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 2008 INTERIM RESULTS

The Board of Directors of CITIC International Financial Holdings Limited ("the Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries ("the Group") for the six months ended 30 June 2008 and the Group's state of affairs as at that date together with the comparative figures. The interim financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2007 audited accounts. The interim financial report is unaudited, but has been reviewed by KPMG, in accordance with Hong Kong Standards on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), whose unmodified review report is included in the interim report to be sent to shareholders.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008 – Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2008	2007
	Note	**HK$'000**	HK$'000
Interest income	*3*	**2,063,077**	2,346,553
Interest expense		**(1,273,054)**	(1,715,384)
Net interest income		**790,023**	631,169
Fee and commission income		**445,996**	391,680
Fee and commission expense		**(10,060)**	(6,756)
Net fee and commission income	*4*	**435,936**	384,924
Net loss and write-down on structured investment vehicles		**(717,885)**	–
Other net trading income		**170,571**	347,762
Net trading (loss)/income	*5*	**(547,314)**	347,762
Net expenses from financial instruments designated at fair value through profit or loss	*6*	**(64,102)**	(76,805)
Net hedging loss	*7*	**(938)**	(79)
Other operating income	*8*	**22,304**	24,687
Operating income		**635,909**	1,311,658
Operating expenses	*9*	**(689,885)**	(614,464)
Operating (loss)/profit before impairment		**(53,976)**	697,194
Impairment losses written back/(charged for) on loans and advances	*10*	**9,525**	(42,541)
Impairment losses written back on held-to-maturity investments		**–**	188
Impairment losses written back on available-for-sale securities		**100**	–
Impairment losses written back/(charged for)		**9,625**	(42,353)
Net profit/(loss) on disposal of available-for-sale securities	*11*	**36,909**	(141)
Operating (loss)/profit		**(7,442)**	654,700
Gain on dilution of investment in associate		**–**	201,689
Net (loss)/profit on disposal of property and equipment		**(982)**	19,534
Revaluation gain on investment properties		**28,112**	5,497
Share of profits of associates	*12*	**1,442,915**	736,777
Profit before taxation		**1,462,603**	1,618,197
Income tax	*13*	**(22,404)**	(107,847)
Profit after taxation		**1,440,199**	1,510,350
Attributable to:			
Equity shareholders of the Company		**1,440,199**	1,510,350
Interim dividend declared during the period	*14*	**–**	–
Earnings per share	*15*		
Basic		**25.01¢**	27.39¢
Diluted		**25.00¢**	27.27¢

CONSOLIDATED BALANCE SHEET
As at 30 June 2008 – Unaudited
(Expressed in Hong Kong dollars)

	Note	**As at 30 June 2008 HK$'000**	As at 31 December 2007 HK$'000
Assets			
Cash and balances with banks, central banks and other financial institutions	*16*	**1,290,077**	1,502,876
Placements with and advances to banks, central banks and other financial institutions	*17*	**7,065,223**	12,647,588
Trade bills	*18*	**1,128,511**	1,523,200
Trading assets	*19*	**1,709,257**	3,479,009
Securities designated at fair value through profit or loss	*20*	**405,850**	531,025
Loans and advances to customers and other accounts	*21*	**77,407,327**	67,704,297
Available-for-sale securities	*22*	**19,761,887**	22,125,403
Interest in associates	*23*	**22,965,309**	20,635,639
Property and equipment	*24*		
– Investment property		**175,742**	238,380
– Other property and equipment		**909,862**	836,239
Goodwill		**1,007,749**	1,007,749
Tax recoverable	*29*	**165,812**	71,248
Deferred tax assets	*29*	**88,810**	82,374
Total assets		**134,081,416**	132,385,027
Equity and liabilities			
Deposits and balances of banks and other financial institutions		**10,565,204**	6,649,030
Deposits from customers	*25*	**78,820,210**	83,794,961
Trading liabilities	*26*	**925,433**	879,690
Certificates of deposit issued	*27*	**4,786,041**	6,863,124
Debt securities issued	*28*	**2,342,413**	2,314,394
Convertible bonds issued		**7,752**	7,648
Current taxation	*29*	**12,517**	6,760
Deferred tax liabilities	*29*	**1,188**	–
Other liabilities	*30*	**3,911,511**	1,459,451
Loan capital	*31*	**3,924,513**	3,926,390
Total liabilities		**105,296,782**	105,901,448
Equity			
Share capital	*33*	**5,758,961**	5,757,321
Reserves	*34*	**23,025,673**	20,726,258
Total equity attributable to equity shareholders of the Company		**28,784,634**	26,483,579
Total equity and liabilities		**134,081,416**	132,385,027

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2008 – Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June			
		2008		2007	
	Note	**HK$'000**	**HK$'000**	HK$'000	HK$'000
Total equity at 1 January			**26,483,579**		20,232,071
Net income recognised directly in equity:					
Exchange differences on translation of:					
– financial statements of overseas branches, subsidiaries and associates	*34*	**946,856**		271,248	
– related borrowings	*34*	**7**		369	
			946,863		271,617
Release of revaluation surplus and deferred tax liabilities upon disposal of investment properties (transferred from other premises in prior years)	*34*		**(4)**		–
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax	*34*		**–**		46,918
Effect of decrease in tax rate on deferred tax balance at 1 January	*34*		**(449)**		–
Available-for-sale securities					
– changes in fair value	*34*	**(45,103)**		(26,468)	
– transferred from equity to income statement on disposal	*34*	**(36,539)**		182	
– transferred from equity to deferred tax	*34*	**13,472**		4,600	
			(68,170)		(21,686)
Share of associates					
– fair value reserve	*34*	**(52,758)**		(24,434)	
– share option reserve	*34*	**8,019**		5,727	
– share of revaluation reserve	*34*	**337**		–	
			(44,402)		(18,707)
			833,838		278,142
Profit for the period			**1,440,199**		1,510,350
Total recognised income and expense for the period			**2,274,037**		1,788,492
Attributable to:					
– equity shareholders of the Company		**2,274,037**		1,788,492	
Dividends declared during the period	*34*		**–**		(322,056)

		Six months ended 30 June			
		2008		2007	
	Note	**HK$'000**	**HK$'000**	HK$'000	HK$'000
Movements in equity arising from capital transactions:					
Share issued under the share option scheme					
– share capital	*33*	**1,640**		4,648	
– share premium	*34*	**7,004**		14,661	
– transfer of share option reserve to share premium	*34*	**(1,981)**		(3,983)	
			6,663		15,326
Conversion of convertible bonds into ordinary shares					
– share capital	*33*	**–**		59,024	
– share premium		**–**		192,949	
– equity component	*34*	**–**		(11,796)	
			–		240,177
Issuance of new shares					
– share capital	*33*	**–**		668,575	
– share premium		**–**		3,229,214	
			–		3,897,789
Equity-settled share-based transactions	*34*		**20,355**		3,250
			27,018		4,156,542
Total equity at 30 June			**28,784,634**		25,855,049

CONDENSED CONSOLIDATED CASH FLOW STATEMENT
For the six months ended 30 June 2008 – Unaudited
(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Cash (used in)/generated from operations	**(3,137,027)**	4,371,308
Income tax paid	**(103,498)**	(3,474)
Net cash (used in)/generated from operating activities	**(3,240,525)**	4,367,834
Net cash generated from/(used in) investing activities	**335,664**	(6,729,911)
Net cash (used in)/generated from financing activities	**(207,607)**	3,294,280
Net (decrease)/increase in cash and cash equivalents	**(3,112,468)**	932,203
Cash and cash equivalents at 1 January	**10,339,284**	12,031,996
Cash and cash equivalents at 30 June	**7,226,816**	12,964,199

NOTES TO THE INTERIM FINANCIAL REPORT – UNAUDITED

(Expressed in Hong Kong dollars unless otherwise indicated)

(1) Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2007 annual financial statements.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

The financial information relating to the financial year ended 31 December 2007 that is included in the interim financial report as being previously reported information 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 are available from the Company's registered office. The independent auditors have expressed an unqualified opinion on those financial statements in their report dated 27 March 2008.

(2) Segment reporting

(a) By geographical areas

	Six months ended 30 June			
	2008 Profit before taxation	2007 Profit before taxation	**2008 Operating income**	2007 Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong	**10,771**	817,674	**504,401**	1,210,314
Mainland China	**1,432,963**	573,515	**87,742**	51,164
USA	**8,117**	17,921	**26,917**	36,798
Others	**10,796**	208,805	**16,917**	13,331
Less: Inter-segment items	**(44)**	282	**(68)**	51
	1,462,603	1,618,197	**635,909**	1,311,658

Profit before taxation from Hong Kong included share of profits of associates amounting to HK$55,090,000 (six months ended 30 June 2007: HK$191,677,000).

Profit before taxation from Mainland China included share of profits of associates amounting to HK$1,387,825,000 (six months ended 30 June 2007: HK$545,100,000).

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

(b) *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.

	Six months ended 30 June			
	2008 Profit before taxation	2007 Profit before taxation	**2008 Operating income/(loss)**	2007 Operating income
	HK$'000	HK$'000	**HK$'000**	HK$'000
Commercial banking business	**1,517,002**	1,193,480	**690,492**	1,288,656
Asset management	**55,090**	191,677	**–**	–
Unallocated	**(109,489)**	233,040	**(52,345)**	23,002
Less: Inter-segment items	**–**	–	**(2,238)**	–
	1,462,603	1,618,197	**635,909**	1,311,658

Profit before taxation from commercial banking business and asset management included share of profit of associates amounting to HK$1,387,825,000 and HK$55,090,000 respectively (six months ended 30 June 2007: share of profit of associates amounting to HK$545,100,000, and HK$191,677,000 respectively).

(3) Interest income

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Listed securities	**199,944**	231,783
Unlisted securities	**222,379**	189,144
Others	**1,640,754**	1,925,626
	2,063,077	2,346,553

All interest income and interest expenses included in the income statement refer to those interest income on financial assets or interest expenses on financial liabilities that are not at fair value through profit or loss for the six months ended 30 June 2008 and 30 June 2007.

Other interest income includes the amount of interest income accrued on impaired financial assets of HK$1,570,000 (six months ended 30 June 2007: HK$16,436,000), which includes interest income on unwinding of discount on loan impairment losses of HK$1,084,000 (six months ended 30 June 2007: HK$906,000) for the six months ended 30 June 2008.

(4) Net fee and commission income

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Fee and commission income		
Bills commission	**39,648**	29,848
Cards related income	**15,606**	17,473
General banking services	**28,183**	24,605
Insurance	**64,802**	55,825
Investment and structured investment products	**113,508**	111,537
Loans, overdrafts and facilities fee	**183,733**	151,960
Others	**516**	432
	445,996	391,680
Fee and commission expense	**(10,060)**	(6,756)
	435,936	384,924
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	**199,339**	169,433
– Fee and commission expense	**(3,692)**	(2,106)
	195,647	167,327

(5) Net trading (loss)/income

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Net loss and write-down on structured investment vehicles	**(717,885)**	–
Other net trading income		
Gains less losses from dealing in foreign currencies	**98,902**	66,357
Gains less losses from trading securities	**(25,099)**	156,500
Gains less losses from other dealing activities	**90,261**	22,913
Interest income on trading assets		
– Listed	**30**	12,746
– Unlisted	**6,477**	73,545
Dividend income from unlisted trading securities	**–**	15,701
	170,571	347,762
	(547,314)	347,762

The Group recorded a net loss and write-down on structured investment vehicles of approximately HK$717,885,000 during the period, which represented the changes in fair value of the investments.

(6) Net expenses from financial instruments designated at fair value through profit or loss

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Net loss	**(22,882)**	(20,180)
Interest income		
– Listed	**2,485**	14,622
– Unlisted	**8,400**	6,078
Interest expense	**(52,105)**	(77,325)
	(64,102)	(76,805)

(7) Net hedging loss

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Fair value hedge loss	**(938)**	(79)

(8) Other operating income

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Dividend income from available-for-sale securities		
– Unlisted	**3,060**	2,960
Rental income from investment properties less direct outgoings of HK$41,000 (six months ended 30 June 2007: HK$Nil)	**2,997**	2,390
Others	**16,247**	19,337
	22,304	24,687

(9) Operating expenses

		Six months ended 30 June	
		2008	2007
		HK$'000	HK$'000
(a)	**Staff costs**		
	Salaries and other staff costs	**362,978**	349,241
	Retirement costs	**22,546**	20,147
	Share-based payment expenses		
	– Equity-settled share-based payment expenses	**20,097**	3,047
	– Cash-settled share-based payment expenses	**4,997**	8,690
		410,618	381,125
(b)	**Depreciation**		
	Depreciation of property and equipment		
	– Assets held for use under operating leases	**906**	7,618
	– Other assets	**36,302**	38,149
		37,208	45,767
(c)	**Other operating expenses**		
	Property and equipment expenses, excluding depreciation		
	– Rental of property	**44,707**	38,459
	– Others	**40,440**	34,766
	Auditors' remuneration	**2,288**	2,532
	Advertising	**24,482**	20,685
	Communication, printing and stationery	**33,453**	29,818
	Legal and professional fee	**15,661**	6,176
	Others	**81,028**	55,136
		242,059	187,572
	Total operating expenses	**689,885**	614,464

Included in other operating expenses are minimum lease payment under operating leases of HK$2,301,000 (six months ended 30 June 2007: HK$993,000) for hire of equipment and HK$42,320,000 (six months ended 30 June 2007: HK$36,067,000) for hire of other assets (including property rentals).

(10) Impairment losses written back/(charged for) on loans and advances

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Individual assessment charged for		
– Additions	**(83,565)**	(58,216)
– Releases	**6,189**	2,019
– Recoveries	**44,612**	21,298
	(32,764)	(34,899)
Collective assessment written back/(charged for)	**42,289**	(7,642)
	9,525	(42,541)

(11) Net profit/(loss) on disposal of available-for-sale securities

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Net revaluation gain/(loss) transferred from reserves *(note 34)*	**36,539**	(182)
Net profit arising in current period	**370**	41
	36,909	(141)

(12) Share of profits of associates

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Share of profits of associates	**1,449,803**	691,051
Less: Intangible asset amortization, net of deferred tax	**(6,888)**	(6,567)
Add: Deferred tax on intangible asset written-back	**–**	52,293
	1,442,915	736,777

The write-back of the deferred tax for the six months ended 2007 was due to a reduction in the tax rate from 33% to 25% following the promulgation by the PRC government of the new Corporate Income Tax Law. The deferred tax liabilities in respect of the intangible assets fell from HK$217 million to HK$165 million, and a corresponding gain of HK$52 million was recognised in the income statement.

(13) Income tax in the consolidated income statement

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the period	**2,934**	107,070
Over-provision in respect of prior years	**(584)**	–
	2,350	107,070
Current tax – Overseas		
Provision for the period	**11,701**	3,893
Under-provision in respect of prior years	**582**	–
	12,283	3,893
Deferred tax		
Origination/(Reversal) of temporary differences *(note 29(b))*	**3,343**	(3,116)
Effect of decrease in tax rate on deferred tax balance at 1 January *(note 29(b))*	**4,428**	–
	7,771	(3,116)
	22,404	107,847

The provision of Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) of the estimated assessable profits for the period. Taxation for 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.

(14) Dividends

(a) Dividends attributable to the interim period

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Interim dividend declared and paid	**–**	–

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

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Final dividend in respect of the financial year ended 31 December 2007, approved and paid during the following interim period, of HK$Nil per ordinary share (year ended 31 December 2006: HK$0.056 per ordinary share)	**–**	321,000
Final dividend in respect of the previous financial year on ordinary shares issued under the Share Option Scheme subsequent to the balance sheet date and before the close of the Register of Members of the Company	**–**	1,056
	–	322,056

(15) Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2008 is based on profit attributable to ordinary equity shareholders of the Company of HK$1,440,199,000 (six months ended 30 June 2007: HK$1,510,350,000) and the weighted average number of ordinary shares of 5,757,633,817 (six months ended 30 June 2007: 5,514,687,452).

(b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2008 is based on adjusted profit attributable to ordinary equity shareholders of the Company of HK$1,440,310,000 (six months ended 30 June 2007: HK$1,511,654,000) and the weighted average number of ordinary shares of 5,761,485,325 (six months ended 30 June 2007: 5,543,436,679), after adjusting for the effects of all dilutive potential ordinary shares.

(16) Cash and balances with banks, central banks and other financial institutions

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Cash in hand	**152,588**	159,201
Balances with central banks	**89,418**	76,579
Balances with banks	**1,027,335**	1,251,023
Balances with other financial institutions	**20,736**	16,073
	1,290,077	1,502,876

(17) Placements with and advances to banks, central banks and other financial institutions

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Placement with banks	**1,769,917**	9,893,443
Advances to banks	**5,276,587**	2,511,607
Items in the course of collection from other banks	**18,719**	242,538
	7,065,223	12,647,588
Maturing		
– within one month	**1,859,273**	9,552,993
– between one month and one year	**1,796,921**	582,988
– after one year	**3,409,029**	2,511,607
	7,065,223	12,647,588

(18) Trade bills

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Gross trade bills	**1,128,552**	1,523,243
Impairment allowances		
– collectively assessed	**(41)**	(43)
	1,128,511	1,523,200

(19) Trading assets

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Debt securities	**671,560**	1,335,609
Equity securities	**3,572**	5,612
Investment funds	**8,831**	1,238,246
Trading securities	**683,963**	2,579,467
Positive fair value of derivatives *(note 36(b))*	**1,025,294**	899,542
	1,709,257	3,479,009
Issued by:		
Sovereigns	**901**	898
Public sector entities	**3,308**	2,355
Banks and other financial institutions	**667,351**	628,054
Corporate entities	**12,403**	1,948,160
	683,963	2,579,467
Analysed by place of listing:		
Listed in Hong Kong	**1,604**	1,095
Listed outside Hong Kong	**3,572**	200,165
	5,176	201,260
Unlisted	**678,787**	2,378,207
	683,963	2,579,467

(20) Securities designated at fair value through profit or loss

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Debt securities	**405,850**	531,025
Issued by:		
Banks and other financial institutions	**142,522**	134,422
Corporate entities	**263,328**	396,603
	405,850	531,025
Analysed by place of listing:		
Listed outside Hong Kong	**82,147**	82,844
Unlisted	**323,703**	448,181
	405,850	531,025

(21) Loans and advances to customers and other accounts

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

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Gross loans and advances to customers	**75,424,484**	65,833,430
Impairment allowances		
– individually assessed	**(127,657)**	(70,883)
– collectively assessed	**(177,347)**	(223,540)
	75,119,480	65,539,007
Accrued interest and other accounts less impairment allowances	**2,287,847**	2,165,290
	77,407,327	67,704,297

(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").

	As at 30 June 2008		As at 31 December 2007	
	Gross loans and advances to customers	**% of loans and advances covered by collateral**	Gross loans and advances to customers	% of loans and advances covered by collateral
	HK$'000		HK$'000	
Industrial, commercial and financial				
– Property development	**115,000**	**–**	207,000	–
– Property investment	**8,701,185**	**98**	7,740,669	98
– Financial concerns	**4,747,430**	**62**	5,061,032	36
– Stockbrokers	**19,475**	**67**	181,000	6
– Wholesale and retail trade	**3,697,869**	**50**	3,383,895	54
– Manufacturing	**6,599,276**	**26**	5,833,965	24
– Transport and transport equipment	**3,160,065**	**72**	3,394,165	81
– Recreational activities	**128,631**	**99**	100,800	99
– Information technology	**18,521**	**99**	1,122	80
– Others	**2,765,278**	**56**	3,332,366	60
Individuals				
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**33,737**	**100**	34,963	100
– Loans for the purchases of other residential properties	**11,219,031**	**99**	11,284,553	99
– Credit card advances	**384,712**	**–**	506,775	–
– Others	**3,003,987**	**87**	2,401,149	83
Gross loans and advances for use in Hong Kong	**44,594,197**	**74**	43,463,454	70
Trade finance	**4,991,469**	**37**	4,467,495	38
Gross loans and advances for use outside Hong Kong	**25,838,818**	**35**	17,902,481	42
Gross loans and advances to customers	**75,424,484**	**58**	65,833,430	61

(c) Impaired loans and advances to customers

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Gross impaired loans and advances to customers	**937,753**	757,212
Impairment allowances – individually assessed	**(127,657)**	(70,883)
	810,096	686,329
Gross impaired loans and advances as a % of total loans and advances to customers	**1.24%**	1.15%

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

Individually assessed impairment allowances were made after taking into account the realisable value of collateral in respect of such loans and allowances of HK$664,037,000 (31 December 2007: HK$601,359,000) for the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

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:

	As at 30 June 2008		
	Individual impairment allowances	**Collective impairment allowances**	**Impaired loans and advances**
	HK$'000	**HK$'000**	**HK$'000**
Property investment	**3,059**	**7,090**	**30,118**
Loans and advances for the purchases of other residential properties	**258**	**2,578**	**12,236**
Gross loans and advances for use outside Hong Kong	**46,455**	**57,572**	**630,653**
	49,772	**67,240**	**673,007**

	As at 31 December 2007		
	Individual impairment allowances	Collective impairment allowances	Impaired loans and advances
	HK$'000	HK$'000	HK$'000
Property investment	3,059	7,486	21,931
Loans and advances for the purchases of other residential properties	1,944	4,470	13,927
Gross loans and advances for use outside Hong Kong	52,846	63,886	532,931
	57,849	75,842	568,789

(22) Available-for-sale securities

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Certificates of deposit held	**184,928**	150,033
Debt securities	**15,613,558**	21,157,046
Treasury bills (including Exchange Fund Bills)	**3,865,883**	721,180
Equity securities	**40,574**	40,212
Investment funds	**56,944**	56,932
	19,761,887	22,125,403
Issued by:		
Sovereigns	**3,865,883**	805,060
Public sector entities	**431,534**	710,682
Banks and other financial institutions	**10,551,595**	15,450,543
Corporate entities	**4,912,875**	5,159,118
	19,761,887	22,125,403
Analysed by place of listing:		
Listed in Hong Kong	**501,075**	864,142
Listed outside Hong Kong	**5,738,631**	6,473,642
	6,239,706	7,337,784
Unlisted	**13,522,181**	14,787,619
	19,761,887	22,125,403

(23) Interest in associates

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Share of net assets	**17,736,806**	15,754,176
Goodwill	**4,374,546**	4,374,546
Intangible assets	**623,516**	632,700
Deferred tax on intangible assets	**(155,879)**	(158,175)
Amount due from associates	**386,320**	32,392
	22,965,309	20,635,639

(a) Details of the principal associates are as follows:

Name of company	Form of business structure	Place of incorporation/ operation	Group's effective interest	Held by the Company	Held by the subsidiaries	Principal activities	Nominal value of issued shares
China CITIC Bank Corporation Limited ("CNCB")	Incorporated	PRC	15%	15% *(Note 1)*	–	Banking services	RMB39,033,000,000
CITIC Capital Holdings Limited	Incorporated	Hong Kong	50%	–	50%	Investment holdings	HK$28,000,000
CITIC International Assets Management Limited	Incorporated	Hong Kong	40%	40%	–	Investment holding and asset management	HK$1,427,452,018

Note 1: The Group's investment in CNCB has been accounted for as an associate using the equity method as the Group has representation on the Board of Directors and is in a position to exercise significant influence over CNCB.

(b) *Movement of the intangible assets*

	Brand name	**Core deposits and customers relationships**	**Total**
	HK$'000	HK$'000	HK$'000
Cost			
At 1 January 2008 and 30 June 2008	400,963	250,268	651,231
Accumulated amortisation			
At 1 January 2008	–	18,531	18,531
Amortisation of the intangible assets	–	9,184	9,184
At 30 June 2008	–	27,715	27,715
Carrying amount			
At 30 June 2008	**400,963**	**222,553**	**623,516**
At 31 December 2007	400,963	231,737	632,700

There is no impairment charged for the six months ended 30 June 2008 (six months ended 30 June 2007: HK$Nil) on the intangible assets.

(24) Property and equipment

	Investment properties	Other premises	Furniture, fixtures and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Cost or valuation:				
At 1 January 2007	124,776	964,412	659,593	1,748,781
Additions	–	–	59,595	59,595
Reclassification	62,100	(79,607)	–	(17,507)
Surplus on revaluation before reclassification	–	48,098	–	48,098
Disposals	(8,600)	(2,657)	(10,568)	(21,825)
Surplus on revaluation	60,104	–	–	60,104
Exchange adjustments	–	117	45	162
At 31 December 2007	238,380	930,363	708,665	1,877,408
The analysis of cost or valuation of the above assets is as follows:				
Cost	–	899,326	708,665	1,607,991
Valuation				
– 1985	–	31,037	–	31,037
– 2007	238,380	–	–	238,380
	238,380	930,363	708,665	1,877,408
At 1 January 2008	**238,380**	**930,363**	**708,665**	**1,877,408**
Additions	**–**	**–**	**22,997**	**22,997**
Reclassification	**(88,900)**	**88,900**	**–**	**–**
Disposals	**(1,850)**	**–**	**(12,175)**	**(14,025)**
Surplus on revaluation	**28,112**	**–**	**–**	**28,112**
Exchange adjustments	**–**	**5**	**(9)**	**(4)**
At 30 June 2008	**175,742**	**1,019,268**	**719,478**	**1,914,488**
The analysis of cost or valuation of the above assets is as follows:				
Cost	**–**	**899,331**	**719,478**	**1,618,809**
Valuation				
– 1985	**–**	**31,037**	**–**	**31,037**
– 2008	**175,742**	**88,900**	**–**	**264,642**
	175,742	**1,019,268**	**719,478**	**1,914,488**

	Investment properties	Other premises	Furniture, fixtures and equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Accumulated depreciation:				
At 1 January 2007	–	272,875	476,141	749,016
Charge for the year	–	19,524	62,563	82,087
Written back on disposals	–	(1,715)	(9,134)	(10,849)
Reclassification	–	(17,507)	–	(17,507)
Exchange adjustments	–	18	24	42
At 31 December 2007	–	273,195	529,594	802,789
At 1 January 2008	**–**	**273,195**	**529,594**	**802,789**
Charge for the period *(note 9(b))*	**–**	**9,991**	**27,217**	**37,208**
Written back on disposals	**–**	**–**	**(11,111)**	**(11,111)**
Exchange adjustments	**–**	**1**	**(3)**	**(2)**
At 30 June 2008	**–**	**283,187**	**545,697**	**828,884**
Net book value:				
At 30 June 2008	**175,742**	**736,081**	**173,781**	**1,085,604**
At 31 December 2007	238,380	657,168	179,071	1,074,619

(25) Deposits from customers

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Demand deposits and current deposits	**6,730,230**	6,872,059
Savings deposits	**11,850,419**	11,687,849
Time, call and notice deposits	**60,239,561**	65,235,053
	78,820,210	83,794,961

(26) Trading liabilities

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Negative fair value of derivatives *(note 36(b))*	**925,433**	879,690

(27) Certificates of deposit issued

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Designated at fair value through profit or loss	500,780	4,763,836
Non-trading	4,285,261	2,099,288
	4,786,041	6,863,124

Certificates of deposit issued are designated at fair value through profit or loss when they contain embedded derivatives that modify the cash flows that otherwise would be required to be separated.

The carrying amount of certificates of deposit issued designated at fair value through profit or loss at 30 June 2008 was HK$12,620,000 (31 December 2007: HK$31,135,000) lower than the contractual amount at maturity, which was mainly due to changes in benchmark interest rate.

(28) Debt securities issued

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Non-trading debt securities issued	2,342,413	2,314,394

(29) Income tax in the consolidated balance sheet

(a) Current taxation in the consolidated balance sheet represents:

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Provision for Hong Kong Profits Tax for the period/year	2,934	9,544
Provisional Profits Tax paid	(163,773)	(136,292)
	(160,839)	(126,748)
Balance of Profits Tax provision relating to prior years	(4,077)	55,779
	(164,916)	(70,969)
Provision for overseas taxation	11,621	6,481
	(153,295)	(64,488)
Of which:		
Tax recoverable	(165,812)	(71,248)
Current taxation	12,517	6,760
	(153,295)	(64,488)

(b) Deferred tax assets and liabilities recognised

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

	Depreciation allowances in excess of related depreciation	Impairment allowances for loans	Fair value adjustments for revaluation of properties and other assets	Fair value adjustments for available-for-sale securities	Tax losses	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Deferred tax arising from:							
At 1 January 2007	17,561	(39,259)	(26,654)	41,956	–	(922)	(7,318)
(Credited)/charged to consolidated income statement	(132)	234	10,824	–	(34,670)	–	(23,744)
Charged/(credited) to reserves	–	–	8,417	(60,347)	–	–	(51,930)
Exchange and other adjustments	–	–	–	–	618	–	618
At 31 December 2007	17,429	(39,025)	(7,413)	(18,391)	(34,052)	(922)	(82,374)
At 1 January 2008	**17,429**	**(39,025)**	**(7,413)**	**(18,391)**	**(34,052)**	**(922)**	**(82,374)**
Charged/(credited) to consolidated income statement *(note 13)*	**2,200**	**7,593**	**(2,809)**	**–**	**(3,895)**	**254**	**3,343**
Charged/(credited) to reserves	**–**	**–**	**4**	**(13,472)**	**–**	**–**	**(13,468)**
Effect of decrease in tax rate (credited)/charged to consolidated income statement *(note 13)*	**(996)**	**2,231**	**1,247**	**–**	**1,946**	**–**	**4,428**
Effect of decrease in tax rate (credited)/charged to reserves *(note 34)*	**–**	**–**	**(602)**	**1,051**	**–**	**–**	**449**
At 30 June 2008	**18,633**	**(29,201)**	**(9,573)**	**(30,812)**	**(36,001)**	**(668)**	**(87,622)**

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Net deferred tax assets recognised on the consolidated balance sheet	**(88,810)**	(82,374)
Net deferred tax liabilities recognised on the consolidated balance sheet	**1,188**	–
	(87,622)	(82,374)

(c) *Deferred tax assets not recognised*

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK$114,600,000 (31 December 2007: HK$106,868,000), as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. Under the current tax legislation, the expiry dates of the tax losses are as follows:

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
No expiry date	**114,600**	106,868

(30) Other liabilities

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Items in the course of collection to other financial institutions	**1,998,768**	–
Other accounts	**1,912,743**	1,459,451
	3,911,511	1,459,451

(31) Loan capital

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Subordinated notes with US$250 million 9.125% *	**1,974,633**	1,976,738
Subordinated notes with US$250 million 1.75%+LIBOR rate **	**1,949,880**	1,949,652
	3,924,513	3,926,390

* *Subordinated notes with a coupon of 9.125% per annum and with face value of US$250 million (HK$ equivalent 1,944.1 million) were issued on 23 May 2002 by CKWH-UT2 Limited, a wholly-owned subsidiary of the Group, and qualify as tier 2 capital. CKWB, a wholly-owned subsidiary of the Group, unconditionally and irrevocably guarantees all amounts payable under the notes. The 9.125% per annum perpetual subordinated notes will be callable by CKWH-UT2 Limited in 2012.*

** *On 11 December 2007, CKWB, under a US$2 billion Medium Term Note Programme, issued subordinated float rate notes with a coupon of 1.75% per annum above the LIBOR for three-month US dollar deposits with face value of US$250 million (HK$ equivalent 1,949.5 million). The notes are listed on the SGX-ST and will be matured on 12 December 2017.*

(32) Maturity profile

The following maturity profile is based on the remaining period at the balance sheet date to the contractual maturity date.

As the trading portfolio may be sold before maturity or deposits from customers may mature without being withdrawn, the contractual maturity dates do not represent expected dates of future cash flows.

	As at 30 June 2008							
	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	1,290,077	1,290,077	–	–	–	–	–	–
Placements with and advances to banks, central banks and other financial institutions	7,065,223	–	1,859,273	347,677	1,449,244	1,507,457	1,901,572	–
Trade bills	1,128,511	–	424,982	608,987	94,542	–	–	–
Trading assets	1,709,257	1,025,294	–	901	351	670,208	100	12,403
Securities designated at fair value through profit or loss	405,850	–	–	–	–	405,850	–	–
Loans and advances to customers and other accounts	77,407,327	1,763,396	3,819,171	5,190,701	12,238,384	31,818,441	19,449,305	3,127,929
Available-for-sale securities	19,761,887	–	4,402,853	2,602,367	2,824,299	8,397,823	1,434,890	99,655
Tax recoverable	165,812	–	–	–	165,812	–	–	–
Undated assets	25,147,472	–	–	–	–	–	–	25,147,472
Total assets	134,081,416	4,078,767	10,506,279	8,750,633	16,772,632	42,799,779	22,785,867	28,387,459
Liabilities								
Deposits and balances of banks and other financial institutions*	10,565,204	112,272	8,444,559	1,794,250	214,123	–	–	–
Deposits from customers	78,820,210	18,580,649	42,619,482	12,483,263	4,855,652	281,164	–	–
Trading liabilities	925,433	925,433	–	–	–	–	–	–
Certificates of deposit issued	4,786,041	–	–	39,884	3,474,672	1,271,485	–	–
Debt securities issued	2,342,413	–	–	–	21,300	2,321,113	–	–
Convertible bond issued	7,752	–	–	–	7,752	–	–	–
Loan capital	3,924,513	–	–	–	–	3,924,513	–	–
Current taxation	12,517	–	–	–	12,517	–	–	–
Undated liabilities	3,912,699	–	–	–	–	–	–	3,912,699
Total liabilities	105,296,782	19,618,354	51,064,041	14,317,397	8,586,016	7,798,275	–	3,912,699
Asset – liability gap		(15,539,587)	(40,557,762)	(5,566,764)	8,186,616	35,001,504	22,785,867	

	As at 31 December 2007							
	Total	Repayable on demand	Within 1 month	3 months or less but over 1 month	1 year or less but over 3 months	5 years or less but over 1 year	Over 5 years	Undated
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Assets								
Cash and balances with banks, central banks and other financial institutions	1,502,876	823,246	101,204	77,986	500,440	–	–	–
Placements with and advances to banks, central banks and other financial institutions	12,647,588	–	9,552,993	525,567	57,421	1,424,023	1,087,584	–
Trade bills	1,523,200	–	445,835	836,911	240,454	–	–	–
Trading assets	3,479,009	899,542	–	–	948	1,086,007	248,653	1,243,859
Securities designated at fair value through profit or loss	531,025	–	–	–	–	531,025	–	–
Loans and advances to customers and other accounts	67,704,297	1,564,930	1,958,699	5,381,822	7,865,500	29,116,210	18,942,826	2,874,310
Available-for-sale securities	22,125,403	–	1,645,774	2,822,729	6,063,073	9,785,773	1,708,876	99,178
Tax recoverable	71,248	–	–	–	71,248	–	–	–
Undated assets	22,800,381	–	–	–	–	–	–	22,800,381
Total assets	132,385,027	3,287,718	13,704,505	9,645,015	14,799,084	41,943,038	21,987,939	27,017,728
Liabilities								
Deposits and balances of banks and other financial institutions*	6,649,030	282,145	5,992,462	171,293	203,130	–	–	–
Deposits from customers	83,794,961	18,559,908	51,321,293	11,061,862	2,290,713	561,185	–	–
Trading liabilities	879,690	879,690	–	–	–	–	–	–
Certificates of deposit issued	6,863,124	–	–	595,802	4,199,195	2,068,127	–	–
Debt securities issued	2,314,394	–	–	–	–	2,314,394	–	–
Convertible bond issued	7,648	–	–	–	7,648	–	–	–
Loan capital	3,926,390	–	–	–	–	3,926,390	–	–
Current taxation	6,760	–	–	–	6,760	–	–	–
Undated liabilities	1,459,451	–	–	–	–	–	–	1,459,451
Total liabilities	105,901,448	19,721,743	57,313,755	11,828,957	6,707,446	8,870,096	–	1,459,451
Asset – liability gap		(16,434,025)	(43,609,250)	(2,183,942)	8,091,638	33,072,942	21,987,939	

* *Included in the "Deposits and balances of banks and other financial institutions", there are bridge loans totalling HK$5,110 million which were borrowed by the Company for the acquisition of CNCB H shares upon its listing in April 2007 and to finance the capital injection into CKWB in December 2007. The bridge loans are rolled over monthly and will be due for repayment in December 2008. The interest rates for the loans are charged on Hong Kong Inter-bank Offer Rate plus a margin.*

(33) Share Capital

Authorised and issued share capital

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Authorised:		
8,000,000,000 ordinary shares of HK$1 each	**8,000,000**	8,000,000
Issued and fully paid:		
At 1 January:		
5,757,320,916 (2007: 5,023,422,774) ordinary shares of HK$1 each	**5,757,321**	5,023,422
Share issued under the share option scheme	**1,640**	6,300
Issuance of new shares*	**–**	668,575
Conversion of convertible bonds into ordinary shares	**–**	59,024
At 30 June		
5,758,960,916 (31 December 2007: 5,757,320,916) ordinary shares of HK$1 each	**5,758,961**	5,757,321

* The Company issued 668,574,374 ordinary shares to Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") for the year ended 31 December 2007.

(34) Reserves

	Attributable to equity shareholders of the Company									
	Share premium	Capital reserve	General reserve	Exchange differences reserve	Other property revaluation reserve	Fair value reserve	Convertible bond – equity component	Share option reserve	Retained profits*	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2007	6,474,230	2,818	3,861,867	10,541	16,038	197,370	71,767	26,068	4,547,950	15,208,649
Share premium on shares issued during the year	3,441,559	–	–	–	–	–	–	–	–	3,441,559
Revaluation surplus, net of deferred tax	–	–	–	–	33,670	–	–	–	–	33,670
Release of revaluation reserve on disposal of properties	–	–	–	–	–	–	–	–	6,011	6,011
Share of share option reserve of associates	–	–	–	–	–	–	–	8,167	–	8,167
Share of fair value reserve of associates	–	–	–	–	–	(10,910)	–	–	–	(10,910)
Exchange difference on translation	–	–	–	787,384	–	–	200	–	–	787,584
Equity-settled share-based transactions	–	–	–	–	–	–	–	22,605	–	22,605
Available-for-sale securities										
– change in fair value	–	–	–	–	–	(337,476)	–	–	–	(337,476)
– transferred to income statement on disposal	–	–	–	–	–	(7,356)	–	–	–	(7,356)
– transferred to deferred tax	–	–	–	–	–	60,346	–	–	–	60,346
Conversion of convertible bonds into ordinary shares	–	–	–	–	–	–	(11,768)	–	–	(11,768)
Exercise of share options during the year	–	–	–	–	–	–	–	(5,228)	–	(5,228)
Dividends paid in respect of the previous year *(note 14(b))*	–	–	–	–	–	–	–	–	(322,056)	(322,056)
Profit for the year	–	–	–	–	–	–	–	–	1,852,461	1,852,461
At 31 December 2007	9,915,789	2,818	3,861,867	797,925	49,708	(98,026)	60,199	51,612	6,084,366	20,726,258
At 1 January 2008	**9,915,789**	**2,818**	**3,861,867**	**797,925**	**49,708**	**(98,026)**	**60,199**	**51,612**	**6,084,366**	**20,726,258**
Share premium on shares issued during the period	**7,004**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,004**
Share of property revaluation reserve of associates	**–**	**–**	**–**	**–**	**337**	**–**	**–**	**–**	**–**	**337**
Release of revaluation surplus and deferred tax liabilities upon disposal of investment properties (transferred from other premises in prior years)	**–**	**–**	**–**	**–**	**22**	**–**	**–**	**–**	**(26)**	**(4)**
Effect of decrease in tax rate on deferred tax balance at 1 January *(note 29(b))*	**–**	**–**	**–**	**–**	**602**	**(1,051)**	**–**	**–**	**–**	**(449)**
Share of share option reserve of associates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**8,019**	**–**	**8,019**
Share of fair value reserve of associates	**–**	**–**	**–**	**–**		**(52,758)**	**–**	**–**	**–**	**(52,758)**
Exchange difference on translation	**–**	**–**	**–**	**946,856**	**–**	**–**	**7**	**–**	**–**	**946,863**
Equity-settled share-based transactions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**20,355**	**–**	**20,355**
Available-for-sale securities										
– change in fair value	**–**	**–**	**–**	**–**	**–**	**(45,103)**	**–**	**–**	**–**	**(45,103)**
– transferred to income statement on disposal *(note 11)*	**–**	**–**	**–**	**–**	**–**	**(36,539)**	**–**	**–**	**–**	**(36,539)**
– transferred to deferred tax	**–**	**–**	**–**	**–**	**–**	**13,472**	**–**	**–**	**–**	**13,472**
Exercise of share options during the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,981)**	**–**	**(1,981)**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,440,199**	**1,440,199**
At 30 June 2008	**9,922,793**	**2,818**	**3,861,867**	**1,744,781**	**50,669**	**(220,005)**	**60,206**	**78,005**	**7,524,539**	**23,025,673**

* *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 loans and advances (and investments in the year of 2007) in addition to impairment losses recognised. Movements in the reserve are earmarked directly through retained profits and in consultation with the HKMA. As at 30 June 2008, HK$764,214,000 (31 December 2007: HK$957,055,000) was included in the retained profits in this respect which was distributable to equity holders of CKWB subject to consultation with the HKMA.*

(35) Material related party transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions:

(a) Transactions with group companies

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

The amount of related party transactions during the periods and outstanding balances at the end of the period/year are set out below:

	Ultimate controlling party		**Fellow subsidiaries**		**Associates** *(note 1)*		**Related company** *(note 2)*	
	Six months ended 30 June							
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income	**–**	–	**8,703**	2,088	**6,446**	8,102	**–**	–
Interest expense	**–**	–	**(81,206)**	(39,952)	**(41,242)**	(52,694)	**(18,223)**	–
Other operating income	**–**	–	**–**	–	**21,280**	19,543	**–**	–
Operating expenses	**(500)**	(511)	**(5,458)**	(5,108)	**–**	(118)	**–**	–
	(500)	(511)	**(77,961)**	(42,972)	**(13,516)**	(25,167)	**(18,223)**	–

	Ultimate controlling party		Fellow subsidiaries		Associates *(note 1)*		Related company *(note 2)*	
	At 30 June 2008/31 December 2007							
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Lending activities:								
At 1 January	**–**	–	**18,786**	475,381	**802,106**	221,798	**–**	–
At 30 June 2008/31 December 2007	**–**	–	**1,059,032**	18,786	**519,315**	802,106	**–**	–
Average for the period/for the year	**–**	–	**591,002**	18,902	**595,679**	463,692	**–**	–
Other receivables:								
At 1 January	**–**	–	**83**	2,462	**32,682**	124,728	**–**	–
At 30 June 2008/31 December 2007	**500**	–	**7,546**	83	**386,492**	32,682	**–**	–
Average for the period/for the year	**375**	–	**7,902**	3,919	**193,644**	13,973	**–**	–
Acceptance of deposits:								
At 1 January	**–**	–	**3,329,591**	1,067,643	**3,545,123**	1,349,019	**–**	–
At 30 June 2008/31 December 2007	**–**	–	**5,448,556**	3,329,591	**2,451,699**	3,545,123	**–**	–
Average for the period/for the year	**–**	–	**4,261,254**	2,997,448	**2,864,279**	2,670,054	**–**	–
Other payables:								
At 1 January	**–**	–	**6,958**	1,744	**7,126**	369	**2,508**	–
At 30 June 2008/31 December 2007	**–**	–	**22,639**	6,958	**4,366**	7,126	**1,494**	2,508
Average for the period/for the year	**–**	–	**13,413**	4,924	**4,000**	4,433	**1,552**	627
Loan Capital:								
At 1 January	**–**	–	**803,257**	–	**389,930**	–	**623,889**	–
At 30 June 2008/31 December 2007	**–**	–	**803,351**	803,257	**389,976**	389,930	**623,962**	623,889
Average for the period/for the year	**–**	–	**802,588**	200,814	**389,606**	97,483	**623,369**	155,972

No impairment allowances were made in respect of the above loans to and placements with related parties.

Note:

(1) Associates of the Group included the associates of immediate parent and ultimate controlling party respectively.

(2) The related company referred to a shareholder of the immediate parent, which exercises significant influence on the immediate parent.

(b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors and certain employees with the highest emoluments, are as follows:

	Six months ended 30 June	
	2008	2007
	HK$'000	HK$'000
Short-term employee benefits	**16,930**	16,533
Post-employment benefits	**1,212**	1,113
Share-based payments	**10,804**	3,707
	28,946	21,353

Total remuneration is included in "staff costs" (note 9(a)).

During the period, the Group provided credit facilities to key management personnel of the Group and its holding companies and their close family members and companies controlled or significantly influenced by them. The credit facilities were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

	2008	2007
	HK$'000	HK$'000
At 1 January	**13,855**	13,462
At 30 June 2008/31 December 2007	**12,862**	13,855
Maximum amount during the period/year	**14,745**	17,170

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no individually assessed impairment allowances has been made on balances with key management personnel and their immediate relatives at the period end.

(36) Derivatives

(a) Notional amounts of derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices. The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

	As at 30 June 2008				As at 31 December 2007			
	Held for hedging	**Managed in conjunction with financial instruments designated at fair value through profit or loss**	**Other (including held for trading)**	**Total**	Held for hedging	Managed in conjunction with financial instruments designated at fair value through profit or loss	Other (including held for trading)	Total
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Currency derivatives								
Forwards	**–**	**–**	**21,346,213**	**21,346,213**	–	–	21,114,508	21,114,508
Swaps	**–**	**78,000**	**37,213,808**	**37,291,808**	–	78,000	32,681,133	32,759,133
Options purchased	**–**	**–**	**1,198,294**	**1,198,294**	–	–	624,865	624,865
Options written	**–**	**–**	**1,195,450**	**1,195,450**	–	–	624,865	624,865
Interest rate derivatives								
Swaps	**3,597,107**	**687,298**	**34,417,174**	**38,701,579**	3,674,725	5,337,675	22,504,576	31,516,976
Equity derivatives								
Swaps	**–**	**–**	**42,600**	**42,600**	–	–	–	–
	3,597,107	**765,298**	**95,413,539**	**99,775,944**	3,674,725	5,415,675	77,549,947	86,640,347

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

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

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

	As at 30 June 2008			As at 31 December 2007		
	Fair value assets	**Fair value liabilities**	**Credit risk-weighted amount**	Fair value assets	Fair value liabilities	Credit risk-weighted amount
	HK$'000	**HK$'000**	**HK$'000**	HK$'000	HK$'000	HK$'000
Interest rate derivatives	**411,321**	**427,531**	**255,697**	319,870	394,222	231,334
Currency derivatives	**612,145**	**496,074**	**629,254**	579,672	485,468	685,435
Equity derivatives	**1,828**	**1,828**	**3,362**	–	–	–
	1,025,294	**925,433**	**888,313**	899,542	879,690	916,769
	Note 19	*Note 26*		*Note 19*	*Note 26*	

The credit risk-weighted amount is the amount which has been calculated in accordance with the Banking (Capital) Rules effective on 1 January 2007 on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 150% (31 December 2007: 0% to 150%) for contingent liabilities and commitments, and from 0% to 150% (31 December 2007: 0% to 150%) for exchange rate, interest rate and other derivatives contracts.

The Group did not enter into any bilateral netting arrangements during the period and accordingly these amounts are shown on a gross basis.

(c) *Fair value of derivatives designated as hedging instruments*

The following is a summary of the fair values of derivatives held for hedging purposes by product type entered into by the Group:

	As at 30 June 2008		As at 31 December 2007	
	Fair value assets	**Fair value liabilities**	Fair value assets	Fair value liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Interest rate contracts	**26,290**	**122,760**	26,628	127,597

Fair value hedges are principally consisted of interest rate swaps that are used to protect against changes in the fair value of certain fixed rate assets or liabilities due to movements in the market interest rates.

(d) *Remaining life of derivatives*

The following tables provide an analysis of the notional amounts of derivatives of the Group by relevant maturity grouping based on the remaining periods to settlement at the balance sheet date:

	As at 30 June 2008 Notional amounts with remaining life of			
	Total	**1 year or less**	**Over 1 year to 5 years**	**Over 5 years**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Interest rate derivatives	**38,701,579**	**7,202,552**	**31,499,027**	**–**
Currency derivatives	**61,031,765**	**58,832,438**	**2,199,327**	**–**
Equity derivatives	**42,600**	**42,600**	**–**	**–**
	99,775,944	**66,077,590**	**33,698,354**	**–**

	As at 30 June 2007 Notional amounts with remaining life of			
	Total	1 year or less	Over 1 year to 5 years	Over 5 years
	HK$'000	HK$'000	HK$'000	HK$'000
Interest rate derivatives	31,516,976	4,106,558	27,098,474	311,944
Currency derivatives	55,123,371	51,017,338	4,106,033	–
	86,640,347	55,123,896	31,204,507	311,944

(37) Contingent liabilities and commitments

(a) Contingent liabilities and commitments to extend credit

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

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Direct credit substitutes	**4,958,969**	4,391,322
Transaction-related contingencies	**226,586**	576,339
Trade-related contingencies	**2,110,732**	1,746,636
Forward forward deposits placed	**21,839**	–
Other commitments:		
– which are unconditionally cancellable or automatically cancellable due to deterioration in the creditworthiness of the borrower	**17,462,212**	15,921,154
– with an original maturity of not more than 1 year	**4,596,063**	3,551,324
– with an original maturity of more than 1 year	**4,151,391**	3,488,150
	33,527,792	29,674,925
Credit risk-weighted amounts	**5,904,175**	4,472,023

Contingent liabilities and commitments are credit-related instruments which include forward deposits placed, letters of credit, guarantees and commitments to extend credit. The risk involved is essentially the same as the credit risk involved in extending loan facilities to customers. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

The risk weights used in the computation of credit risk-weighted amounts range from 0% to 150% (31 December 2007: 0% to 150%).

(b) Capital commitments

Capital commitments for purchase of properties and equipment outstanding at balance sheet date not provided for in the financial statements were as follows:

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Authorised and contracted for:	**6,600**	3,484
Authorised but not contracted for:	**31,300**	58,100
	37,900	61,584

(38) Post balance sheet events

Subsequent to the balance sheet date, certain amount of the facilities to a corporate customer totalling HK$203 million became overdue in principal and/or interest. No individual impairment provision has been made on the exposures as at 30 June 2008 as it is too early to access whether such a provision is needed. This event may lead to potential impairment charges as events relating to the circumstances of the customer unfold.

UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

(A) Summary of financial position

	As at 30 June 2008	As at 31 December 2007
	HK$'000	HK$'000
Loans and advances to customers and trade bills	**76,553,036**	67,356,673
Impairment allowances	**305,045**	294,466
Total assets	**134,081,416**	132,385,027
Total deposits	**83,606,251**	90,658,085
Total equity attributable to equity shareholders of the Company	**28,784,634**	26,483,579
Financial ratios		
Average liquidity ratio for the period/year ended* (six months ended 30 June 2007: 40.75%)	**34.36%**	40.77%
Loans to deposits	**91.56%**	74.30%
Loans to total assets	**57.09%**	50.88%
Cost to income	**108.49%**	96.80%
Cost to income (excluding SIVs impact)	**50.96%**	47.70%
Return on assets	**2.62%**	1.60%
Return on assets (excluding SIVs impact)	**3.07%**	2.50%
Return on average total equity attributable to equity shareholders of the Company	**12.61%**	7.40%
Return on average total equity attributable to equity shareholders of the Company (excluding SIVs impact)	**14.60%**	11.70%

* *The average liquidity ratio for the period is the simple average of each calendar month's average liquidity ratio, which is computed on the consolidated basis covering CITIC Ka Wah Bank Limited ("CKWB") and certain of its subsidiaries as required by the Hong Kong Monetary Authority ("HKMA") for its regulatory purposes, and is in accordance with the Fourth Schedule to the Hong Kong Banking Ordinance.*

(B) Segmental information

By geographical areas

	As at 30 June 2008			As at 31 December 2007		
	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	**111,513,269**	**103,313,812**	**30,039,736**	111,828,224	103,640,515	26,570,652
Mainland China	**27,265,787**	**5,665,576**	**1,137,763**	24,079,621	5,322,139	689,495
USA	**1,845,393**	**1,659,634**	**450,206**	1,960,169	1,778,777	618,920
Others	**2,101,438**	**2,079,852**	**1,900,087**	1,757,310	1,736,415	1,795,858
Inter-segment items	**(8,644,471)**	**(7,422,092)**	**–**	(7,240,297)	(6,576,398)	–
	134,081,416	**105,296,782**	**33,527,792**	132,385,027	105,901,448	29,674,925

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

	As at 30 June 2008				
	Loans and advances to customers	**Overdue loans and advances**	**Impaired loans and advances**	**Individual impairment allowances**	**Collective impairment allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Hong Kong	**53,345,476**	**325,693**	**386,252**	**89,391**	**127,668**
Mainland China	**12,320,514**	**520,294**	**520,294**	**26,821**	**32,475**
USA	**1,727,513**	**–**	**–**	**–**	**872**
Others	**8,030,981**	**31,207**	**31,207**	**11,445**	**16,332**
	75,424,484	**877,194**	**937,753**	**127,657**	**177,347**

	As at 31 December 2007				
	Loans and advances to customers	Overdue loans and advances	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances
	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

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.

(C) Overdue loans and advances to customers

	As at 30 June 2008		As at 31 December 2007	
		% 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	**118,706**	**0.16**	100,158	0.15
– 1 year or less but over 6 months	**178,123**	**0.24**	55,274	0.08
– over 1 year	**580,365**	**0.77**	581,576	0.88
	877,194	**1.17**	737,008	1.11
Secured overdue loans and advances	**675,154**		679,136	
Unsecured overdue loans and advances	**202,040**		57,872	
	877,194		737,008	
Market value of collateral held against the secured overdue loans and advances	**905,838**		982,533	
Individual impairment allowance made	**114,699**		61,491	

Loans and advances with a specific repayment date are classified as overdue when the principal or interest is overdue and remains unpaid at the period 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 30 June 2008 and 31 December 2007.

(D) Other overdue assets

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Available-for-sale securities which has been overdue for:		
– over 1 year	**15,599**	15,597

(E) Rescheduled loans

	As at 30 June 2008		As at 31 December 2007	
	HK$'000	% on total loans and advances to customers	HK$'000	% on total loans and advances to customers
Rescheduled loans	**12,792**	**0.02**	15,970	0.02

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 30 June 2008 and 31 December 2007.

(F) Repossessed assets

	As at 30 June 2008 HK$'000	As at 31 December 2007 HK$'000
Included in loans and advances to customers and other accounts	**65,996**	37,773

The amount represents the estimated market value of the repossessed assets as at 30 June 2008 and 31 December 2007.

(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:

	Banks and other financial institutions	Public sector entities	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000
At 30 June 2008				
Asia and Pacific excluding Hong Kong	**10,319,645**	**34,931**	**15,487,684**	**25,842,260**
of which Australia	**2,819,463**	**1,015**	**475,513**	**3,295,991**
of which Mainland China	**3,982,515**	**31,001**	**12,260,583**	**16,274,099**
Caribbean	**–**	**–**	**3,118,632**	**3,118,632**
of which Bermuda	**–**	**–**	**442,619**	**442,619**
of which Cayman Islands	**–**	**–**	**1,149,096**	**1,149,096**
of which British Virgin Islands	**–**	**–**	**1,441,188**	**1,441,188**
Western Europe	**8,016,482**	**1,254**	**3,098,129**	**11,115,865**
of which France	**768,341**	**–**	**722,691**	**1,491,032**
of which Germany	**728,049**	**–**	**21,001**	**749,050**
of which Netherlands	**330,017**	**–**	**849,979**	**1,179,996**
of which United Kingdom	**3,341,026**	**252**	**934,459**	**4,275,737**
At 31 December 2007				
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

(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.

	As at 30 June 2008			
	On-balance sheet exposure	**Off-balance sheet exposure**	**Total**	**Individual impairment allowances**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Mainland China entities	**16,813,585**	**6,995,598**	**23,809,183**	**38,266**
Companies and individuals outside Mainland China where the credit is granted for use in Mainland China	**14,546,364**	**6,669,454**	**21,215,818**	**41,252**
	31,359,949	**13,665,052**	**45,025,001**	**79,518**

	As at 31 December 2007			
	On-balance sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowances
	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

(I) Risk management

The Group manages various types of risks mainly through CKWB under the delegation and close supervision of the Board. The Risk Management Group of CKWB which is entrusted with the responsibilities consists of group credit risk, financial institution credit risk, market risk, operating risk, risk asset management and policy & portfolio risk management functions. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products, best practice and regulatory requirements.

CKWB appointed a Director of Risks in January 2008 to further enhance the daily oversight of its risk portfolios. Following the appointment, end-to-end reviews were conducted on various business functions to ensure proper policies, procedures, practices, people and systems have been in place.

The Group manages the following main types of risks:

(i) Credit risk management

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

Credit risk management is effected by monitoring implementation of adopted credit policies that determine the borrower's creditworthiness, credit risks classification, loan application procedure and procedures for making lending decisions. The Group applies the same credit policy in respect of contingent liabilities as in respect of financial instruments recorded on the balance sheet, based on loan approval procedures, use of limits to reduce risk and monitoring. Credit risk is also minimised by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

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

(ii) Liquidity risk management

It is CKWB's policy to exercise prudence in its funding and liquidity management. CKWB has a Liquidity Management Policy which needs to be strictly followed. The Policy covers the important aspects of CKWB's liquidity management. CKWB is committed to applying the best market practices in liquidity management by adopting the guidelines and recommendations of the HKMA. The structure of this Policy conforms to the "LM-1 Liquidity Risk Management" issued by the HKMA in 2004. The Policy applies to CKWB and its overseas branches and subsidiaries. CKWB expects all business units to contribute to the success of managing liquidity under normal and contingency situations by maintaining a rapport with depositors, customers, interbank counterparties, related companies and HKMA.

An appropriate level of liquidity ratio was always maintained, and stress tests were performed regularly to ensure that CKWB could handle sudden drains in market liquidity due to adverse or unexpected economic events. For the six months ended 30 June 2008, CKWB's average liquidity ratio was 34.4% (31 December 2007: 40.8%). CKWB holds a portfolio of high-grade securities with short maturities which can generate liquidity if necessary either through the re-purchase arrangements or out-right selling in the secondary market. It is also active in wholesale funding through the issuances of Hong Kong dollar certificates of deposit ("CDs") so as to secure a stable source of funding. For the six months ended 30 June 2008, a total of HK$3.76 billion (31 December 2007: HK$4.13 billion) was raised through several successful CD issuances.

(iii) Market risk management

Market risk is the risk of loss arising from the movements in market variables such as foreign exchange rates, interest rates, equity and commodity prices. The Group's major market risk exposure is mainly derived from CKWB. Both short-term trading positions and long-term strategic businesses of CKWB generate market risk exposure. Other subsidiaries of the Group have also engaged in investments prone to market risk but in relatively small scales.

CKWB manages its market risk within a hierarchy of limits approved by CKWB's Credit and Risk Management Committee ("CRMC"), Asset and Liability Committee ("ALCO") and its delegated sub-committees or members. The hierarchy is composed of limits at 3 levels: policy, business and transaction. Each level in the hierarchy consists of limits on a series of risk measurements, including profit and loss limits, position limits and sensitivity limits. Limit excesses will set off alert signals or trigger adequate actions at different management levels.

CKWB's Treasury is the central point to take and manage market risk exposure within the prescribed limit hierarchy.

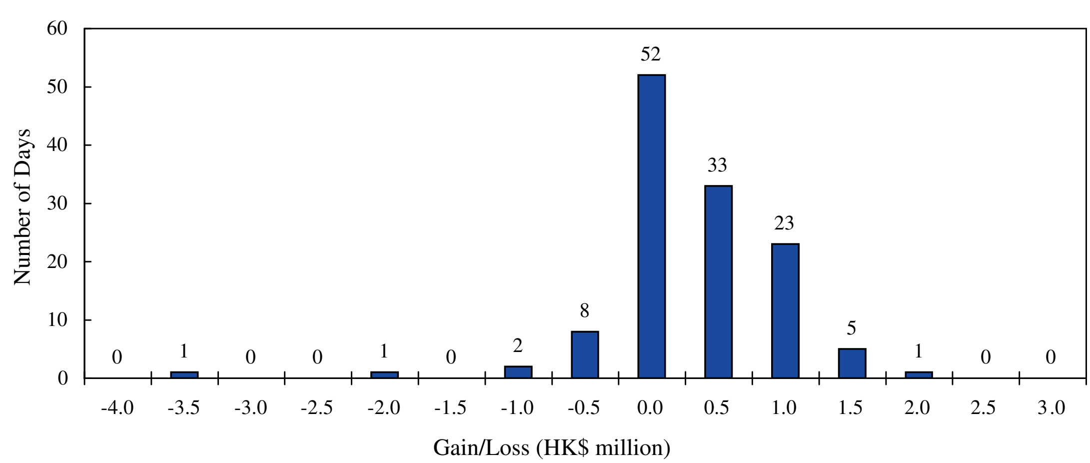
Operating as an unit under the Risk Management Group, Market Risk Management is responsible for the daily monitoring and reporting of market risk exposure to ensure that CKWB's market risk exposure measures are within the prescribed limits.

CKWB measures the overall market risk of its trading book in terms of Value-at-Risk (VaR). VaR is a statistical tool to estimate the potential loss of an investment portfolio over a selected time horizon and given a confidence level. CKWB adopts a 99% 1-day VaR and implements historical simulation to compute the VaR figure. The simulating process reflects the historical relationships among different market variables. CKWB's average VaRs for the trading portfolio were HK$1,546,000 and HK$518,000 during the six months ended 30 June 2008 and 2007, respectively.

CKWB also implemented stress testing for its trading portfolio to assess the potential adverse effects under the "stressed" conditions. Two types of stressed scenarios are adopted: historical and hypothetical scenarios. Historical scenarios are "stressed conditions" which happened in the past, including the Asian Crisis in 1997, the LTCM event in 1998 and the Terror Attacks in 2001. Hypothetical scenarios are developed in view of the key risk factors affecting the trading portfolio. Examples of hypothetical scenarios are a parallel yield curve shift by 200 basis points, steepening and flattening of yield curve, HKD strengthening against USD by 10% and G7 Currencies appreciating against USD by 10%.

For the six months ended 30 June 2008, the average daily mark-to-market revenue from the Group's trading portfolio and fund investments (excluding structured investment vehicles) was a gain of HK$68,000 (six months ended 30 June 2007: a gain of HK$2,148,000). The standard deviation of the daily revenue was HK$665,000 (six months ended 30 June 2007: HK$2,388,000). The graph below shows a histogram of the Group's daily mark-to-market revenue for the six months ended 30 June 2008.

Daily Distribution of Mark-to-Market Revenue for the Six Months Ended 30 June 2008



From the graph above, the maximum daily mark-to-market gain was HK$1,935,000 (six months ended 30 June 2007: HK$7,879,000) and the maximum daily mark-to-market loss was HK$3,587,000 (six months ended 30 June 2007: HK$7,357,000). Out of the 126 trading days for the period, there were 62 days with mark-to-market gains and 64 days with mark-to-market losses. The most frequent range of daily mark-to-market revenue was between a loss of HK$500,000 (six months ended 30 June 2007: an income of HK$1,000,000) and HK$Nil (six months ended 30 June 2007: an income of HK$1,500,000), with the highest occurrence of 52 days.

(a) Currency risk

CKWB's foreign exchange risk stems from 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 ALCO. For the six months ended 30 June 2008, CKWB's average daily trading profit and loss from foreign exchange positions was a profit of HK$41,000 (six months ended 30 June 2007: a profit of HK$34,000) with a standard deviation of HK$281,000 (six months ended 30 June 2007: HK$136,000).

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

	As at 30 June 2008			
Equivalent in HK$'000	**USD**	**Renminbi**	**Others**	**Total**
Spot assets	**40,997,906**	**2,040,410**	**4,026,717**	**47,065,033**
Spot liabilities	**(36,135,559)**	**(1,547,301)**	**(6,876,965)**	**(44,559,825)**
Forward purchases	**27,245,647**	**6,975,797**	**10,503,940**	**44,725,384**
Forward sales	**(31,911,649)**	**(6,962,794)**	**(7,628,738)**	**(46,503,181)**
Net long position	**196,345**	**506,112**	**24,954**	**727,411**
Net structural position	**–**	**227,437**	**48,469**	**275,906**

	As at 31 December 2007			
Equivalent in HK$'000	USD	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 long position	594,004	502,796	11,470	1,108,270
Net structural position	–	213,555	48,559	262,114

The net options position is calculated using the model user approach which has been approved by the HKMA.

(b) Interest rate risk

CKWB's ALCO oversees all interest rate risks arising from the interest rate profile of CKWB's assets and liabilities. These interest rate risks comprise of maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate re-pricing risks and risks from embedded options, if any. ALCO supervises management of the interest rate risks of the banking book through gap mismatch reports, sensitivity analyses and various stress testings. To mitigate interest rate risks, CKWB uses interest rate derivatives, mainly interest rate swaps, to hedge both assets and liabilities such as available-for-sale securities (AFS) and non-trading liabilities (NTL). CKWB also adopts hedge accounting principles, under which the fair value changes of the AFS/NTL securities and the corresponding hedging derivative instruments are offset with each other. For the six months ended 30 June 2008, CKWB's average daily trading profit and loss from interest rate positions was a gain of HK$53,000 (six months ended 30 June 2007: a loss of HK$40,000) with a standard deviation HK$515,000 (six months ended 30 June 2007: HK$248,000).

(iv) Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

CKWB's Board of Directors, through the establishment of the CRMC:

- recognises the major aspects of CKWB's operational risks as a distinct risk category that should be managed;
- approves and periodically reviews CKWB's operational risk management framework; and
- ensures that CKWB's senior management is taking the necessary steps to implement the operational risk management policies, processes and procedures.

CKWB's senior management, through the establishment of the Operations & Control Committee ("OCC"):

- implements the operational risk management framework approved by the CRMC;
- defines CKWB's organisational structure for operational risk management;
- assigns authority, responsibility and reporting relationships to encourage and maintain accountability; and
- ensures that sufficient human and technical resources are devoted to operational risk management.

CKWB's Risk Management Group has established the Operational Risk Management Section:

- to coordinate operational risk management activities across CKWB and to manage these risks as an independent, centralised function, including the approval of operational risk and control limits under authorities delegated by the OCC where necessary;
- to develop and monitor bank-wide policies and procedures in relation to operational risk management and control; and
- to ensure adequacy of design and implementation of operational risk assessment methodology tool and reporting system within individual business lines and functional units.

CKWB currently manages its operational risks through a number of ways:

- The Operational Risk Management Policy, which includes the operational risk management framework to ensure that operational risks are consistently and comprehensively identified, assessed, monitored and controlled, have been established and approved.
- Material operational risk exposures are managed through a framework of policies, procedures, processes, and indicators.
- Various operational risk management programs, such as self-assessment exercises and key risk indicators, for assisting CKWB in identifying, assessing, mitigating and reporting operational risk have been developed and are being progressively rolled out. The programs will be continuously updated, expanded and enhanced.

– Operations and technology policies and manuals are developed and reviewed annually to ensure processes are adequately considered and defined:

  – Human resources policies and practices are established to define and encourage proper staff behaviour, and to ensure that staff are qualified and trained for their roles.
  – New products and services are evaluated by various functional units before they are approved by CKWB's senior management to ensure that staff, processes and technology can adequately support prior to launching.
  – Disaster recovery and business continuity plans are set up and tested annually for major events such as major failure of data centre caused by fire or other events; loss of operating site and CKWB Run Drill for sudden and massive customer withdrawal due to market rumours or other reasons is tested bi-annually.
  – The examination and evaluation of the adequacy and effectiveness of CKWB's internal control system is independently conducted by the Audit Department on an on-going basis. The audits cover all material controls, including financial, operational and compliance controls as well as risk management functions.

(v) Legal risk management

The Group remains abreast of all legal and regulatory requirements applicable to its governance and operations, and continuously seeks to develop its people, to enhance its systems and processes to create awareness and to implement necessary change. Policies and procedures, incorporated with relevant legal and regulatory requirements, are set and regularly reviewed. These policies and procedures are promulgated through internal communications and trainings. There is a strong process in place to ensure legal risk is under control. Any significant failings are reported by the legal and compliance function to the Group's Audit Committee and senior management.

The General Counsel and Compliance Officer of the Group ("Legal and Compliance") has played an important role to the Group in providing legal and compliance advice and support to all parts of the Group. In the first half of 2008, Legal and Compliance was actively involve in strategically important transactions and commercial agreements as well as day-to-day matters arising from the business that is diverse both geographically and in scope. In the second half of 2008, we will continue to support Legal and Compliance as a critical mission-important function of the Group.

(vi) Strategic and reputational risk management

In order to keep pace with the ever-evolving operating and regulatory environment of the Group, the Board places a high priority on ensuring that our business and operational strategies are appropriately defined and executed in a professional and time-relevant manner. Great care is taken to protect our reputation and maximise our brand equity. The Management Committee of the Group meets regularly to monitor and manage the Group's strategic and reputational risks, and is responsible for enforcing high-level policies approved by the Board to identify and assess such risks, as well as to improve controls.

(J) Additional information on structured investments

(i) Structured Investment Vehicles ("SIVs")

During the year ended 31 December 2007, the Group wrote down HK$1,311.2 million for the changes in fair value of its SIV investments which comprised Beta Finance Corporation ("Beta"), Five Finance Corporation ("Five"), Victoria Finance Limited and Whistlejacket Capital Limited.

During the period ended 30 June 2008, the Group made a further write-down of HK$717.9 million for Beta and Five and thus all SIV investments were fully written off. As at 30 June 2008, the Group did not have any exposure on SIVs.

(ii) Collateralised Debt Obligations ("CDO")

In November 2007, one of the Group's SIV investments, Victoria Finance Ltd. ("Victoria"), was restructured into a fully-funded vehicle with long-term funding (the "Restructuring") called Farmington Finance Ltd. ("Farmington"). The Farmington vehicle is considered as a cash flow CDO. The nominal value of the CDO was US$120.0 million (HK$935.9 million) on the date of restructuring.

Under the Restructuring, the Group's US$120.0 million capital notes in Victoria were exchanged into US$120.0 million capital notes issued by Farmington. The capital note of US$120.0 million represents the equity tranche. At the time of the restructuring and as of 30 June 2008, the long-term funding obtained by Farmington was rated "AAA" while the US$114.0 million new Farmington capital note was rated "BBB". The remaining US$6.0 million capital note was not rated.

The capital notes are accounted for as available-for-sale securities by the Group and their book carrying value as at 31 December 2007 was US$71.0 million (HK$553.8 million) based on their net present value ("NPV") of 59.2%. The NPV is determined based on the discounted future cash flow of the underlying investment portfolio considering that the vehicle will be maintained until all assets mature and there are no defaults in the portfolio. As at 30 June 2008, the NPV and the book carrying value of the capital notes have increased to 70.3% and US$84.4 million (HK$658.0 million) respectively. The improvement in NPV was due to the lower interest rates during the period and certain reinvestments by the investment manager that helped to enhance cash flows.

As at 30 June 2008, the underlying investment portfolio of Farmington continued to meet projected cash flows. The portfolio quality showed some deterioration in line with the general credit markets. However, the portfolio is well diversified amongst some 400 assets in diverse classes, with approximately 91.6% rated A- or above, 6.0% rated between BB- to A-, and only 2.4% rated CCC+ or below as at 30 June 2008. The portfolio of Farmington consists of approximately 7% in debt securities of financial institutions, approximately 15% in monoline guaranteed financial institution securities, approximately 17% in residential prime mortgage-backed securities, and the remaining 61% in other structured credit securities. As at 30 June 2008, the Weighted Average Life of the whole portfolio was 3.63 years. The Group considered the portfolio's direct exposure to sub-prime related mortgage backed securities not to be significant.

As customary in most CDOs, Farmington is subject to certain trigger events that take into account the credit quality of the underlying assets and the cash flows of the portfolio. In the event that any such event is triggered, the senior debt provider will have the right to realise the collateral in the portfolio.

As part of the arrangement, the Group provided the senior debt provider with partial credit protection against non-performance of Farmington by way of a credit default swap ("CDS"). Under the terms of the CDS, the Group is responsible for the first loss of the portfolio for up to a notional value of US$347.3 million (HK$2,708.3 million). The CDS was accounted for as an outstanding contingent liability in the Group's accounts as at 31 December 2007, and the amount remained unchanged as at 30 June 2008. Up to the date of this report, there was no settlement request claimed on the CDS nor was there any indication that the deterioration in the credit quality of the underlying assets of Farmington has threatened Farmington's ability to meet its payments under the long-term senior debt as they become due, as such, no provision is considered necessary in respect of the CDS for the period. However, the Directors note that there are continuing uncertainties in the global credit and financial markets, the full future impact of which is unknown.

Other than the above Farmington CDO investments, the Group has not made nor does it hold any other CDO investments as at 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Performance

Hong Kong's economy sustained healthy growth momentum in the first half of 2008 on the back of strong domestic consumption and investments. However, the impact of the US economic downturn and that from the commodity and food prices led global inflationary pressures have started to filter through all its business and industry sectors. The financial sector in particular is facing unfavourable challenges such as the tightening in market liquidity, stock market adjustments and a possible upward trend in the interest rate cycle.

While the global financial industry suffered from widespread malaise, China's domestic banking sector by contrast continued to deliver solid growth. The country's economy continued to thrive albeit at a slower pace under its government's macroeconomic tightening stance. Against such a backdrop, its banks continued to register high rates of growth, underpinned by sustained strong loan demand, continuous widening of interest margins and benign asset qualities.

With a clear vision to capture opportunities arising from the rapid growth of Hong Kong's and China's financial services industries, CITIC International Financial Holdings Limited ("CIFH" or the "Group") is focused on leveraging the combined competitive advantages of China CITIC Bank Corporation Limited ("CNCB") and CITIC Ka Wah Bank Limited ("CKWB") to optimise intra-group synergies.

The Group's Hong Kong operating vehicle, CKWB, delivered solid core business performance in the first half of the year, contributing to a 25.2% year-on-year increase in net interest income to HK$790 million, and a 13.3% year-on-year increase in net fee and commission income to HK$436 million. (See Business Overview Section 1 for full details of CKWB's performance).

Aggregate profit contribution from the Group's associate companies climbed substantially by 95.8% compared to the same period in 2007. This was primarily derived from a 1.5 times increase in profit contribution from CNCB to HK$1,388 million. The Group's non-bank financial businesses, namely, its 50%-owned CITIC Capital Holdings Limited ("CCHL") and its 40%-owned CITIC International Assets Management Limited ("CIAM"), contributed to an aggregate of HK$55 million.

However, the Group's performance during the period was impacted by two non-recurring factors. Firstly, with the continued deterioration in the global credit markets, CKWB has proceeded to fully write down its remaining HK$718 million exposure to structured investment vehicles ("SIVs"). (See section 1.4 Business Development – Treasury and Markets Group for full details on CKWB's remaining fund investments portfolio).

Meanwhile, the Group's HK$202 million gain on dilution of investment in associate arising from CNCB's successful listing in April 2007 was a one-off benefit that was not repeated in the current period.

Taking into account all other items, the Group's net profit attributable to shareholders for the first half of 2008 amounted to HK$1,440 million, representing a 4.6% year-on-year decline. Excluding fund investments and SIV-related marked-to-market write-downs, the Group would have reported a 39.2% year-on-year growth in core operating profit after impairment and other items to HK$763 million, while net profit attributable to shareholders would have increased 46.5% to HK$2,083 million.

Basic earnings per share for the first half of 2008 amounted to 25.01 HK cents, representing a 8.7% decrease over the same period in 2007.

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

Interim Dividend

The Board does not recommend an interim dividend for 2008. (2007: nil.)

Corporate Developments

Proposed Privatisation

During the first half of 2008, negotiations between CIFH and Banco Bilbao Vizcaya Argentaria S.A. ("BBVA"), the Group's 15% strategic shareholder, continued in earnest regarding strategic alliance and business cooperation between the two parties, as well as an increase in shareholding by BBVA in CIFH. In connection with such negotiations, the Group's controlling shareholder, CITIC Group of Beijing ("CITIC") and BBVA also initiated discussions which resulted in the proposed privatisation of CIFH by CITIC's wholly-owned subsidiary and holding company of CIFH, Gloryshare Investments Limited (the "Offeror"), through a Scheme of Arrangement under section 166 of the Companies Ordinance of Hong Kong (the "Proposal"). The Proposal was first put forward to CIFH's Board of Directors on 3 June 2008. Full details of the Proposal were subsequently announced jointly by the Offeror and CIFH on 10 June 2008. (Both announcements can be downloaded from the Group's website on www.citicifh.com).

Upon the Scheme of Arrangement becoming effective, CIFH shares in issue other than those beneficially owned by CITIC, the Offeror and BBVA (the "Scheme Shares") will be cancelled and new shares will be issued as fully paid to the Offeror. The Offeror has proposed that the holders of the Scheme Shares will receive as Cancellation Consideration one CNCB H share plus HK$1.46 in cash for every Scheme Share cancelled. The Offeror will also make a cash offer to CIFH option holders to cancel their options and to the remaining CIFH bond holder(s) to acquire its outstanding convertible bonds. The cash offer will be determined by deducting the exercise price of the relevant option or deducting the conversion price of the convertible bonds from the value of the Cancellation Consideration. Based on CNCB's closing price of HK$5.44 on the Hong Kong Stock Exchange as of CIFH's last trading day prior to the Proposal being put forward to CIFH, the total value of the offer is HK$6.90 per CIFH share.

The Proposal, if approved by CIFH's minority shareholders, will result in the withdrawal of listing of CIFH's shares on the Hong Kong Stock Exchange. CITIC's effective shareholding in CIFH will be increased 30% or from approximately 55% to 85%. CITIC will then transfer half of the newly acquired shares to BBVA so that CIFH will be held 70% by CITIC through the Offeror and 30% by BBVA.

Rationale

The Proposal is an integral part of CITIC's overall strategy to restructure its commercial banking business. CITIC believes that the successful implementation of the Proposal will enable it to better align its onshore and offshore commercial banking businesses which are currently operated through CNCB and CKWB respectively. Moreover, the simplified equity and regulatory structure after the successful privatisation of CIFH will facilitate and maximise further synergies that can be achieved in the tri-partite cooperation between CKWB, CNCB and BBVA.

CITIC also believes that the Proposal creates an opportunity to balance the interests of Minority Shareholders by inviting them to continue their participation in CITIC's commercial banking growth through direct ownership in CNCB, and at the same time by realising the value of their investments in CIFH.

Future Plans for the Group

Upon the successful privatisation of CIFH, the Group will continue its core businesses in banking and financial services, CKWB will be renamed CITIC Bank International Limited which will better reflect its role as CITIC's exclusive vehicle for the development of commercial banking business in Hong Kong and independent banking platform for new business expansion in Asia. CITIC believes that CKWB's position will be further strengthened with the full support of CITIC and BBVA, and CKWB can benefit from the potential of enhanced credit rating support and reduced funding costs to provide for its required strategy.

Furthermore, CITIC proposes to complete the restructuring of its commercial banking businesses by injecting CIFH into CNCB, subject to necessary third parties' and regulatory approvals.

Saved for the afore-mentioned, CITIC does not have any current intention to introduce any major changes to the existing operations, management or employees of CKWB, or change the commitment of CKWB to its customers after the privatisation of CIFH.

Conditions and Timeline

The Scheme of Arrangement is conditional upon the fulfilment or waiver of a number of conditions which include, among others, the approval by Minority Shareholders at a Court Meeting and extraordinary general meeting ("EGM"), and the Sanction by the High Court of the Scheme of Arrangement.

A scheme document including further details of the Proposal, the Scheme of Arrangement, the Framework Agreement, an explanatory statement, the expected timetable relating to the Proposal, the recommendations of the independent committee of the Board, the letter of advice from the independent financial adviser and notices of the Court Meeting and the EGM is expected to be despatched to Minority Shareholders, optionholders and the remaining bondholder(s) as soon as practicable subject to court dates and final regulatory clearance.

Financial Position

Despite strong double-digit loan growth registered in the first half of this year, the Group's total assets grew only marginally by 1.3% compared to 2007 year-end to HK$134.1 billion as at the end of June 2008. This reflected primarily the gradual exit of CKWB from its fund investments business as it redeemed all the alternative investments in its portfolio during the period under review, as well as other adjustments it made to its overall trading portfolio given changes in the market environment. Total equity increased 8.7% since 2007 year-end to HK$28.8 billion.

As a financial holding company, CIFH's total debt position was at HK$5.1 billion at the end of June 2008. This represented the outstanding bridge loans taken out in 2007 to finance the Group's top-up investment in CNCB (approximately HK$2.6 billion) at the time of the latter's listing in April 2007, and its HK$2.5 billion capital injection into CKWB in December 2007 to fund CKWB's business and expansion needs. The Group's debt-to-equity ratio and double leverage ratio stood at 24.9% and 117.9% respectively. As part of the Group's on-going capital management, it will take into account current market conditions and options available to improve its overall debt position, including the refinancing or repayment of its bridge loans which will mature by the end of this year.

The Group's annualised return on assets and return on shareholders' equity based on recurring income improved to 2.6% and 12.6% respectively in the first half of 2008, compared to 1.6% and 7.4% for 2007.

Key Financial Indicators

	30 June 2008	31 December 2007
Company		
Total debt *(in HK$ billion)*	**5.1**	5.2
Shareholders' equity *(in HK$ billion)*	**20.6**	20.3
Debt-to-equity	**24.9%**	25.7%
Double leverage	**117.9%**	119.5%
Group		
Consolidated total assets *(in HK$ billion)*	**134.1**	132.4
Total equity *(in HK$ billion)*	**28.8**	26.5
Return on assets	**2.6%***	1.6%
Return on average shareholders' equity	**12.6%***	7.4%

* *Annualised figure*

Business Overview

Commercial Banking Business

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

1.1 Operating Environment

Strong economic expansion in China and Hong Kong helped to fuel sustained high growth in local and cross-border China-related lending in the first half of the year. With the successive interest rate cuts in the US, the interest spread between the Prime Lending Rate ("Prime") and the Hong Kong Interbank Offered Rate ("HIBOR") stayed at the normalised level of 3.5% or above for most of the time during the period. Asset quality remained benign and stable which also augured well for the growth of the lending business for local banks.

Nevertheless, the banking sector must inevitably be cautious of the potential impact of some of the challenges in the global macro economy, including the vulnerability of the US economy which continues to be plagued by its sub-prime mortgage issues, commodity and food prices led global inflationary pressures, tightening market liquidity, stock market volatilities and the possible upward trend in the interest rate cycle.

Benefiting from the vibrant economic conditions in China and Hong Kong in the first half of the year, CKWB stayed focused on its mission to position itself as its customers' "China Bank of Choice" in Asia. Apart from strengthening the foundations of its core businesses in Greater China, great emphasis was placed in enhancing its abilities to create and deliver timely and innovative client solutions to individual and corporate customers, as well as to expand its customer and geographic reach in Asia. As a result, its wholesale banking business and treasury and markets operations performed particularly well compared to a year ago.

However, the Bank's solid core business performance was compromised by the continuing difficulties in its investments in two remaining SIVs. As mentioned in the Group's annual accounts for 2007, the net asset values of these two SIVs continued to come under pressure in the persistent deterioration of the global credit and capital markets since last year-end. As a result, the Bank has fully written down its remaining HK$718 million exposure to these two SIVs in the first half of the year. (See section 1.4 Business Development – Treasury and Markets Group for full details on CKWB's remaining fund investments portfolio).

1.2 Business Performance

Earnings

CKWB delivered solid core business performance in the first half of 2008. Its net interest income and net fee and commission income grew by 38.3% and 13.4% respectively compared to the same period in 2007. Nevertheless, impacted by the afore-mentioned marked-to-market write-downs from its investments in SIVs, the Bank only registered operating profit before impairment allowances of HK$56 million for the period under review.

After taking into account HK$9 million in net impairment provisions written back and HK$37 million in profit on disposal of available-for-sale securities, the Bank reported a net operating profit of HK$102 million. Coupled with HK$28 million in revaluation gain on investment properties as well as other items and income tax, the Bank's profit attributable to shareholders totalled HK$107 million, which represented a 80.1% decline compared to the first half of 2007. Excluding fund investments and SIV-related marked-to-market write-downs, CKWB would have reported a 69.0% year-on-year growth in core operating profit after impairment and other items to HK$872 million, while net profit attributable to shareholders would have increased 66.3% to HK$750 million.

Net Interest Income

CKWB's net interest income for the first half of 2008 grew 38.3% year-on-year to HK$852 million. This primarily reflected the Bank's continued expansion in its loan portfolio and the gradual repricing of its loan portfolio given the overall tightening in the local credit market. It was also helped by the increase in its interest free capital as a result of the HK$2.5 billion capital injection from the Group in December 2007.

Nevertheless, the Bank's net interest margin was affected by the sharp increase in liquidity cost as a result of intense competition from industry peers during the period to build customer deposits and the pressures exerted on deposit margins. After adjusting for the funding cost of its remaining fund investments, the Bank's net interest margin fell 10 basis points compared to a year ago to 1.76%.

Non-Interest Income

CKWB's net fee and commission income grew by a healthy 13.4% year-on-year in the first half of 2008 to HK$437 million. The main drivers for this growth were a 31.3% increase in corporate loans related income, a 17.9% increase in wealth management related income, and a 32.8% increase in trade bills commissions. However, impacted by the marked-to-market write-downs from the SIVs, the Bank reported HK$162 million in net loss in non-interest income for the period compared to a non-interest income of HK$672 million for the same period in 2007.

Operating Expenses

CKWB is vigilant in its cost control disciplines and requires all its core businesses to manage operating expense growth within income growth. Operating expenses rose 7.1% in the first half of 2008 compared to a year ago. During the period, the Bank continued to invest in recruiting and retaining high quality professionals and management talents in order to prepare for its development into a regional bank. As a result, staff costs (which typically account for over 50% of the Bank's total operating expenses) rose by 5.9% year-on-year. The Bank's cost-to-income ratio for the period increased from 46.0% in the first half of 2007 to 92.0% in the current period, due primarily to the marked-to-market write-downs from the SIVs. Its cost-to-income ratio based on the results of its core businesses alone would have improved to 43.5%.

Impairment Allowances

With the expected gradual normalisation of the credit cycle, CKWB stayed alert on its risk management disciplines and lent conservatively to protect its asset quality. During the period under review, the charge in the Bank's individually assessed loans increased 39.5% year-on-year to HK$77 million, while the write-back on its collectively assessed loans amounted to HK$37 million. Bad debt recoveries increased 88.3% to HK$49 million, however, in the absence of any impairment losses on properties, CKWB recorded a net write-back of HK$9 million in impairment provisions for the current period. This compared to a HK$72 million net charge in impairment provision for the first half of 2007.

1.3 Asset Quality

Asset, Loan, And Deposit Sizes

At the end of June 2008, CKWB's total assets stood at HK$110.2 billion, comparable to the 2007 year-end level. As mentioned earlier in this report, this largely reflected the Bank's gradual exit from its fund investments business and adjustments in its overall trading portfolio. It should be noted, however, that despite the general tightening in market liquidity, the Bank's wholesale lending business continued to generate strong growth. As a result, total loans increased by 13.7% compared to the previous year-end to HK$76.6 billion. Total deposits meanwhile decreased by 8.0% compared to the previous year-end to HK$83.6 billion, as customer deposits fell 6.2% due to the general tightening of market liquidity and the low interest rate environment.

Asset Quality Indicators

CKWB continued to maintain satisfactory asset quality during the period. In July 2008, Fitch Ratings and Moody's affirmed the Bank's credit rating at BBB+ and Baa2 respectively. Fitch Ratings expects that stronger cooperation between CKWB, CNCB and BBVA post-privatisation of CIFH will help the Bank's steady transformation into a Hong Kong-based regional financial solutions provider for Chinese, Hong Kong and other regional corporates. Meanwhile, the Moody's rating was derived from the Bank's solid capital position and capital management practices.

Financial Position

As at the end of June 2008, CKWB reported its capital adequacy ratio at 15.6%. As a result of the general liquidity tightening in the market, its liquidity ratio and loans to deposits ratio stood at 34.4% and 91.6% respectively. However, active deposit management as well as asset and liability management programmes have seen its liquidity ratio gradually trending up while its loans to deposit ratio has trended down to around the 85% level by the end of July 2008.

CKWB's Key Financial Ratios

	30 June 2008	31 December 2007
Capital adequacy	**15.6%**	15.8%
Core capital adequacy	**10.2%**	10.3%
Average liquidity	**34.4%**	40.8%
Loans to deposits	**91.6%**	74.1%
Loans to total assets	**69.5%**	60.8%
Impaired loans	**1.24%**	1.15%
Coverage[1]	**80.9%**	84.6%
Loan loss coverage	**32.5%**	38.9%
Collective assessment coverage	**0.23%**	0.33%
Mainland loans to total customer advances	**16.3%**	17.3%

[1] *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")

Despite challenges posed by the sharp market volatilities and the uncertain economic outlook during the period, RBG delivered sustained earnings growth and reported net profit before tax of HK$292 million in the first six months of the year, representing a 6.5% growth over the same period in 2007. Total fee and commission income grew 6.3% year-on-year to account for over 42.6% of total operating income for the business unit. Wealth management-related fee income continued to be a key contributor with a 17.9% year-on-year growth, driven primarily by the timely roll-out of a variety of defensive yield enhancement client solutions as well as other recurring income and currency-related products.

The Bank's signature wealth management platform, CITIC*first*, grew from strength to strength in service offering and market awareness. Since its launch in March 2006, it has maintained a steady growth in its customer base amidst intense market competition. As at the end of June 2008, its total client assets under management have reached HK$36.5 billion. Its total number of customers has further increased by 16% since the previous year-end to surpass 12,000 at the end of June. Furthermore, of the new CITIC*first* customers acquired during this period, over half were new-to-bank customers.

To deliver on its commitment to innovate and create a differentiated customer experience, the Bank continued to invest in the expansion and revamp of its CITIC*first* centres which currently totalled 12 within the Bank's existing branch network, paving way for a bigger and better environment for servicing clients.

The Bank's retail loan book grew moderately by 4.2% during the period compared to 2007 year-end. RBG adopts a prudent approach in the area of consumer lending and new businesses are extended on a heavily collateralised basis. As part of its on-going risk management discipline, the entire existing portfolio was reviewed during the period for its robustness and to ensure a consistent customer-centric approach in its business strategy.

Wholesale Banking Group ("WBG")

WBG's strategy to deliver comprehensive value-added solutions to its Asian clientele continued to pay off with encouraging results in the first half of 2008. Its net profit before tax grew 34.6% year-on-year to HK$418 million. Its net interest income grew by 20.6% year-on-year, while non-interest income rose 13.4% year-on-year to account for 35.5% of total operating income for the business unit.

As a result of its focused efforts to enhance cooperation with CNCB (also see China Banking below) and to diversify its client portfolio in Asia, WBG recorded a solid growth of 17.4% in its loans compared to 2007 year-end. The aggregate underwritten amount of loan syndication activities for the first half of 2008 increased by 22.2% year-on-year to HK$5.6 billion from a total of 25 deals. Trade finance volume and bills commission for Hong Kong grew significantly by 57.2% year-on-year to HK$19.7 billion and 47.3% year-on-year to HK$30 million respectively. Income from cross-selling of Treasury and Markets solutions also grew by over 60% in the first half of 2008.

While performance improvements were registered across all its business lines, WBG's most valued achievements lie in its success in upgrading the quality of its client portfolio and in further expanding its core customer relationships, in part through referrals from CNCB and through the strengthening of its product capability. Riding on its cooperation with CNCB, WBG was able to establish core banker status with a number of new customers or with existing relationships by providing timely and innovative value-enhancing financing solutions to help address the tight foreign currency credit environment in China. At the same time, through its loan syndication and commercial real estate lending activities, WBG was also able to expand its client coverage to include large Asian regional corporates.

Separately, WBG continued to make steady progress spearheading the Bank's regional expansion plan. Preparation for the application of a branch licence in Singapore is well underway, with an initial target to commence operations by early 2009.

China Banking

The Bank's wholly-owned China-incorporated subsidiary bank, CITIC Ka Wah Bank (China) Limited ("CKWB China"), officially commenced business in April 2008. Headquartered in Shenzhen with branches in Shanghai and Beijing, CKWB China will serve as the business platform for the Bank's China related business as well as the Bank's onshore cooperation with CNCB and BBVA.

In the first half of 2008, China Banking was responsible for bringing CKWB's cooperation with CNCB and other CITIC Group subsidiaries to new heights. Approved facilities arising from business referrals during the period reached HK$11 billion.

Through consistent strengthening and implementation of the global account / field account customer relationship management model in cooperation with CNCB, further progress was made in the development of new products which effectively leveraged both banks' competitive advantages in the areas of foreign currency trading, credit solutions and structured trade products.

Seamless cooperation between CKWB and CNCB has delivered value-enhancing solutions which attracted encouraging client responses. For instance, approved trade lines of up to HK$5 billion were established in the first half of the year for overseas operations for some of CNCB's large corporate clients. This was the result of an offshore trade finance programme that CKWB launched to help meet the foreign currency financing needs of these clients. Another trade programme involving the refinancing of letters of credit ("LC") and non-LC trade instruments was well received by other CNCB's clients as it helped to lower their foreign currency financing costs and allowed them to capture the foreign currency upside from the expected RMB appreciation. This programme generated over US$40 million in trade refinance business referred from CNCB in the second quarter of the year alone.

Treasury and Markets Group ("TMG")

TMG worked closely with RBG and WBG to enhance its client solutions capabilities during the period. A total of seven structured deposit products were introduced to help enhance yields against a generally low savings rate environment, attracting a total of HK$2.6 billion from the Bank's retail customers. TMG also successfully launched the Bank's first own-manufactured privately-placed equity linked note for the Bank's wealth management customers. Meanwhile, wholesale banking demand for treasury-related products increased significantly, particularly in the area of interest rate hedging and swap products to help clients lock in cost of funding, and in RMB non-deliverable forward contracts to help hedge against RMB foreign exchange risks.

TMG also did well in its money market operation. Having prudently managed the Bank's short-term investment portfolio in anticipation of the down-trend of the USD and HKD interest rates since the third quarter of last year, the money market gapping activities generated excellent returns in the first half of 2008.

In the area of fund investments, the Bank is progressing with its plans to exit this business and has completed the redemption of all the funds of hedge funds within its alternative investment portfolio by the end of June 2008. The only investments remaining in the portfolio are portable alpha mandates which had a market value of approximately HK$667 million at the end of June 2008. It is the management's intention to redeem these mandates in September 2009.

As at 30 June 2008, the net asset values (NAVs) of the Bank's two remaining SIVs, namely, Beta Finance Corporation ("Beta") and Five Finance Corporation ("Five"), have fallen to -12.3% and -8.5% respectively. Accordingly, the Bank has written down the full remaining carrying value of the two SIVs at an equivalent of HK$718 million for the first half of 2008.

As at 30 June 2008, the net present value ("NPV") of Farmington Finance Limited ("Farmington"), a fully-funded cash flow collateralised debt obligation restructured (the "Restructuring") from the Bank's previous capital notes investment in the SIV Victoria Finance Limited ("Victoria"), stood at 70.3%. This compared to an NPV of 59.2% for Farmington at the end of December 2007. As at end-June 2008, the underlying investment portfolio of Farmington continued to meet projected cash flows. The portfolio quality showed some deterioration in line with the general credit markets, but it is well diversified amongst some 400 assets in diverse classes (See Note (J) in the Unaudited Supplementary Information for further details on Farmington).

Risk Management

Continuous investments were made during the period to upgrade its risk infrastructure, both in terms of systems and professional skill sets. A holistic approach is embraced to strengthen the Bank's overall risk management framework, in particular in the areas of balance sheet and liquidity management, credit risk governance and portfolio management best practices.

Management stays alert to the rapid changes in the Bank's operating environment in order to anticipate and identify potential shocks or new and unforeseen risks as these may emerge. Rigorous risk management disciplines are consistently applied across the Bank's business portfolios which are subject to on-going watch lists and reviews by the Early Alert Committee. Relationship managers stay in close contact with all customers to understand their needs and changing circumstances.

Meanwhile, the Bank is also in the process of upgrading its market risk systems and capabilities as it repositions its treasury operations to support its regional expansion strategy.

Attention is also given to the management of operational and strategic risks, as well as the planning of economic capital implementation in compliance with Basel II requirements.

2. China CITIC Bank Corporation Limited ("CNCB")

2.1 Business Performance

CNCB's operating environment in the first half of 2008 was characterised by the vagaries of the international economic and financial scenes, continued macroeconomic tightening in China as well as profound market changes. Nevertheless, it was successful in leveraging the favourable business opportunities to achieve record performance for the period.

Benefiting from various positive developments in China's domestic policies as well as the continuous efforts by the bank's management to improve its asset and liability structure and to diversify its income sources, CNCB's net profit for the first half of 2008 surged 161.5% year-on-year to a historic high of RMB8,429 million. Its return on average assets rose by 0.76 percentage point to 1.58% compared to the same period last year, while its return on equity increased by 7.69 percentage points year-on-year to 19.4%. Both its net interest income and non-interest income registered substantial increases, of which its net interest income rose 61.9% year-on-year while its non-interest income rose by 226.5% year-on-year. Cost to income ratio was kept at a relatively low level of 31.5%.

2.2 Asset Quality

Asset, Loan, And Deposit Sizes

As at the end of June 2008, CNCB's total assets were RMB1,117.1 billion, representing a 10.5% increase over 2007 year-end. Total loans rose by 10.2% from 2007 year-end to RMB633.8 billion. Total deposits grew by 7.9% from 2007 year-end to RMB849.5 billion.

Asset Quality Indicators

CNCB withstood the impact of the Sichuan earthquakes and actively responded to the country's macroeconomic tightening during the period. It managed to maintain reasonable growth in its lending business while focusing on improving its credit portfolio structure. Emphasis was placed on developing mortgages for personal housing and credit card business, managing medium- to long-term lending, and to exit on a timely basis sectors that are more significantly impacted by the macroeconomic tightening measures, such as small- to medium-sized property companies, and enterprises from sectors that are deemed low priority and uncompetitive, such as those that are not energy and resource efficient and that are highly pollutant. Meanwhile, the bank has increased its involvement in sectors related to the country's economic fundamentals and the people's livelihoods, and strengthened the predictability and prospects of its credit business. As a result, CNCB reported excellent performance in its asset quality for the first half of the year. As at end-June 2008, CNCB's non-performing loan ratio fell by about 0.03 percentage points to 1.45% as compared to 2007 year-end. Special mention loan ratio fell by 0.16 percentage points to 1.90%. Coverage rose by 5.4 percentage points to 115.4%.

2.3 Business Development

Corporate Banking Business

CNCB's corporate banking business reported strong growth momentum. The bank maintained its leadership position among the small- to medium-sized joint stock commercial banks in the Mainland with corporate deposits amounting to RMB739.4 billion and total loans at RMB551.8 billion as at end-June 2008, representing a 15.5% and 10.6% growth respectively compared to 2007 year-end. Its international trade-related remittance volume exceeded US$72 billion, representing a 61.0% increase compared to the same period last year and outpacing the growth rate of the country's foreign trade by nearly 10 percentage points. Investment banking-related net non-interest income rose by 320% year-on-year to RMB378 million. The size of assets under custody reached RMB122.4 billion and custodian fee income was RMB111 million, representing a 640% year-on-year increase.

Retail Banking Business

CNCB's retail banking business managed to deliver relatively fast growth despite the dramatic changes in the market during the period. Client assets under management grew 18.3% to RMB222 billion compared to 2007 year-end. Various new business lines in the area of intermediary businesses also experienced rapid growth. Sales volume of wealth management products grew by 86.9% year-on-year to RMB101.7 billion. The credit card business generated RMB38.28 million in profits before tax. Card issuance rose by 86.3% year-on-year to a cumulative total of over 5.66 million cards in force, while card transaction volume and receivables rose by 192.5% and 207.4% respectively.

Treasury And Capital Markets Business

CNCB continues to rank first in terms of market-making transaction volume in China's capital markets. As at the end of June 2008, treasury and capital markets turnover rose by 83.7% year-on-year to RMB2 billion, accounting for 9.9% of CNCB's total business income. Net non-interest income of the business unit rose by 298.8% year-on-year to RMB969 million, accounting for 45.5% of CNCB's total net non-interest income.

2.4 Collaboration with CITIC Group Subsidiaries

In the first half of 2008, CNCB has stepped up its cooperation with other CITIC Group financial services companies. In the area of corporate banking business, CNCB and CITIC Securities Co., Ltd. were joint lead underwriters for RMB2 billion in short-term financial bonds and RMB5.4 billion in medium-term financial papers. In its cooperation with CITIC Securities Co., Ltd. and CITIC Trust & Investment Co., Ltd., total trust assets under custody reached RMB9.1 billion. In the area of retail banking services, joint product development with other CITIC Group financial services companies have led to the launch of 35 wealth management products and RMB73.3 billion in related sales volume, representing a year-on-year increase of 59.1% and 84.2% respectively. Of the 139,500 new customers using third party deposit account services, 72.5% came from the securities companies within the CITIC Group.

2.5 Collaboration with BBVA

In the first half of 2008, the strategic cooperation committee of CNCB and BBVA met twice to reaffirm the core areas of mutual business cooperation, namely, in retail and private banking, treasury and capital markets business, corporate and investment banking, annuity business, auto-finance, risk management and staff training. A joint forum was held in Beijing on 19 June 2008 at which the two parties explored how to leverage CNCB's experience in servicing international customers and the competitive advantages of CITIC Group's financial services platform to cooperate with BBVA to provide comprehensive financial advisory and financial services to Chinese enterprises investing in Latin America.

Non-Bank Financial Businesses

3. CITIC Capital Holdings Limited ("CCHL")

3.1 Business Performance

CCHL's consolidated profit after tax for the first half of 2008 decreased by 63% year-on-year to HK$113 million. This was mainly due to the disposal of several investments in the first half of 2007 which resulted in substantial realised gains and performance fees in the same period last year, and the impact of the global investment market turmoil on CCHL's marketable securities business. Despite a difficult investment environment, CCHL more or less maintained its total assets under management ("AUM") at US$1.5 billion at the end of June 2008.

Nevertheless, given the robust medium- to long-term economic outlook of China, investor interest (both in China and internationally) in China-focused alternative investment products continues to be strong. As such, the management of CCHL remains confident in opportunities across different asset classes in China, and will continue its long-term strategy to grow its AUM.

3.2 Business Development

Private Equity

CITIC Capital China Partners, L.P. ("CCCP"), CCHL's flagship China private equity fund, closed two new investments during the first half of 2008, including a fast growing auto parts manufacturer which specialises in air conditioning systems, and a leading crawler crane manufacturer. CCCP is also in the process of obtaining final government approvals for two new investments including a confectionery manufacturer and an infant formula milk manufacturer, with target closings by the end of the third quarter of 2008. Once these two investments are closed, CCHL will launch its second China private equity fund which has a target fund size of US$750 million.

On the international front, CCHL's Japan-China private equity fund divested part of its interest in a leading food and beverage company and generated a remarkable 8.1 times return on investment. This same fund is now in the process of closing a new investment in a precision equipment manufacturer. In the US, CCHL's US-China private equity fund has recently closed a new investment in a cold storage service provider with a strong China expansion angle.

Real Estate

Despite the recent cooling down of the property market in China, CCHL's real estate funds all performed well during the period. Its second real estate fund, CITIC Capital Vanke China Property Development Fund which focuses on residential property development projects in China, has already fully invested by January 2008. This US$150 million fund was established in partnership with China Vanke, the largest property developer in China.

Its third real estate fund completed two additional closings in the first half of 2008 to bring its AUM to US$385 million. Its final closing is expected to complete in the third quarter of 2008 at a target total fund size of US$550 million. This fund focuses on investment properties, property development projects and equity investments in property developers in China. It has already made three investments by June 2008.

Mezzanine Fund

During the first half of 2008, CCHL increased its shareholding from 50% to 75% in the management company of CITIC Allco Investments Limited, a mezzanine fund that CCHL co-manages. This fund made two new investments during the period, including a co-investment with CCCP in a leading crawler crane manufacturer and an investment in a high-end specialty glass curtain wall system company. It is currently in the process of closing two additional new investments.

Marketable Securities

The performance of CCHL's marketable securities funds was impacted during the period by a confluence of challenges which included the negative market sentiment caused by concerns over the US sub-prime crisis, high oil prices, and volatilities arising from a substantial correction in China's stock markets. Given negative investor sentiment and the high market risks, CCHL closed down one of its Greater China hedge funds. In the near term, CCHL will focus on managing its CITIC Capital China Access Fund and the mutual fund it launched in Spain in collaboration with BBVA in late 2007. However, it will continue to develop and launch new products such as multi-strategy fund of funds when market conditions improve in due course.

Others

As part of CCHL's strategy to develop new fund products, it continuously seeks to identify attractive asset classes, develop investment strategies of interest, and make new investments as potential anchor investments for new funds. In particular, CCHL has invested in two property projects in China that were in financial distress and which it has successfully revitalised for on-going development.

In terms of new fund initiatives, CCHL is in the final stage of setting up an RMB venture capital fund with a leading financial institution in China. It is also working closely with Kazyna, the Kazakhstan government's sustainable development fund, to launch a joint venture fund that will invest in Kazakhstan and China so as to benefit from the increasing economic linkages between the two countries. CCHL has also joined forces with CITIC and CITIC Trust & Investment Co., Ltd. to tap the domestic retail fund market in China through equity participation in a joint venture that manages the Kingview Series of RMB funds.

Separately in early 2008, CCHL has divested its remaining 11.6% stake in CITIC Securities International Company Limited to CITIC Securities Co., Ltd. in China.

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

4.1 Financial Performance

CIAM reported weaker revenue performance in the first half of 2008 compared to a year ago as revenue contribution from its listed investments and their related divestment schedule was affected by challenges in the equity markets in Asia. As a result, its revenues for the period were derived primarily from its bridge financing transactions and the appreciation of RMB from its assets in China. Its income and profit attributable to shareholders recorded for the period amounted to HK$30 million and HK$2 million respectively, representing a 61% and 97% decrease respectively over the same period in 2007. These results included for the first time the financial performance of E2-Capital (Holdings) Limited, a Hong Kong-listed company in which CIAM acquired a controlling stake in April 2008 and renamed as CIAM Group Limited ("CIAM Listco").

4.2 Business Development

New Investment Platform

In April 2008, CIAM completed the acquisition of a 72% stake in CIAM Listco. Following the mandatory general offer to CIAM Listco's minority shareholders, CIAM is in the process of share placement(s) to restore its public float requirement under the Hong Kong Stock Exchange, CIAM is now holding approximately 90.5% of CIAM Listco through Right Precious Limited. CIAM Listco's management and operations are being integrated with CIAM and it will become the core investment vehicle and business development platform under CIAM.

Direct Investments

During the first half of the year, CIAM focused its direct investments on real estate opportunities. The mining joint venture, in which CIAM owns a 40% stake, has started its investment in the first quarter of 2008. Further equity funding to this joint venture are expected to be made in the coming twelve months to align with its investment schedule. In the area of real estate investments, CIAM has invested in a residential and commercial property development complex in China. Through the acquisition of CIAM Listco, CIAM also owns a property redevelopment project on Grampian Road in the Kowloon Tong area of Hong Kong. The respective sizes of these two projects are approximately RMB700 million and HK$800 million.

Advisory Services

CIAM continues to leverage its solid financial position to engage in ancillary businesses. It provides short-term financing to its clients packaged as part of its advisory services. This strategy has proved to be quite successful in terms of revenue generation and client base expansion. As planned, CIAM has expanded this business further in 2008 and has closed an acquisition financing deal which is expected to generate considerable advisory revenue as well as interest income in the second half of 2008.

Fund Management

Fund management is regarded as one of the key business areas to be developed under CIAM. Several new funds with different investment focuses are in the process of being established or are in the planning stage. CIAM will partner with experienced financial institutions to manage these funds, two of which are scheduled to close within 2008 or by early 2009.

Distressed Assets Management

CIAM successfully collected HK$14 million from receivables of its distressed assets portfolio in the first quarter of 2008. The portfolio continues to bring in cash flows to support the business operation. As at end-June 2008, CIAM's distressed assets portfolio amounted to HK$372 million, representing a 1% decrease from 2007 year-end.

Preparing For New Challenges And Opportunities

With the addition of a listed vehicle under CIAM, the management is cautiously fine-tuning its strategy and repositioning itself to meet plentiful business opportunities in China. This listed vehicle provides CIAM with flexibility in future fund-raising exercises and serves as an important business development platform. Together with the respective strengths of its various strategic shareholders, CIAM is well-positioned to capture new business opportunities and meet new challenges in 2008 and beyond.

Future Outlook

Looking into the second half of 2008, market confidence and sentiment are likely to remain fragile given continuing frailness in the health of the global financial sector and investment markets. Lingering concerns with the US sub-prime mortgage market and persistent inflationary pressures will overhang global economies and banks' operating environments in particular. However, CIFH is cautiously optimistic of the outlook of Greater China and Asia given relatively solid growth in domestic consumption and healthy intra-regional trade flows. It is also expected that the Chinese government will adjust its macroeconomic policies after the Olympics to ensure the country's sustained growth and development.

Over the past three years, the Group has focused its efforts on the two-pronged strategy of strengthening its core competencies on the one hand, and building new capabilities and linkages on the other to drive and establish the CITIC brand in international banking and financial services. With the solid foundation laid and the support of CIFH's majority shareholders and strategic partners, management is confident that the Group is well-braced to weather the trials and tribulations of the current global financial market turmoil.

Indeed, CIFH is determined to stay on course its strategy to transform into a regional China banking group and to expand the Asian frontiers for the CITIC commercial banking franchise. CKWB's cooperation with CNCB is already bearing fruit. The Group's strategic and business achievements in its transformation journey are recognised by its two major shareholders. This is evident in their future aspirations for CIFH and their reaffirmation of CKWB's future role as the independent banking platform for new business expansion in Asia for both CITIC and BBVA. The Group is confident that the tri-partite business model between the post-privatised CIFH, CNCB and BBVA will create a unique alliance with formidable competitive advantages in the region, and one that will clearly position the Group as its customers' "China Bank of Choice in Asia".

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

The Company has not redeemed any of its listed securities during the six months ended 30 June 2008. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the six months ended 30 June 2008.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance. Throughout the six months ended 30 June 2008, the Company has complied with the Code Provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules except for the following deviations.

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for a specific term, but same as all other Directors of the Company, are subject to retirement and eligible for re-election at each annual general meeting in accordance with article 98 of the Articles of Association of the Company. The Directors believe that subjecting the Non-executive Directors to annual re-election achieves the intended aims of the Code.

Code Provision B.1.1 stipulates that a majority of the members of the remuneration committee should be independent non-executive directors. The composition of the Nomination and Remuneration Committee of the Company (the "N&R Committee") does not include a majority of members who are Independent Non-executive Directors of the Company. The Directors believe that the terms of the delegation of duties by the Board subject the decisions of the N&R Committee to the oversight of the full Board, which in itself satisfies the independence requirements under the Code. The members of the N&R Committee shall not vote in decisions concerning each of their own remuneration or any other matters which he / she has any direct or indirect interest. All Non-executive Directors of the Company have the right to attend the meetings of the N&R Committee. The composition and the terms of reference of the N&R Committee shall be reviewed from time to time.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Company (the "Model Code"). Having made specific enquiry of the Directors of the Company, all Directors of the Company had complied with the required standards as set out in the Model Code during the six months ended 30 June 2008.

REVIEW BY THE AUDIT COMMITTEE

The financial statements of the Company for the six months ended 30 June 2008 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, 21 August 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.