Attributable to:					
Equity shareholders of the Company	1,444,198	263,121	115,074	30,068	1,852,461
Minority interests	–	–	–	–	–
Profit for the year	1,444,198	263,121	115,074	30,068	1,852,461
Depreciation for the year	(83,069)	–	(2,165)	3,147	(82,087)
Segment assets	110,783,077	–	1,448,717	(482,406)	111,749,388
Interest in associates	18,138,043	2,497,596	–	–	20,635,639
Total assets	128,921,120	2,497,596	1,448,717	(482,406)	132,385,027
Segment liabilities	101,144,653	–	5,204,677	(447,882)	105,901,448
Capital expenditure incurred during the year	397,944	–	5,205	–	403,149

	2006				
	Commercial banking	Asset management	Unallocated	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'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	128,013	–	–	131,450
Profit before taxation	1,113,066	156,408	64,170	–	1,333,644
Income tax	(191,380)	(3,051)	(11,695)	–	(206,126)
Profit for the year	921,686	153,357	52,475	–	1,127,518
Attributable to:					
Equity shareholders of the Company	921,686	151,974	52,475	–	1,126,135
Minority interests	–	1,383	–	–	1,383
Profit for the year	921,686	153,357	52,475	–	1,127,518
Depreciation for the year	112,688	392	(2,750)	–	110,330
Segment assets	89,671,917	–	1,376,088	(383,790)	90,664,215
Interest in associates	9,107,342	2,370,168	–	–	11,477,510
Total assets	98,779,259	2,370,168	1,376,088	(383,790)	102,141,725
Segment liabilities	82,389,578	–	287,219	(767,143)	81,909,654
Capital expenditure incurred during the year	4,711,470	2,628	15	–	4,714,113

Note: The core business of CITIC Capital Holdings Ltd. for the year 2007 and 2006 is asset management rather than investment banking. Therefore, the profit on “Investment banking segment” was reclassified to “Asset management segment”.

13 Trading assets

	<u>2007</u>	<u>2006</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Debt securities	1,335,609	3,211,734
Equity securities	5,612	–
Investment funds	1,238,246	2,848,045
	<hr/>	<hr/>
Trading securities	2,579,467	6,059,779
	<hr/>	<hr/>
Positive fair values of derivatives	899,542	355,091
	<hr/>	<hr/>
	3,479,009	6,414,870
	<hr/>	<hr/>
Issued by:		
Sovereigns	898	599
Public sector entities	2,355	10,395
Banks and other financial institutions	628,054	583,401
Corporate entities	1,948,160	5,465,384
	<hr/>	<hr/>
	2,579,467	6,059,779
	<hr/>	<hr/>
Analysed by place of listing:		
Listed in Hong Kong	1,095	3,296
Listed outside Hong Kong	200,165	1,077,026
	<hr/>	<hr/>
	201,260	1,080,322
	<hr/>	<hr/>
Unlisted	2,378,207	4,979,457
	<hr/>	<hr/>
	2,579,467	6,059,779
	<hr/>	<hr/>

14 Securities designated at fair value through profit or loss

	<u>2007</u>	<u>2006</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Debt securities	531,025	959,436
Investment funds	–	44,143
	<hr/>	<hr/>
	531,025	1,003,579
	<hr/>	<hr/>
Issued by:		
Banks and other financial institutions	134,422	–
Corporate entities	396,603	1,003,579
	<hr/>	<hr/>
	531,025	1,003,579
	<hr/>	<hr/>
Analysed by place of listing:		
Listed in Hong Kong	–	153,750
Listed outside Hong Kong	82,844	221,092
	<hr/>	<hr/>
	82,844	374,842
	<hr/>	<hr/>
Unlisted	448,181	628,737
	<hr/>	<hr/>
	531,025	1,003,579
	<hr/>	<hr/>

15 Loans and advances to customers and other accounts

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

	2007	2006
	HK\$'000	HK\$'000
Gross loans and advances to customers	65,833,430	50,685,350
Impairment allowances		
– Individually assessed	(70,883)	(76,360)
– Collectively assessed	(223,540)	(253,166)
	65,539,007	50,355,824
Accrued interest and other accounts less impairment allowances	2,165,290	1,550,178
	67,704,297	51,906,002

(b) Loans and advances to customers analysed by industry sectors

The following economic sector analysis is based on categories and definitions used by the Hong Kong Monetary Authority (“HKMA”).

	2007		2006	
	Gross loans and advances to customer	Impaired loans and advances	Gross loans and advances to customer	Impaired loans and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Industrial, commercial and financial				
– Property development	207,000	–	205,155	–
– Property investment	7,740,669	21,931	5,370,620	3,060
– Financial concerns	5,061,032	323	3,315,125	2,570
– Stockbrokers	181,000	–	50,000	–
– Wholesale and retail trade	3,383,895	95,552	2,885,044	34,891
– Manufacturing	5,833,965	8,208	3,370,282	11,386
– Transport and transport equipment	3,394,165	2,750	3,467,330	12,254
– Recreational activities	100,800	–	143,763	–
– Information technology	1,122	–	52,082	–
– Others	3,332,366	24,483	2,468,601	41,168
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,963	–	16,054	–
– Loans for the purchases of other residential properties	11,284,553	13,927	11,446,698	20,042
– Credit card advances	506,775	488	535,293	386
– Others	2,401,149	11,781	1,693,327	22,808
Gross loans and advances for use in Hong Kong	43,463,454	179,443	35,019,374	148,565
Trade finance	4,467,495	44,838	3,508,201	5,207
Gross loans and advances for use outside Hong Kong	17,902,481	532,931	12,157,775	692,867
Gross loans and advances to customers	65,833,430	757,212	50,685,350	846,639

(c) *Impaired loans and advances to customers*

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	757,212	846,639
Impairment allowance – individually assessed	<u>(70,883)</u>	<u>(76,360)</u>
	<u>686,329</u>	<u>770,279</u>
Gross impaired loans and advances as a % of total loans and advances to customers	<u>1.15%</u>	<u>1.67%</u>

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

Individually assessed impairment allowance were made after taking into account the realisable value of collateral in respect of such loans and advances of HK\$601,359,000 (2006: HK\$788,446,000) for the Group. This collateral mainly comprise mortgage interest over residential or commercial properties and cash with the Group.

16 Available-for-sale securities

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Certificates of deposits held	150,033	–
Debt securities	21,157,046	4,771,960
Treasury bills (including Exchange Fund Bills)	721,180	149,757
Equity securities	40,212	23,181
Investment funds	56,932	28,552
	<u>22,125,403</u>	<u>4,973,450</u>

Issued by:

Sovereigns	805,060	149,757
Public sector entities	710,682	–
Banks and other financial institutions	15,450,543	847,022
Corporate entities	5,159,118	3,976,671
	<u>22,125,403</u>	<u>4,973,450</u>

Analysed by place of listing:

Listed in Hong Kong	864,142	–
Listed outside Hong Kong	6,473,642	3,913,802
	<u>7,337,784</u>	<u>3,913,802</u>
Unlisted	14,787,619	1,059,648
	<u>22,125,403</u>	<u>4,973,450</u>

17 Reserves

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Share Premium	9,915,789	6,474,230
Capital reserve	2,818	2,818
General reserve	3,861,867	3,861,867
Exchange differences reserve	797,925	10,541
Other property revaluation reserve	49,708	16,038
Fair value reserve	(98,026)	197,370
Convertible bond-equity component	60,199	71,767
Share option reserve	51,612	26,068
Retained profits*	6,084,366	4,547,950
Total	<u>20,726,258</u>	<u>15,208,649</u>

* A regulatory reserve is maintained to satisfy the provisions of the Hong Kong Banking Ordinance for prudential supervision purposes by earmarking amounts in respect of losses which CKWB will or may incur on loan and advances and investments in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. As at 31 December 2007, HK\$957,055,000 (31 December 2006: HK\$376,300,000) was included in the retained profits in this respect which was distributable to equity holders of CKWB subject to consultation with the HKMA.

18 Contingent asset, liabilities and commitments to extend credit

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

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
Direct credit substitutes	4,391,322	1,723,211
Transaction-related contingencies	576,339	73,740
Trade-related contingencies	1,746,636	1,659,341
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	15,921,154	12,915,501
– with an original maturity of not more than 1 year	3,551,324	2,556,234
– with an original maturity of more than 1 year	3,488,150	2,938,186
	<u>29,674,925</u>	<u>21,866,213</u>
Credit risk-weighted amounts	<u>4,472,023</u>	<u>2,762,347</u>

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (2006: 0% to 100%).

19 Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions, commercial dealings, investments in foreign currency securities and operations of CKWB and its overseas branches and subsidiaries. Foreign exchange positions of CKWB are subject to exposure limits approved by Asset and Liability Committee. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options).

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

Equivalent in HK\$'000	2007			
	US dollars	Renminbi	Others	Total
Spot assets	38,533,981	1,247,632	5,102,689	44,884,302
Spot liabilities	(34,757,011)	(754,681)	(7,187,422)	(42,699,114)
Forward purchases	25,333,018	8,026,722	9,424,640	42,784,380
Forward sales	(28,515,984)	(8,016,877)	(7,328,437)	(43,861,298)
Net options position	–	–	–	–
Net long position	594,004	502,796	11,470	1,108,270
Net structural position	–	213,555	48,559	262,114
	2006			
Equivalent in HK\$'000	US dollars	Renminbi	Others	Total
Spot assets	29,281,696	755,622	3,166,650	33,203,968
Spot liabilities	(27,368,864)	(443,806)	(4,589,986)	(32,402,656)
Forward purchases	18,010,065	996	7,523,379	25,534,440
Forward sales	(19,944,897)	–	(6,086,158)	(26,031,055)
Net options position	869	–	(869)	–
Net (short)/long position	(21,131)	312,812	13,016	304,697
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 HKMA.

20 Post balance sheet events

- On 22 February 2008, CITIC Ka Wah Bank (China) Limited (“CKWB China”) received formal approval from the China Banking Regulatory Committee for its incorporation as the Group's wholly-owned subsidiary bank in the PRC. CKWB China expects to commence its banking business in the second quarter of 2008.
- As at 31 December 2007, the carrying amount of the remaining two SIVs (i.e. Beta Finance Corporation and Five Finance Corporation) held by the Group was approximately HK\$704 million. Uncertainties in the credit and capital market for SIVs continued subsequent to the balance sheet date, and the net assets value of these two SIVs up to 12 March 2008 had dropped to 1.6% and -0.53% respectively. As a result of the decline in the net assets value, these two SIVs were required to and had drawn on the ratings support facility provided by Citibank, N.A..

Unaudited supplementary financial information

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Segmental information

By geographical areas

	2007	2006	2007	2006
	Profit before taxation	Profit before taxation	Operating income	Operating income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	179,295	1,250,142	1,064,097	2,106,118
Mainland China	1,389,396	42,798	108,609	70,394
USA	61,111	33,199	72,994	70,019
Others	215,677	7,505	28,643	13,261
Inter-segment items	7,198	–	(211)	–
	1,852,677	1,333,644	1,274,132	2,259,792

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

	2007			2006		
	Total assets	Total liabilities	Contingent liabilities and commitments	Total assets	Total liabilities	Contingent liabilities and commitments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	111,828,224	103,640,515	26,570,652	90,309,891	81,395,717	19,449,537
Mainland China	24,079,621	5,322,139	689,495	13,043,465	2,890,442	140,346
USA	1,960,169	1,778,777	618,920	1,792,687	1,670,814	896,550
Others	1,757,310	1,736,415	1,795,858	2,789,290	2,783,338	1,379,780
Inter-segment items	(7,240,297)	(6,576,398)	–	(5,793,608)	(6,830,657)	–
	132,385,027	105,901,448	29,674,925	102,141,725	81,909,654	21,866,213

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

	2007				
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	46,888,980	183,628	254,867	29,969	142,348
Mainland China	11,397,494	502,346	502,345	40,914	55,616
USA	1,787,427	–	–	–	1,618
Others	5,759,529	51,034	–	–	23,958
	65,833,430	737,008	757,212	70,883	223,540
	2006				
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowance	Collective impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	39,910,144	197,448	184,848	40,036	162,393
Mainland China	6,703,093	469,794	469,794	30,034	43,609
USA	1,429,400	–	–	–	28,846
Others	2,642,713	191,997	191,997	6,290	18,318
	50,685,350	859,239	846,639	76,360	253,166

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.

(B) Further analysis on loans and advances to customers by industry sector

- (i) Loans and advances to customers analysed by the coverage of collateral, overdue amount and the impairment allowance is as follows. The economic sector analysis is based on the categories and definitions used by the HKMA.

	2007		2006	
	Gross loans and advances covered by collateral	% of gross loans and advances covered by collateral	Gross loans and advances covered by collateral	% of gross loans and advances covered by collateral
	HK\$'000		HK\$'000	
Industrial, commercial and financial				
– Property development	207,000	–	205,155	–
– Property investment	7,740,669	98	5,370,620	97
– Financial concerns	5,061,032	36	3,315,125	43
– Stockbrokers	181,000	6	50,000	–
– Wholesale and retail trade	3,383,895	54	2,885,044	51
– Manufacturing	5,833,965	24	3,370,282	27
– Transport and transport equipment	3,394,165	81	3,467,330	71
– Recreational activities	100,800	99	143,763	30
– Information technology	1,122	80	52,082	99
– Others	3,332,366	60	2,468,601	70
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	34,963	100	16,054	100
– Loans for the purchase of other residential properties	11,284,553	99	11,446,698	99
– Credit card advances	506,775	–	535,293	–
– Others	2,401,149	83	1,693,327	79
Gross loans and advances for use in Hong Kong	43,463,454	70	35,019,374	74
Trade finance	4,467,495	38	3,508,201	40
Gross loans and advances for use outside Hong Kong	17,902,481	42	12,157,775	59
Gross loans and advances to customers	65,833,430	61	50,685,350	68

- (ii) The analysis of impaired loans and advances of the individual loan usage category, which accounted for 10% or more of the gross loans and advances to customers, is as follows:

	2007				Impairment charged to income statement during the year
	Overdue loans and advances	Individual impairment allowance	Collective impairment allowance	Impaired loans and advances	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Property investment	63,650	3,059	7,486	21,931	–
Loans and advances for the purchase of other residential properties	7,238	1,944	4,470	13,927	1,378
Gross loans and advances for use outside Hong Kong	<u>582,837</u>	<u>52,846</u>	<u>63,886</u>	<u>532,931</u>	<u>16,197</u>
	<u>653,725</u>	<u>57,849</u>	<u>75,842</u>	<u>568,789</u>	<u>17,575</u>
	2006				
	Overdue loans and advances	Individual impairment allowance	Collective impairment allowance	Impaired loans and advances	Impairment charged to income statement during the year
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property investment	43,956	3,060	9,220	3,060	–
Loans and advances for the purchase of other residential properties	15,688	616	15,743	20,042	531
Gross loans and advances for use outside Hong Kong	<u>686,565</u>	<u>45,398</u>	<u>84,309</u>	<u>692,867</u>	<u>14,656</u>
	<u>746,209</u>	<u>49,074</u>	<u>109,272</u>	<u>715,969</u>	<u>15,187</u>

(C) **Overdue loans and advances to customers**

	2007		2006	
	% on total loans and advances to customers		% on total loans and advances to customers	
	HK\$'000		HK\$'000	
The gross amount of loans and advances has been overdue for periods of:				
– 6 months or less but over 3 months	100,158	0.15	36,759	0.07
– 1 year or less but over 6 months	55,274	0.08	258,965	0.51
– over 1 year	581,576	0.88	563,515	1.11
	737,008	1.11	859,239	1.69
Secured overdue loans and advances	679,136		767,533	
Unsecured overdue loans and advances	57,872		91,706	
	737,008		859,239	
Market value of collateral held against the secured overdue loans and advances	982,533		1,179,363	
Individual impairment allowance made	61,491		70,702	

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.

Majority of collateral held in respect of the overdue loans and advances is real estate properties. The eligible collateral should generally satisfy the following:

- (a) The market value of the asset is readily determinable or can be reasonably established and verified;
- (b) The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- (c) CKWB's right to repossess the asset is legally enforceable and without impediment; and
- (d) CKWB is able to secure control over the asset if necessary.

The main types of “Eligible Collateral” is “Eligible Physical Collateral” mainly comprises real estate.

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2007 and 31 December 2006.

(D) Other overdue assets

	<u>2007</u>	<u>2006</u>
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for:		
– over 1 year	–	1,198
Available-for-sale securities which have been overdue for:		
– over 1 year	15,597	–
Held-to-maturity investments which have been overdue for:		
– over 1 year	–	15,553

(E) Rescheduled loans

	<u>2007</u>		<u>2006</u>	
	HK\$'000	% on total loans and advances to customers	HK\$'000	% on total loans and advances to customers
Rescheduled loans	<u>15,970</u>	<u>0.02</u>	<u>16,393</u>	<u>0.03</u>

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 (C).

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2007 and 31 December 2006.

(F) Repossessed assets

	<u>2007</u>	<u>2006</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Included in loans and advances to customers and other accounts	<u>37,773</u>	<u>176,216</u>

The amount represents the estimated market value of the repossessed assets as at 31 December 2007 and 31 December 2006.

(G) 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:

	<u>2007</u>			
	<u>Banks and other financial institutions</u>	<u>Public sector entities</u>	<u>Others</u>	<u>Total</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>	<u>HK\$'000</u>
Asia and Pacific excluding Hong Kong	12,793,868	112,353	14,251,739	27,157,960
of which Australia	4,620,357	1,212	352,456	4,974,025
of which Mainland China	4,976,665	109,598	10,889,775	15,976,038
Caribbean	-	-	3,256,767	3,256,767
of which Bermuda	-	-	482,910	482,910
of which Cayman Islands	-	-	2,185,974	2,185,974
of which British Virgin Islands	-	-	587,884	587,884
Western Europe	15,516,696	2,451	2,946,157	18,465,304
of which France	1,746,454	-	791,162	2,537,616
of which Germany	3,394,903	-	2,287	3,397,190
of which Netherlands	1,593,567	-	886,191	2,479,758
of which United Kingdom	3,789,650	402	566,492	4,356,544

2006

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
of which British Virgin Islands	–	–	320,789	320,789
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

(H) Non-bank Mainland China exposures

Non-bank Mainland China exposures are the Mainland China exposures to non-bank counterparties. The categories follow the non-bank Mainland China exposures submitted by CITIC Ka Wah Bank Limited (“CKWB”) to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

2007

	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	14,800,862	5,346,463	20,147,325	37,836
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	13,212,306	6,549,817	19,762,123	10,520
	28,013,168	11,896,280	39,909,448	48,356

2006

	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowance
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities	11,313,971	3,374,338	14,688,309	28,427
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	9,885,249	4,795,268	14,680,517	34,547
	21,199,220	8,169,606	29,368,826	62,974

MANAGEMENT DISCUSSION AND ANALYSIS

Performance

2007 was a significant year in which China achieved its fifth consecutive year of double-digit economic growth. This created a favourable operating environment in particular for its banking industry – apart from a 16% increase in overall loan growth, interest margins also expanded as a result of successive interest rate increases. With China as its immense hinterland, Hong Kong's economy naturally benefited from the country's rapid growth. Not only did it enjoy broad-based vibrant industrial growth, exceptional performance was registered by its financial services sector which was supported by strong loan growth and a buoyant stock market.

Following a strategic repositioning in the past two years, CITIC International Financial Holdings Limited (“CIFH” or the “Group”) now has a financial holding company structure that straddles Hong Kong and China. This allows it to combine the strengths of China CITIC Bank Corporation Limited (“CNCB”) in Mainland China with the international experience and vision of its wholly-owned subsidiary bank in Hong Kong, CITIC Ka Wah Bank Limited (“CKWB”), and by doing so, to capture the enormous opportunities emerging from China's rise as a significant global economic power, as well as to play a part in the contribution of its ultimate parent CITIC Group of Beijing (“CITIC Group”) towards the successful economic reform of China.

The Group's net profit attributable to shareholders for the year of 2007 totalled HK\$1,852 million, representing a 64.5% increase over that of 2006. This was mainly attributable to the performance of CNCB, the Group's commercial banking associate, which resulted in a significant contribution to the Group's results.

During the year under review, the Group's Hong Kong operating vehicle, CKWB, contributed to healthy growth in CIFH's net interest income and net fees and commissions income, which grew 27.1% and 46.8% respectively on a year-on-year basis to HK\$1,359 million and HK\$822 million, driven primarily by its core wholesale and retail banking businesses. (See Business Overview Section 1 for full details of CKWB's performance.)

Meanwhile, the Group's associate companies also delivered very strong results, resulting in an increase in aggregate profit contribution of over 11.2 times over the previous year. In addition to the HK\$1,338 million in pre-tax profit contribution from CNCB, of the two non-bank financial associates, the Group's 50%-owned CITIC Capital Holdings Limited (“CCHL”) contributed HK\$200 million, while its 40%-owned CITIC International Assets Management Limited (“CIAM”) contributed HK\$63 million. The Group also benefited from the gain on dilution of investment in associate of HK\$198 million arising from its aggregate stake holding in CNCB upon the latter's A- and H-share initial public offering in April 2007.

Nevertheless, the Group's results were impacted by the severe and unprecedented turmoil in the global credit markets as CKWB registered HK\$1,311 million in marked-to-market write-downs from its investments in structured investment vehicles (“SIVs”) within its fund investments portfolio. Excluding the fund investments and afore-mentioned marked-to-market write-downs from the SIVs, the Group's net profit attributable to shareholders would have been HK\$2,919 million, or a 189.6% increase over the previous year.

Basic earnings per share for 2007 amounted to 32.86 HK cents, representing a 5.2% decrease over the previous year.

Details on the performances of the Group's commercial banking and non-bank financial businesses are outlined in the Business Overview section below.

Final Dividend

In view of imminent plans by the Group's operating flagship, CKWB, to embark on its regional expansion plans, the Board of Directors has agreed to retain the Group's earnings to ensure that any capital needs arising therefrom will be met. As such, consistent with its decision over the interim dividend, the Board does not recommend a final dividend. (Total dividend paid in 2006 amounted to 13.3 HK cents per share.)

Corporate Developments

As CITIC's offshore financial flagship, the Group's vision is to establish a solid platform to drive the creation of the CITIC international banking franchise. The essence to that lies in its leadership to forge effective strategic partnerships with CNCB and Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") to realise the CITIC tripartite commercial banking model.

Following the successful stake acquisition in CNCB in 2006, the Group completed its top-up investment in CNCB to maintain its 15% shareholding upon the latter's successful dual listing on the Hong Kong and Shanghai stock exchanges in April 2007 ("top-up investment in CNCB"). Concurrently, priority was given to drive collaboration between CNCB and CKWB at both the strategic and business levels. (See further details in Section 1.4 on CKWB Business Development.)

Meanwhile, the Group's strategic partnership with BBVA was formalised with the completion of the latter's 15% share subscription in CIFH in March 2007. Second stage discussions with BBVA are now progressing smoothly. There is clear commitment that CKWB will be the primary platform from which to develop the future combined Asian businesses and to build out CITIC's commercial banking footprint in the region. It is expected that agreement between CITIC and BBVA on the ultimate equity structure will be finalised and details will be unveiled on or before 31 May 2008.

Financial Position

The Group registered significant increases in its total assets and total equity during the period, given the strong growth in the asset base of its core business CKWB as well as its increased shareholding in CNCB. As at the end of 2007, the Group's total assets have grown by 29.6% to HK\$132.4 billion, and its total equity by 30.9% to HK\$26.5 billion.

As a financial holding company, CIFH's total debt registered during the period amounted to HK\$5.2 billion, arising from financing needs for the top-up investment in CNCB as well as for the capital injection into CKWB in December. Its debt-to-equity ratio and double leverage ratio stood at a healthy level of 25.7% and 119.5%, respectively.

The Group's improved profitability helped to lift its return on assets from 1.3% in 2006 to 1.6% in 2007; its return on average shareholders' equity stood at 7.4%.

Key Financial Indicators

	31 December 2007	31 December 2006
<u>Company</u>		
Total debt (in HK\$ billion)	5.2	0.3
Shareholders' equity (in HK\$ billion)	20.3	16.4
Debt-to-equity	25.7%	1.9%
Double leverage	119.5%	91.3%
<u>Group</u>		
Consolidated total assets (in HK\$ billion)	132.4	102.1
Total equity (in HK\$ billion)	26.5	20.2
Return on assets	1.6%	1.3%
Return on average shareholders' equity	7.4%	11.3%

Business Overview

Commercial Banking Business

1. CITIC Ka Wah Bank Limited (“CKWB” or the “Bank”)

1.1 Operating Environment

Hong Kong's banking industry enjoyed vibrant growth in 2007 as the China and local economies enjoyed another year of sustained growth, bolstered by robust local and cross-border PRC loan growth, a benign credit environment, a buoyant stock market, and the improving interest spread between the Prime Lending Rate (“Prime”) and the Hong Kong Interbank Offered Rate (“HIBOR”), which gradually climbed back to the 3.5% level by the year-end. This economic backdrop provided an excellent stage for the accelerated strong performance by CKWB's core businesses in the wholesale banking and retail banking areas, and championed the Bank's strategy to strengthen its core competencies in the past two years and to reposition itself as the preferred Chinese bank that delivers timely and innovative financial solutions to individual and corporate clients in Asia.

However, the global market deterioration triggered by the US subprime mortgage crisis tailspinned at an unprecedented pace and magnitude in the second half of the year, and threatened to develop into a global financial market crisis. Volatilities in the global markets have ensued and are likely to persist in the early part of 2008 as the impact of the market fall-out continues to unfold. CKWB has also been impacted as its investments in four independently managed SIVs within its fund investments portfolio have come under severe pressure. This has given rise to heavy marked-to-market write-downs and affected the Bank's financial performance in 2007. The Bank's management has already taken steps to contain the impact of the SIVs and to unwind its fund investments portfolio in an orderly fashion.

CKWB continues to enjoy a strong capital position. Taking into account its strong business growth and regional expansion plans, the Bank completed its capital plan towards the end of 2007 which included a HK\$2.5 billion capital injection by the Group, the launch of a US\$2 billion medium term note programme and the sale of a US\$250 million lower tier two subordinated notes to replace an outstanding subordinated notes issue due 2011 in the same amount. Even after taking into account the afore-mentioned marked-to-market write-downs, the Bank's current capital adequacy ratio of 15.8% ensures that it is in a solid position to embark on its growth plans as the Asian banking platform for business expansion for both the CITIC Group and its strategic partner, BBVA.

1.2 Business Performance

Earnings

CKWB's core businesses in wholesale banking and retail banking both delivered strong performances in 2007, generating a 31.9% and 48.0% growth in net interest income and net fees and commission income respectively as compared to 2006. Nevertheless, impacted by the afore-mentioned marked-to-market write-downs from its investments in SIVs, the Bank only reported operating profit before impairment allowances of HK\$123 million for the year. CKWB's impairment provisions on loans and advances rose to HK\$72 million with the normalisation of the credit cycle, while a HK\$30 million impairment provision on properties was recorded due to property revaluation. Meanwhile, the Bank gained HK\$7 million profit on disposal of available-for-sale securities. As a result, CKWB's profit attributable to shareholders fell 88.4% year-on-year to HK\$106 million. Excluding the fund investments and marked-to-market write-downs from the SIVs, the Bank's core business performance would have surged 46.6% year-on-year to HK\$1,173 million.

Net Interest Income

In 2007, the Prime-HIBOR spread narrowed to 2.78% at one time during the year, but gradually widened to over 3.5% in the fourth quarter of the year. CKWB managed to increase its net interest income by 31.9% to HK\$1,400 million for the year. After adjusting for the funding cost of its fund investments, its net interest margin stood at 1.86%, representing an improvement of 1 basis point over the previous year.

The growth in net interest income was primarily due to a significant increase in interest income from the Bank's expanded loan portfolio. Meanwhile, the interest rate down trend in the latter half of the year also helped to reduce the negative carry from the Bank's held-to-maturity fixed income investment portfolio. In September 2007, CKWB's Board of Directors approved the reclassification of this fixed income securities portfolio into the available-for-sale securities portfolio to enable the Bank to minimise the associated interest rate risk. As at the end of 2007, the size of this fixed income securities portfolio stood at HK\$7,620 million, representing a 25.1% reduction compared to a year ago.

Non-Interest Income

CKWB's net fees and commission income grew substantially by 48.0% year-on-year to HK\$822 million. The main drivers for this growth were a 90.2% increase in wealth management related income, in particular from the sales of unit trust, structured products and bancassurance, and a 32.2% increase in corporate loans related fees. However, impacted by the marked-to-market write-downs from the SIVs, the Bank reported HK\$98 million in non-interest loss compared to a non-interest income of HK\$1,153 million in 2006.

Operating Expenses

CKWB is vigilant in its cost control disciplines and requires all its core businesses to manage operating expenses growth within income growth. However, the rapidly developing financial services industry in Hong Kong and China has created a tremendous demand on professional talents. This is in turn posing a serious staff turnover challenge for the banking industry as a whole. In order to attract and retain high quality professionals and management talents, both to maintain the quality of its business and to start investing resources to prepare for its development into a regional bank, CKWB's staff costs increased by 11.8% during the period and led to a 7.8% increase in overall operating expenses. The Bank's cost-to-income ratio for the period increased from 49.4% in 2006 to 90.6%, due primarily to the write-downs from the SIVs. Its cost-to-income ratio based on the results of its core businesses alone would have improved to 45.1%.

Impairment Allowances

CKWB lends conservatively and strives to continually improve its asset quality. With the gradual normalisation of the credit cycle, the charge in the Bank's individually assessed loans increased 27.6% to HK\$146 million; its collectively assessed loans registered releases of HK\$11 million and of HK\$20 million respectively for the year of 2007 and 2006. Taking into account an increase in bad debt recoveries by 56.3% to HK\$63 million, the Bank recorded HK\$72 million in net impairment provisions on loans and advances, representing a 34.8% increase over the previous year. Including HK\$30 million in impairment provisions on properties, CKWB's net charge in impairment provisions stood at HK\$102 million, compared to a net charge of HK\$58 million in 2006.

1.3 Asset Quality

Asset, Loan, And Deposit Sizes

As at the end of 2007, CKWB reported total assets of HK\$110.8 billion, representing a growth of 23.5% over 2006 year-end. Total loans rose significantly by 31.6% from a year ago to HK\$67.4 billion, driven mainly by a rise in loans for use outside Hong Kong and lending to the manufacturing and property investment sectors. Total deposits grew by 24.1% from 2006 year-end to HK\$90.9 billion.

Asset Quality Indicators

CKWB made improvements in several asset quality indicators during the period. As at 2007 year-end, its impaired loans ratio fell from 1.67% at the end of 2006 to 1.15%. Its loan loss coverage remained unchanged at 38.9% at the end of 2007. Meanwhile, its mortgage delinquency ratio fell further from 0.14% to 0.06%.

Financial Position

As at the end of 2007, CKWB's key financial ratios all stood at healthy levels. Its capital adequacy ratio was 15.8%. Its average liquidity ratio was 40.8%. Its loans to deposits ratio was 74.1% and its loans to total assets ratio was 60.8%.

CKWB's Key Financial Ratios

	31 December 2007	31 December 2006
Capital adequacy ¹	15.8%	16.7%
Core capital adequacy	10.3%	9.3%
Average liquidity	40.8%	40.4%
Loans to deposits	74.1%	69.9%
Loans to total assets	60.8%	57.1%
Impaired loans Coverage ²	1.15%	1.67%
Loan loss coverage	84.6%	98.0%
Collective assessment coverage	38.9%	38.9%
Mainland loans to total customer advances	0.33%	0.49%
	17.3%	13.2%

¹ 2006 CAR on an adjusted basis.

² Calculated by dividing the sum of individually assessed impairment allowances and collateral of impaired loans by the gross impaired loans.

1.4 Business Development

Retail Banking Group ("RBG")

RBG reported another year of record growth in 2007 in both its non-interest income and profit before tax performance, which grew by 56.4% and 53.8% to HK\$572 million and HK\$551 million, respectively, compared to the previous year. Such success was built on its ability to establish a sustained and differentiated competitive platform for its CITIC*first* wealth management franchise.

By 2007 year-end, CITIC*first* has accumulated over 10,000 customers, of whom 15% were new-to-bank relationships; total assets under management have exceeded HK\$35 billion. As a result, wealth management related income grew by a substantial 90.2%, of which investment and bancassurance related income surged by 102.2% and 63.6%, respectively. Indeed, the business and operational excellence of the CITIC*first* platform has also earned the Bank broad industry recognition, including such awards as the “2007 Retail Bank of the Year – Hong Kong” by Asian Banking & Finance magazine, and the “2007 Hong Kong Awards for Industries: Productivity and Quality Award” by the Hong Kong Productivity Council.

In consumer lending, the strategy to stay away from market price war remained intact. The Bank adopted a proactive approach in enhancing product features and service quality across the consumer platform, maintaining a growth momentum in both mortgage and consumer finance. Its overall mortgage loan balances rose 15.5%, while unsecured consumer loan balances were up by a modest 2.2%.

Meanwhile, RBG continued to prudently grow its business banking services targeted at small- to medium-sized enterprises, posting a year-on-year increment of 60.3% and 55.6% in trade and non-trade loans, both of which are extended to customers on a heavily collateralised basis.

Wholesale Banking Group (“WBG”)

WBG repositioned its businesses and successfully transformed itself from a traditional local lending institution to a full-service solutions bank for its Asian clients. The business group continued to yield outstanding results on the back of this strategy, with profit before tax for the year increasing 14.3% over 2006 to HK\$624 million, of which non-interest income grew 15.9% to account for 33.8% of its total operating income. Separately, through focused cross-selling of value-added yield-enhancing or hedging solutions to corporate clients, the business unit also contributed to HK\$40 million in treasury-related income to the Bank.

WBG made good progress during the year to broaden and upgrade its customer base. In addition to achieving a double-digit growth in its total number of customer relationships, it also managed to strengthen its relationship with key clients in Hong Kong and China, increase core client penetration rate, and establish itself as the core banker for a number of large regional corporates.

WBG’s excellent performance during the year can be seen generated across all of its business lines. One of the key initiatives during the year was to establish its International Banking and Financial Institutions Team as another of its Centres of Excellence, responsible for driving the Bank’s Hong Kong and overseas business expansion. Indeed, the Financial Institutions Unit has quickly developed from its traditional support functional role to become a key income generating division for WBG. Through its active increase in initial public offering, share financing, syndication loans and interbank financing activities, the unit managed to triple its operating income from a year ago.

WBG also works closely with the China Banking Division in developing its China and cross-border business. Through the implementation of the Global Account Management / Field Account Management operating model – especially in a number of successful commercial real estate transactions during the year, WBG was able to deliver one-stop cross-border value-added financial solutions to customers.

Achievements by other business lines included a 50.6% year-on-year increase in trade finance business volume which outperformed the industry average growth rate, a 36.5% increase in trade finance income, and the completion of 33 syndicated loan transactions, including 13 deals for which the Bank acted as lead manager.

China Banking

The China Banking Division continued to focus on harnessing the overall synergies within the CITIC Group. Its New Initiatives Office reported meaningful breakthroughs in driving collaboration with CNCB and other CITIC Group subsidiaries, with approved facilities arising from business referrals and deposits exceeding HK\$6 billion and HK\$6.8 billion respectively during the year. CKWB also delivered treasury products packages to customers referred by CNCB, with total volume reaching US\$1 billion. Other efforts to establish client solutions capabilities included product development initiatives in the areas of foreign exchange transactions, lending, as well as structured and trade products. Early successes were seen in CKWB's focus to provide timely trade finance programmes targeted at the overseas operations of CNCB's large corporate clients, an area that is likely to offer major growth opportunities in 2008.

The Bank also made progress in business cooperation with other CITIC financial subsidiaries (including CITIC Securities) and non-financial subsidiaries, spanning the areas of cross-border financings, product support, merger and acquisition financings, as well as the provision of general banking services, etc.

Separately, the Bank received approval from the China Banking Regulatory Commission at the end of February 2008 to incorporate CITIC Ka Wah Bank (China) Limited ("CKWB China") as a wholly-owned subsidiary bank in China. CKWB China was formed from the former China International Finance Company Limited (Shenzhen) and the Bank's Shanghai and Beijing branches. It is in the final stages of completing its business licences applications, and is expected to officially start business within the second quarter of 2008. Headquartered in Shenzhen with branches in Shanghai and Beijing, CKWB China will serve as the execution platform for the Bank's China strategy, and will support business cooperation efforts between the Bank and CNCB. It is also expected to offer a flexible platform onshore to expand the tri-partite collaboration with CNCB and BBVA.

Meanwhile, the Bank will retain its original Shanghai branch to focus on delivering foreign currency wholesale banking services to customers.

Treasury and Markets Group (“TMG”)

TMG continued to build on its partnership with RBG and WBG. It maintained its pipeline of structured products to retail clients during the year, including the launch of derivative and structured products in Hong Kong and China, and active participation in the placement of Renminbi retail bonds in Hong Kong. In the area of WBG, apart from focused cross-selling of treasury-related products targeted at corporate customers, TMG was a key partner in delivering RMB NDF products to clients who needed to hedge against their RMB exposure, as well as in supporting the strong IPO financing demand from non-bank financial institution customers. The successful teamwork with WBG and RBG saw related treasury income grew by a significant 157.8% compared to the same period last year.

In the area of fund investments, the SIVs in the Bank’s fund investments portfolio were heavily hit by the sudden and rapid deterioration in the global liquidity and credit markets. In the CIFH announcements dated 26 November 2007 and 20 December 2007, the Group disclosed that one of the four SIVs in the portfolio has already been restructured. In February 2008, another SIV has gone into receivership, and a full write-down of the SIV has been made in the Bank’s 2007 accounts. The remaining two SIVs have received rating support facilities from their sponsoring institution, and CKWB has made appropriate write-downs for these SIVs in its annual accounts based on their net asset values at the close of 2007.

Other investment classes within the portfolio continued to operate normally and generated full-year returns of 5.89%.

Looking ahead, given CKWB’s rapid business development and regional expansion plans, TMG will focus on supporting the Bank’s core businesses by growing customer-driven income and managing CKWB’s funding and liquidity business. In view of such strategic development as well as the changes in the capital markets, the Bank’s management has decided in the fourth quarter of last year to redeem all the funds in the fund investment portfolio in an orderly manner. As at 31 December 2007, the size of the fund investment portfolio has been reduced to HK\$1.6 billion, a 48% reduction compared to approximately HK\$3.1 billion at 2006 year-end, and will be further reduced to approximately HK\$546 million by 30 June 2008 upon redemption of all Alternative Investments in the portfolio. The Bank expects to exit the remaining holdings in portable alpha mandates by 2009.

1.5 Awards

CKWB received the Silver Award in the 2007 Hong Kong Management Association Quality Award in recognition of its outstanding achievement in Total Quality Management. In addition to the earlier mentioned retail banking awards, the Bank also received the “2006 Outstanding Retail Sales Volume – Silver Prize” awarded by VISA International, and the “Caring Company Logo” awarded by the Hong Kong Council of Social Service for the fourth consecutive year.

Meanwhile, the staff of CKWB’s wealth management team won a number of industry awards in 2007 including the Gold and Silver Hong Kong Financial Planner of the Year Awards given by the Society of Registered Financial Planners, and the Silver Award in the “Outstanding Financial Planners Grand Award 2007” organised by the Hong Kong Institute of Bankers.

2. China CITIC Bank Corporation Limited (“CNCB”)

2.1 Corporate Developments

On 27 April 2007, CNCB was successfully listed in Hong Kong and Shanghai. The bank raised over an equivalent of HK\$40 billion from the new share issuance of approximately 5.6 billion H shares at HK\$5.86 per share and approximately 2.3 billion A shares at RMB5.80 per share. Subsequent to its listing, the respective shareholdings of CITIC Group, CIFH and BBVA in CNCB are 62.3%, 15.17% and 4.83%.

2.2 Business Performance

CNCB’s net profits for 2007 surged 116% year-on-year to RMB8.3 billion on the back of strong net interest income and non-interest income performance during the period. Net interest income grew by 59% year-on-year and net interest margin widened by 0.50 percentage point to 3.12%. Non-interest income grew 23% year-on-year and accounted for 6.4% of its total operating income.

2.3 Asset Quality

Asset, Loan, And Deposit Sizes

As at the end of 2007, CNCB’s total assets were RMB1,011.1 billion, representing a 43% increase over 2006 year-end. Total loans rose by 25% from 2006 year-end to RMB578.0 billion. Total deposits grew by 27% from 2006 year-end to RMB787.2 billion.

Asset Quality Indicators

CNCB strives to strengthen its overall credit risk management quality. On corporate lending, CNCB has focused on developing high quality clients from key industries which have decisive international economic impact, including national monopolies and resource industries, regional pillar industries, high growth and high quality small- to medium-sized supply chain enterprises. In the area of personal lending, the bank strengthened its control over residential mortgage lending with reference to the changes in property markets. As a result, the bank was able to lower its non-performing loan (“NPL”) ratio by 1.03 percentage points to 1.47%. In fact, having successfully reduced both its total outstanding NPL balances and ratio for four consecutive years, CNCB’s asset quality is considered to be among the best of all listed banks in the Mainland.

2.4 Business Development

Wholesale Banking Business

CNCB’s wholesale banking business reported strong growth. Corporate deposits increased 20% to RMB640 billion compared to 2006 year-end, while total loans rose 27% to RMB468.3 billion compared to 2006 year-end. With US\$93.4 billion in international settlement business volume, the bank continues to maintain its leadership position among the small- to medium-sized shareholding banks in the Mainland.

Retail Banking Business

In line with the development of China's capital markets and the evolving wealth management concepts of Mainland residents, CNCB has been actively developing and marketing its wealth management product offering, with sales volume reaching RMB103.8 billion in 2007, up 255% year-on-year. This helped to generate significant increases in both the number of customers and in its non-interest income. Its credit card business continued to be profitable, supported by the rapid growth in card issuance. In 2007, the total number of cards in issuance, loans outstanding and card sales rose by 92%, 227% and 208% respectively year-on-year.

Treasury Operations

Despite an environment of increased market volatility given the changes in the interest rate and foreign exchange regimes in China as well as developments in its primary capital market, CNCB managed to register relatively high growth in its foreign exchange trading volume and number of clients in 2007 by adopting effective risk management practices, strengthening its client sales efforts and aggressively developing its client driven treasury services. Meanwhile, CNCB's bond underwriting business reported a new breakthrough by becoming the second commercial bank in the Mainland to issue financial debts for other financial institutions in the role of lead underwriter.

2.5 Collaboration with subsidiaries within CITIC Group

CNCB continues to leverage the competitive strengths of the CITIC Group's integrated financial services platform through intra-group collaborative efforts to develop and cross-sell products. During the period, CNCB successfully attracted close to 350,000 new customers through working with a securities business within the CITIC Group to launch third party deposit account services, as well as fund transfer services between banking and securities accounts. As a result of collaboration with various CITIC Group companies last year to jointly develop wealth management products, the number of such products and related sales volume were 7.1 times and 7.4 times respectively those of 2006. Meanwhile, joint sales efforts were made to clients to offer integrated financial solutions, and the bank also started to share sales network and sale team resources with numerous CITIC Group financial services companies.

2.6 Collaboration with BBVA

CNCB has started active discussions and preparation work with BBVA to further their strategic collaboration. Both parties have agreed on eight key areas of business cooperation and on the framework for such cooperation, these will cover retail banking business, wholesale banking business, treasury operations, risk management, wealth management, information technology, customer management system and organisational structure.

Non-Bank Financial Businesses

3. CITIC Capital Holdings Limited (“CCHL”)

3.1 Business Performance

2007 was another year of success for CCHL. Leveraging its strong China-based business platform, CCHL achieved a record profit in 2007, primarily driven by an increase in management fees, performance fees, advisory fees as well as investment gains. Profit attributable to equity shareholders grew 71.0% from a year ago to HK\$401 million, while total assets under management (“AUM”) reached US\$1.6 billion by the end of 2007, compared to US\$1.1 billion a year ago. Fuelled by Mainland China’s robust economic growth, the management of CCHL is confident to capture the attractive investment opportunities that abound in the country across different asset classes, and continues to grow its AUM.

3.2 Business Development

Private Equity

CITIC Capital China Partners, L.P. (“CCCP”), CCHL’s flagship China private equity fund, achieved its final closing at US\$425 million in April 2007, which far exceeded its target fund size of US\$250 million. Leveraging on CITIC Group’s extensive business network in China, CCCP focuses on investing in state-owned enterprises. In addition to its anchor investment in Harbin Pharmaceutical Holding Co., Limited, one of the largest Chinese pharmaceutical companies, CCCP has made two new investments, in a fast growing auto parts manufacturer and a leading crane manufacturer respectively. On the international front, CCHL’s US-China private equity fund made one new investment in an electronic switches manufacturer, and achieved a significant realisation from an existing investment that generated a remarkable return of more than 2.5 times over its investment cost. While working on a portfolio of three existing investments, CCHL’s Japan-China private equity fund continues to seek attractive new investments.

Asset Management

In addition to managing CITIC Capital China Plus Fund, CCHL’s flagship China hedge fund offering, CCHL focused to develop two new investment offerings in 2007. CCHL collaborated with BBVA and launched BBVA CITIC Capital China Equity Fund in October 2007, a mutual fund registered for public distribution in Spain. This is the first China investment product offered by BBVA in Spain and helps to bring CCHL’s presence into the European market. Meanwhile, CITIC Capital China Access Fund, another new fund launched in December 2007, focuses on concentrated investments in listed Chinese companies by way of private investment in public equities or negotiated share placements in companies at pre-IPO stage.

CCHL is also working with a CITIC affiliated institution to manage a Qualified Domestic Institutional Investor portfolio to capture opportunities from increasing capital flows from Mainland China to Hong Kong.

Real Estate and Structured Finance

In January 2007, CITIC Capital Vanke China Property Development Fund, which focuses on residential property development projects in partnership with China Vanke, the largest property developer in China, completed its final closing at US\$150 million. The fund has already fully invested in eight projects by January 2008. In April 2007, CITIC Capital China Property Investment Fund, the first real estate fund managed by CCHL, exited its property investment in Shanghai profitably as planned, from which CCHL has received a sizeable performance fee. On the back of the success of these two predecessor funds, CCHL has launched and completed the initial closing of its third property fund at US\$278 million. The new fund focuses on investment properties, property development projects and equity investment in property developers in Mainland China. By January 2008, the new fund has already made two investments. The final closing for this new fund is expected to be completed in the second quarter of 2008 which will bring it to its target total fund size of US\$500 million.

In the structured finance area, CITIC Allco Investments Limited, a mezzanine fund that CCHL co-manages with a leading Australian structured finance group, had made five investments in Greater China by December 2007 and realised one investment with an internal rate of return of 30% in October 2007. On the advisory front, the firm acted as the lead arranger for one of the largest loan syndications done in the property sector in Mainland China during the year.

Others

As part of CCHL's strategy in developing new fund products, it continuously seeks to identify potential asset classes, sectors, or investment strategies of interest, make anchor investments and develop an investment pipeline. Accordingly, several new anchor investments were made during the year, mainly in the special situations area. Meanwhile, several divestitures in both listed and non-listed securities were also made with the aim of creating an investment track record for managing third party capital in the future.

Separately, CCHL's remaining stake in CITIC Securities International Company Limited ("CSI") was diluted from 20% to 11.6% after an additional capital injection by CITIC Securities Co., Limited in early 2007. Riding on the buoyant Hong Kong stock market and the initial public offering of CNCB for which CSI acted as a joint sponsor, CSI achieved a strong financial performance during the year.

4. CITIC International Assets Management Limited ("CIAM")

4.1 Financial Performance

In 2007, CIAM recorded HK\$154 million in net income, which was 2.3 times that of last year. Significant amounts of revenues were recognised from all of its principal activities, including HK\$30 million gains from investments, HK\$19 million in interest income from short-term lending and HK\$45 million in recoveries from its distressed assets portfolio. Also noteworthy is the increase in the share of investment related revenue to total revenue which clearly is a benefit from the transformation of CIAM into a genuine private equity, direct investment and assets management company.

With a strong revenue base and good cost control disciplines, CIAM's profits for the year attributable to shareholders amounted to HK\$101 million, representing a 173% increase over 2006 and a record high since its incorporation in 2002.

4.2 *Business Development*

Strategic Acquisition Of New Business And Fund Raising Platform

In November 2007, CIAM made the final call of the unpaid capital from its three foreign strategic shareholders to finance the acquisition of a 72% stake in a Hong Kong listed company, E2-Capital Holdings Limited ("E2-Capital"), through its wholly-owned subsidiary, Right Precious Limited ("RPL"). Following the equity injection of HK\$630 million from the said capital call, CIAM's total assets were increased by 56.5% to HK\$2.4 billion by the end of 2007. The remaining HK\$210 million from the said capital call will be paid up in 2008. The stake acquisition in E2-Capital at a total consideration of HK\$642 million is expected to complete on 31 March 2008; a mandatory general offer to E2-Capital's minority shareholders at HK\$2.225 per share for the remaining 28% stake will follow, and is in turn expected to complete by the second quarter of 2008. However, intention has been stated for E2-Capital to remain listed on the Hong Kong Stock Exchange.

E2-Capital's current principal activities include investment holding, property development, industrial and management operating services, investment banking as well as direct investments. CIAM believes that E2-Capital provides a flexible business structure and fund-raising platform on which to further its own growth, particularly in the areas of private equity and direct investments.

Direct Investment

During the year, CIAM's direct investments focus has been on mining and real estate opportunities. It formed a RMB1 billion joint venture with a PRC partner to invest in metal mining companies. The joint venture, in which CIAM holds a 40% stake, targets to complete all its investments in 12 to 18 months. In the area of real estate investments, CIAM has committed more than RMB700 million in various joint venture projects during 2007. Meanwhile, other investments were also made in the consumer and construction related segments.

Advisory Services

CIAM provides short-term financing to its clients packaged as part of its advisory services. In 2007, this strategy proved to be quite successful in terms of revenue generation and client base expansion. CIAM will expand this business further in 2008 by aligning the expertise of its shareholders on advisory services with the business network of CIAM in China. This high-yield short-term loan portfolio offers distinct advantages in generating a steady income stream and stable cash flows, and forms an important component of CIAM's short-term liquidity management.

Fund Management

The two funds under CIAM's management have completed their investments in 2007. Its technology fund amounting to RMB60 million has started to partially exit some of its investments and has registered satisfactory returns. Its real estate fund has committed approximately US\$43 million in investments by the end of 2007 which will be funded gradually in 2008. At least two other funds partnering with various international private equity fund managers are in the process of being established and are expected to focus on different investment areas. These funds target to raise an aggregate of US\$400 million via several tranches.

Distressed Assets Management

In 2007, CIAM successfully received HK\$51 million from its distressed assets portfolio mainly through the sale of some property assets. Due to the appreciation of collaterals from one major non-performing loan receivable, the provisioning on CIAM's non-performing loans was reduced by HK\$22 million. Net of recoveries, additional provisions and write-offs made on some bad debts in 2007, the distressed assets portfolio amounted to HK\$374 million as at the end of 2007, representing a 1.1% increase over 2006.

Preparing For New Challenges And Opportunities

Following the successful introduction of three strategic investors in late 2006, namely Japan's Asset Managers Co., Ltd, Bahrain's Ithmaar Bank B.S.C., and Mega Rider Offshore Limited from South East Asia, CIAM has leveraged their expertise and connections by bringing in new business opportunities as well as improving the quality of its investment process and corporate governance structure.

CIAM has also increased its investments in talents. Its new Chief Operating Officer, appointed since mid-2007, has been rationalising its operations and putting the right resources in place for CIAM to face its forthcoming challenges and opportunities. It will also be strengthening its investment teams with qualified professionals who will be responsible for enhancing CIAM's investments execution capability. In addition to the regular Executive Board Committee meetings and management reports, an audit committee was established to further enhance the corporate governance of CIAM.

Looking ahead, improving business momentum has been built up in all parts of CIAM. With plentiful direct investment opportunities in the Mainland and the respective strengths of its different shareholders, CIAM is well-positioned to capture new business opportunities and to realise its ambitious business expansion plan in the year of 2008 and beyond.

Risk Management

In 2007, the Group made progressive developments in its risk infrastructure in order to improve on the robustness of the risk management system in its operating platform, CKWB. CKWB completed a self assessment exercise in accordance with the risk management framework stipulated under Pillar II of the New Basel Capital Accord (“Basel II”) in the third quarter of 2007, based on which various comprehensive enhancements on bank-wide policies, procedures and system adequacy were initiated.

For market risk management, the Group’s main exposure is derived from CKWB. The Market Risk Limits Control Policy of CKWB offers a solid foundation with effective guidelines on the use and control of the hierarchy of market risk limits, including policies, business and transaction limits with reference to the Bank’s business goals, risk appetites and product scope. Each level of hierarchy consists of a series of limits, including profit and loss, position and sensitivity limits. Any excesses to these limits will alert the attention of senior management and trigger appropriate actions as necessary. CKWB continues to adopt value-at-risk, back-testing, stress testing, risk factor sensitivities, loss limits and other types of advanced and sophisticated tools for market risk control.

In the area of operational risk management, similar to the credit risk and market risk management functions of the Bank, the dedicated team of professionals involved operates as a segregated and independent function that centralises all aspects of operational risk control. CKWB’s operational risk management framework was refined during the year and its operational risk policies were further enhanced to align with international best practice. The Bank has implemented various operational risk management programmes, such as self-assessment exercises and key risk indicators, to facilitate the identification, assessment, mitigation and reporting of operational risks.

Looking ahead into 2008, in face of the uncertain global economic outlook as well as the extreme market volatilities that are likely to continue, the Bank will make continuous refinements to its Early Alert Monitoring System and stay vigilant in managing the credit quality of its business portfolios. Additional emphasis will be placed on reviewing and stress-testing the Bank’s investment portfolios and market exposures to ensure that the evolving risk dynamics do not deviate from the Bank’s prescribed guidelines at any time.

In view of CKWB’s fast growing business and its regional expansion plans, the Bank announced at the beginning of 2008 the appointment of its Director of Risks, a new senior executive position created to ensure that the Bank upgrades to and upholds the highest risk management standards required under Basel II or by different regulatory regimes within which the Bank operates now or in the future.

Human Resources Development

The Group has always placed as one of its top priorities the task of growing and nurturing its talent base, and shares with its staff the ownership and fruits of its success. Indeed in 2007, through a focus on teamwork, the Group recorded significant gains in productivity and product innovation. The results were achieved against a backdrop of acute demand for talent. During the year, Hong Kong experienced a sharp decline in unemployment and also faced the challenge of an immense talent drain to the Mainland market. As a result, the financial services industry in particular faced an escalating rate in job vacancies. Despite the intensified competition for talent, more of our staff chose to stay and grow with the Group compared to previous years. In addition, the talent pool has been enriched with the addition of a number of high calibre and experienced professionals.

The Group made employee engagement a top priority in 2007. A number of people initiatives were launched to recognise, develop and retain our staff force. For instance, a “Business Leadership Development Programme” was organised for selected high-performance senior managers with very positive feedback received from all participants. A range of communications forums – including business forums, executive forums, CEO chatrooms, etc. – were held as timely and effective platforms for senior management to share strategic business visions and to get direct feedback from a wide cross-section of staff members. Meanwhile, a series of sporting events branded as “Team Power Olympics” drew enthusiastic response from staff members and created various fun and rewarding team building activities for all levels of staff across different business and support units. The Group’s heightened engagement in corporate social responsibility activities, especially those targeted at helping the underprivileged in local communities or at promoting general environmental awareness, also helped to build community service consciousness and corporate pride.

The Group seeks to continuously strengthen the performance of our 1,615 employees by offering differentiated rewards for different levels of contribution and by providing on-going training and development programmes; during the year, the Group reported on average five training days per staff member. At the same time, the Group continues to invest in building its leadership pipeline by grooming top-notch fresh graduates as well as recruiting experienced professionals. All these are not only critical to the Group’s on-going business success, but also to strengthen its foundation for future growth.

Future Outlook

China’s sustained healthy economic growth in the foreseeable future is already an undoubted reality. With China as its immense hinterland, Hong Kong is certain to benefit in its role as the country’s international financial centre. Leveraging on the unique geo-economic advantage of Hong Kong and the immense opportunities from China’s rapid economic expansion, the Group is determined to establish itself as its customers’ regional Chinese banking group of choice.

To welcome these new opportunities, the Group will focus on building a unified platform with CNCB to deliver seamless world-class financial services solutions for customers to reach from China to the rest of the world. It will also strive to harness the competitive advantages and synergies between CITIC’s financial and non-financial businesses by reinforcing business collaboration with other CITIC subsidiary companies. Just as importantly, the Group will focus on executing its strategic regional expansion plan, with Singapore as its first target for establishing an overseas branch – to service customers in Southeast Asia who are important trade partners with China and to pave the way for establishing the tri-partite commercial banking business model with CNCB and BBVA.

CIFH looks to the future with confidence. The Group's companies have all worked hard in the past to perform and to innovate in order to establish their differentiating competitive edges in the highly competitive market place. Their achievements are reflected in the strong growth of their business fundamentals as they stay focused on their clear business visions. Building on their solid groundwork and with the full support of CITIC, CIFH is confident that it will overcome the challenges of the current global financial crisis, and emerge from the lessons learnt with an even stronger and more unique foundation to continue our strategic breakthrough and transformation.

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 2007. 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 is committed to maintaining high standards of corporate governance. Throughout the year ended 31 December 2007, the Company has complied with 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 except for the following derivations:–

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 Director 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. The Chairman of the Company was unable to attend the annual general meeting of the Company held on 17 May 2007 due to other important business engagements. Nevertheless, other board members (including the Chairman of the Audit Committee) attended the meeting to answer questions from shareholders.

REVIEW BY THE AUDIT COMMITTEE

The financial statements of the Company for the year ended 31 December 2007 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, 27 March 2008

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. Fan Yifei, 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.