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#### **GLORYSHARE INVESTMENTS LIMITED**

(incorporated in the British Virgin Islands with limited liability)



中信國際金融控股有限公司 CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED (incorporated in Hong Kong with limited liability) (Stock Code: 183)

## PROPOSAL TO PRIVATIZE CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND

PROPOSED WITHDRAWAL OF THE LISTING OF CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

> Financial adviser to Gloryshare Investments Limited

# LEHMAN BROTHERS

Lehman Brothers Asia Limited

Independent financial adviser to the Independent Board Committee of CITIC International Financial Holdings Limited



Capitalized terms used hereunder shall have the same meanings as defined in this document. A letter from the Board is set out on pages 10 to 16 of this document. The Explanatory Statement is set out on pages 68 to 96 of this document. A letter from the Independent Board Committee containing its advice to the Minority Shareholders, the holders of the Options, and the Bondholders in relation to the Proposal is set out on pages 17 to 18 of this document. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee in relation to the Proposal is set out on pages 19 to 67 of this document. The actions to be taken by the Minority Shareholders are set out on page 96 of this document.

Notices convening the Court Meeting and the Extraordinary General Meeting to be held in Hong Kong on Thursday, 16 October 2008 are set out on pages CM-1 to EGM-3 of this document. Whether or not you are able to attend the Court Meeting or the Extraordinary General Meeting or any adjournment thereof, you are strongly urged to complete and sign the enclosed pink form of proxy in respect of the Court Meeting and the enclosed white form of proxy in respect of the Extraordinary General Meeting in accordance with the instructions respectively printed thereon and to lodge them with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806 – 1807, 18/F, Hopewell Centre, 183 Queen's Road East Wanchai, Hong Kong as soon as possible and not later than 48 hours before the time appointed for the holding of the relevant meeting. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. In order to be valid, the white form of proxy will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In such event, the relevant form of proxy shall be deemed to have been revoked. The English language text of this document shall prevail over the Chinese language text.

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In this document, the following expressions shall have the meanings respectively set opposite them unless the context requires otherwise:

"acting in concert"	has the meaning given to it in the Takeovers Code
"Announcement"	the announcement dated 10 June 2008 jointly issued by the Offeror and the Company in relation to the Proposal
"Authorizations"	all necessary governmental, legal or regulatory authorizations, registrations, filings, rulings, consents, permissions, waivers, exemptions and approvals in connection with the Proposal and the Stock Borrowing
"BBVA"	Banco Bilbao Vizcaya Argentaria, S.A., a company incorporated in the Kingdom of Spain
"BBVA Group"	BBVA and its subsidiaries
"Bond Offer"	the cash offer to be made by the Offeror to the Bondholders for the acquisition of the outstanding Convertible Bonds including, for clarity, any accrued but unpaid interest which, as at the Latest Practicable Date, remain outstanding
"Bondholders"	the holders of the outstanding Convertible Bonds in the principal amount of US\$1 million or its successors
"Bridge Loans"	(i) the HK\$4,240 million drawn pursuant to the loan facility agreement dated 19 December 2007 entered into between the Company as borrower and Barclays Bank plc as agent for the lenders; and (ii) the HK\$870 million drawn pursuant to the loan facility agreement dated 23 April 2007 entered into between the Company as borrower and The Hongkong and Shanghai Banking Corporation Limited as lender (as subsequently amended)
"Cancellation Consideration"	the consideration of one CNCB H Share and HK\$2.16 in cash for every Scheme Share cancelled
"CITIC Group"	中國中信集團公司(CITIC Group), a state-owned enterprise established under the laws of the PRC

"CKWB"	CITIC Ka Wah Bank Limited (中信嘉華銀行有限公司), an authorized institution incorporated in Hong Kong, within the meaning of the Banking Ordinance, Chapter 155 of the Laws of Hong Kong, and a wholly-owned subsidiary of the Company
"CNCB"	中信銀行股份有限公司(China CITIC Bank Corporation Limited), a company established under the laws of the PRC
"CNCB A Shares"	domestic shares of RMB1.00 each in the capital of CNCB, all of which are listed on the Shanghai Stock Exchange
"CNCB H Shares"	overseas listed foreign shares of RMB1.00 each in the capital of CNCB, all of which are listed on the Main Board of the Hong Kong Stock Exchange
"CNCB Shares"	CNCB A Shares and CNCB H Shares
"Companies Ordinance"	Companies Ordinance, Chapter 32 of the Laws of Hong Kong
"Company"	CITIC International Financial Holdings Limited (中信 國際金融控股有限公司), a company incorporated under the laws of Hong Kong with limited liability and the shares of which are listed on the Main Board of the Hong Kong Stock Exchange
"concert parties"	parties acting in concert with CITIC Group or the Offeror or BBVA or parties acting in concert with any of them
"Convertible Bonds"	0.25% guaranteed convertible bonds due December 2008 issued by CIFH (CB-I) Limited, a wholly-owned subsidiary of the Company, and guaranteed by the Company in the principal amount of US\$180 million entitling their holders to convert into the Shares at an initial conversion price of HK\$4.269 per Share, subject to adjustment
"Court Meeting"	a meeting of the Minority Shareholders to be convened at the direction of the High Court, notice of which is set out on pages CM-1 to CM-2 of this document, and any adjournment thereof

"Effective Date"	the date on which the Scheme of Arrangement becomes effective, which is expected to be 5 November 2008
"Executive"	Executive Director of the Corporate Finance Division of the SFC or any of his delegates
"Expiry Time"	four days before the Record Time, being the latest time for the exercise of the Options and the conversion of the outstanding Convertible Bonds in order to qualify as holders of the Scheme Shares for the Cancellation Consideration and for the acceptance of the Option Offer and the Bond Offer, which time is expected to be 4:00 p.m. on 31 October 2008
"Explanatory Statement"	the explanatory statement in relation to the Scheme of Arrangement set out on pages 68 to 96 of this document issued in compliance with Section 166A of the Companies Ordinance
"Extraordinary General Meeting"	an extraordinary general meeting of the Company, notice of which is set out on pages EGM-1 to EGM-3 of this document, and any adjournment thereof
"First CNCB Transfer"	the transfer by the Company of all of its CNCB H Shares to the Offeror and BBVA following the completion of the transfer by the Offeror to BBVA of 50% of the New Shares
"Framework Agreement"	a framework agreement dated 3 June 2008 entered into between CITIC Group, the Offeror and BBVA for, amongst other things, the implementation of the Proposal and the subsequent bilateral cooperation between CITIC Group and BBVA
"Group"	the Company and its subsidiaries
"High Court"	High Court of Hong Kong
"HKSCC"	Hong Kong Securities Clearing Company Limited
"holder(s)"	registered holder(s) including any person entitled by transmission to be registered as such and joint holders
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Independent Board Committee"	an independent committee of the board of directors of the Company established for the purpose of advising the Minority Shareholders, the holders of the Options, and the Bondholders in respect of the Proposal
"Independent Financial Adviser"	Somerley Limited, the independent financial adviser to the Independent Board Committee and is licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO
"Last Trading Day"	2 June 2008, being the last day of trading in the Shares on the Hong Kong Stock Exchange immediately prior to the suspension of trading pending publication of the Announcement
"Latest Practicable Date"	12 September 2008, being the latest practicable date prior to the printing of this document for ascertaining certain information contained in this document
"Lehman Brothers"	Lehman Brothers Asia Limited, the financial adviser to the Offeror and is licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO
"Minority Shareholder(s)"	holder(s) of the Shares other than those holding the Shares owned by the Offeror or BBVA
"New Shares"	the Shares to be issued to the Offeror pursuant to the Scheme of Arrangement
"Offeror"	Gloryshare Investments Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and which is wholly- owned by CITIC Group
"Options"	the options granted under the share option scheme adopted by the Company on 16 May 2003 which, as at the Latest Practicable Date, remain unexercised
"Option Offer"	the cash offer to be made by the Offeror to the holders of the Options for the cancellation of their Options
"PRC"	People's Republic of China

"Proposal"	the proposed privatization of the Company by the Offeror by way of the Scheme of Arrangement, the Option Offer and the Bond Offer
"Record Time"	4:00 p.m. Hong Kong time on the day on which the Hong Kong Stock Exchange is open for trading and immediately preceding the Effective Date
"Scheme of Arrangement"	the scheme of arrangement between the Company and the Minority Shareholders under Section 166 of the Companies Ordinance as set out on pages S-1 to S-8 of this document, with or subject to any modification thereof or addition thereto or condition approved or imposed by the High Court
"Scheme Share(s)"	the Share(s) in issue at the Record Time other than those owned by the Offeror and BBVA
"Second CNCB Transfer"	the transfer by the Offeror to BBVA of 52,892,289 CNCB H Shares in satisfaction of CITIC Group's obligations to BBVA under the SOPA
"SFC"	Securities and Futures Commission
"SFO"	Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
"Share(s)"	ordinary share(s) of HK\$1.00 each in the capital of the Company
"SOPA"	the share and option purchase agreement dated 22 November 2006 and entered into between CITIC Group and BBVA, as amended by two agreements dated 31 January 2007 and 26 February 2007 respectively
"Stock Borrowing"	the borrowing of up to 1,783,538,036 CNCB H Shares by the Offeror from BBVA to fund the share portion of the Cancellation Consideration
"Stock Borrowing Agreement"	the agreement dated 3 June 2008 entered into between the Offeror, BBVA and CITIC Group in respect of the Stock Borrowing
"Takeovers Code"	Hong Kong Code on Takeovers and Mergers

"Third CNCB Transfer"	the transfer of such number of CNCB H Shares by the Offeror to BBVA such that BBVA will hold an aggregate of 10.07% of the entire issued share capital of CNCB
"HK\$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"US\$"	United States dollar(s), the lawful currency of the United States of America
" <sub>0/0</sub> "	per centum

# EXPECTED TIMETABLE

Hong Kong time

(unless otherwise stated)

Latest time for lodging transfers of the Shares in order to be entitled to attend and vote at the Court Meeting
and the Extraordinary General Meeting
Closure of register of members ( <i>Note 1</i> ) Wednesday, 15 October 2008 to Thursday, 16 October 2008 (both days inclusive)
Latest time for lodging forms of proxy in respect of the
Court Meeting (Note 2) 10:00 a.m. on Tuesday, 14 October 2008
Extraordinary General Meeting (Note 2) 10:30 a.m. on Tuesday, 14 October 2008
Suspension of trading of the Shares ( <i>Note 3</i> )9:30 a.m. on Thursday, 16 October 2008
Court Meeting 10:00 a.m. on Thursday, 16 October 2008
Extraordinary General Meeting 10:30 a.m. on Thursday, 16 October 2008 (or as soon as the Court Meeting has been concluded or adjourned)
Announcement of the results of the Court Meeting and the Extraordinary General Meeting posted on the website of the Hong Kong Stock Exchangeby 7:00 p.m. on Thursday, 16 October 2008
Latest time for lodging transfers of the Shares in order to qualify for entitlements to the Cancellation Consideration
Expiry Time (Note 4)

## EXPECTED TIMETABLE

#### Hong Kong time

(unless otherwise stated)

High Court hearing of the petition for the sanction of the Scheme of Arrangement ( <i>Note 5</i> ) Tuesday, 4 November 2008
Record Time
Announcement of the result of the High Court hearing posted on the website of the Hong Kong Stock Exchange
Effective Date (Note 5) Wednesday, 5 November 2008
Expected withdrawal of the listing of the Shares on the Hong Kong Stock Exchange by 9:30 a.m. on Wednesday, 5 November 2008
Announcement of, among other things, the Effective Date and the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange posted on the website of The Hong Kong Stock Exchange by 7:00 p.m. on Wednesday, 5 November 2008
Certificates for the CNCB H Shares and cheques for the cash payment under the Cancellation Consideration and cheques for the cash payments under the Option Offer and the Bond Offer to be despatched on or before Saturday, 15 November 2008

The Minority Shareholders, the holders of the Options and the Bondholders should note that the above timetable is dependent on, among other things, the availability of dates for the High Court to hear the proceedings relating to the Scheme of Arrangement and is therefore subject to change. Further announcement will be made in the event that there is any change.

Notes:

- (1) The register of members of the Company will be closed during such period for the purpose of determining entitlements of the Minority Shareholders to attend and vote at the Court Meeting and the Shareholders to attend and vote at the Extraordinary General Meeting. For the avoidance of doubt, this period of closure is not for determining entitlements to the Cancellation Consideration.
- (2) The pink form of proxy in respect of the Court Meeting and the white form of proxy in respect of the Extraordinary General Meeting should be completed and signed in accordance with the instructions respectively printed thereon and should be lodged with the share registrar of the Company,

# EXPECTED TIMETABLE

Computershare Hong Kong Investor Services Limited, at Rooms 1806–1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event by the times and dates stated above. In the case of the pink form of proxy in respect of the Court Meeting, it may alternatively be handed to the chairman of the Court Meeting at the Court Meeting if it is not so lodged. The white form of proxy for the Extraordinary General Meeting must be lodged no later than the time and date stated above in order for it to be valid. Completion and return of the forms of proxy will not preclude a member from attending and voting in person at the relevant meeting or any adjournment thereof if he so wishes. In such event, the relevant form of proxy shall be deemed to have been revoked.

- (3) Trading of the Shares will be suspended from 9:30 a.m. on Thursday, 16 October 2008 pending publication of an announcement of the results of the Court Meeting and the Extraordinary General Meeting. If the Scheme of Arrangement is approved at these meetings, trading of the Shares will remain suspended pending publication of an announcement of the results of the High Court hearing of the petition for the sanction of the Scheme of Arrangement and, upon such sanction, will continue until the withdrawal of the listing of the Shares on the Hong Kong Stock Exchange. If the Scheme of Arrangement is not approved at these meetings or not sanctioned by the High Court, trading of the Shares is expected to resume at 9:30 a.m. on the trading day following the announcement of these results.
- (4) The Option Offer and the Bond Offer are open for acceptance up to the Expiry Time. If any holders of vested Options have not accepted the Option Offer by the Expiry Time, their Options will be cancelled by the Company with effect from the Expiry Time and these holders will receive the fair value of their Options as at the Expiry Time. Further, the Company will redeem all of the outstanding Convertible Bonds with effect from the Expiry Time if the Bond Offer is not accepted in full by the Bondholders by such time.
- (5) The Scheme of Arrangement shall become effective when it is sanctioned (with or without modification) by the High Court and an office copy of the order of the High Court, together with the minute containing the particulars required by Section 61 of the Companies Ordinance, are delivered to and registered by the Registrar of Companies.



# 中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED (incorporated in Hong Kong with limited liability) (Stock Code: 183)

*Chairman* Mr. Kong Dan

Vice Chairman Mr. Chang Zhenming Registered Office: Suites 2701–9, 27th Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong

Executive Directors Mr. Dou Jianzhong Mrs. Chan Hui Dor Lam Doreen Mr. Lo Wing Yat Kelvin Mr. Roger Clark Spyer Mr. Zhao Shengbiao

Non-executive Directors Mr. Jose Barreiro Mr. Chen Xiaoxian Mr. Fan Yifei Mr. Feng Xiaozeng Mr. Manuel Galatas Mr. Ju Weimin Mr. Liu Jifu Mr. Wang Dongming

Independent Non-executive Directors Mr. Rafael Gil-Tienda Mr. Lam Kwong Siu Mr. Tsang Yiu Keung Paul

16 September 2008

To the Minority Shareholders, the holders of the Options and the Bondholders

Dear Sir or Madam,

#### PROPOSAL TO PRIVATIZE CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND PROPOSED WITHDRAWAL OF THE LISTING OF CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

#### INTRODUCTION

It was jointly announced by the Offeror and the Company on 10 June 2008 that on 3 June 2008, the Offeror had requested the board of directors of the Company to put forward to the Minority Shareholders the Proposal which, if implemented, will result in the Company becoming wholly-owned by the Offeror and BBVA. On 27 August 2008, it was further announced by the Offeror and the Company jointly that the Offeror had requested the board of directors of the Company to put forward to the Minority Shareholders a revised Proposal whereby the cash portion of the Cancellation Consideration would be increased but with all other terms remaining unchanged. The Offeror also confirmed in such announcement that there would be no further revision to the Cancellation Consideration.

The Offeror is a wholly-owned subsidiary of CITIC Group. As at the Latest Practicable Date, the Offeror and BBVA respectively owned approximately 55.15% and 14.51% of the issued Shares. The proposed privatization of the Company will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance, the Option Offer and the Bond Offer. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror.

Following a meeting held on 3 June 2008, the board of directors of the Company agreed to put forward the Proposal for consideration by the Minority Shareholders, the holders of the Options and the Bondholders. Upon the Scheme of Arrangement becoming effective, the listing of the Shares will be withdrawn from the Hong Kong Stock Exchange.

Rule 2.8 of the Takeovers Code prescribes that the members of an independent committee of a company's board of directors formed for the purpose of considering an offer as in the present case must comprise all of the company's non-executive directors who have no interest in the offer. Accordingly, the Independent Board Committee consisting of Mr. Rafael Gil-Tienda, Mr. Lam Kwong Siu and Mr. Tsang Yiu Keung Paul, all being independent non-executive directors, and Mr. Fan Yifei and Mr. Feng Xiaozeng, both being non-executive directors, has been formed for the purpose of advising the Minority Shareholders, the holders of the Options and the Bondholders as to what actions they should take in respect of the Proposal. As for the other non-executive directors, (1) both Mr. Chang Zhenming and Mr. Ju Weimin are directors of the Offeror, (2) Mr. Chen Xiaoxian, Mr. Liu Jifu and Mr. Wang Dongming are associated with CITIC Group, and (3) both Mr. Jose Barreiro and Mr. Manuel Galatas are associated with BBVA. In compliance with Rule 2.8 of the Takeovers Code, they have not been included in the Independent Board Committee so as to avoid any or any possible conflict of interests.

The Company, with the approval of the Independent Board Committee, has appointed Somerley Limited as the Independent Financial Adviser to advise the Independent Board Committee in connection with the Proposal.

The purpose of this document is to provide you with further information regarding the Proposal, the Framework Agreement, in particular the Third CNCB Transfer contemplated therein, and to give you notices of the Court Meeting and the Extraordinary General Meeting.

#### THE PROPOSAL

Subject to the conditions described in the section headed "Conditions of the Scheme of Arrangement" in the Explanatory Statement on pages 75 to 76 of this document being fulfilled or waived (as applicable), the proposed privatization of the Company will be implemented by way of the Scheme of Arrangement, the Option Offer and the Bond Offer.

#### THE SCHEME OF ARRANGEMENT

Subject to the Scheme of Arrangement becoming effective, the holders of the Scheme Shares will receive from the Offeror as Cancellation Consideration:

#### one CNCB H Share and HK\$2.16 in cash ..... for every Scheme Share cancelled.

The transfer of the CNCB H Shares as part of the Cancellation Consideration to a holder of the Scheme Shares will be subject to stamp duty payable to the Hong Kong government, currently charged at 0.2% on the prevailing market price of each CNCB H Share at the time of the transfer. Half of the applicable amount of the stamp duty for the transfer will be deducted from the HK\$2.16 cash portion of the Cancellation Consideration.

As at the Latest Practicable Date, the authorized capital of the Company was HK\$8,000 million divided into 8,000 million Shares, 5,759,172,916 of which had been issued and were fully paid. Of these issued Shares, CITIC Group (through the Offeror) and BBVA owned 3,176,395,029 Shares and 835,717,967 Shares respectively, representing approximately 55.15% and 14.51% of the issued capital of the Company. These Shares will not form part of the Scheme Shares and, as such, will neither be represented nor voted at the Court Meeting.

As at the Latest Practicable Date, Lehman Brothers and its affiliates, being concert parties, owned 3,802,000 Shares, representing approximately 0.07% of the issued capital of the Company. In addition, they had a short position in respect of 218,000 Shares, and had lent to and borrowed from third parties 4,000 Shares and 350,000 Shares respectively. Through derivative interests, they also had a long position in respect of 288,000 Shares, details of which are set out in section 3 of Appendix IV to this document. The positions held by Lehman Brothers and its affiliates as described above may change up to the Record Time due to acceptance and delivery of the Shares pursuant to pre-existing or non-discretionary contractual obligations. Thus the total number of the Shares held by Lehman Brothers and its affiliates up to the Record Time.

Further, seven directors of the Company who are concert parties held a total of 9,280,000 unvested Options as at the Latest Practicable Date, none of which will be exercisable before July 2009 at the earliest. Two of them also held an aggregate of 2 million vested Options, the exercise of which will result in a corresponding number of the Shares being issued to them.

Although the Shares owned by all of the concert parties identified in the preceding two paragraphs will form part of the Scheme Shares, such Shares will not, in compliance with the Takeovers Code, be voted at the Court Meeting. However, the Offeror, BBVA and the concert parties have indicated that, if the Scheme of Arrangement is approved at the Court Meeting, all of the Shares owned by them will be voted in favour of the special resolution to give effect to the Scheme of Arrangement at the Extraordinary General Meeting.

A table setting out the shareholding structures of the Company as at the Latest Practicable Date, immediately after the Effective Date and immediately after the completion of the transfer by the Offeror to BBVA of 50% of the New Shares is to be found in the section entitled "Shareholding structures of the Company" in the Explanatory Statement on pages 70 to 72 of this document.

Save as set out above, none of CITIC Group, the Offeror, BBVA and any of the concert parties holds any other Shares, warrants, options, derivatives or other securities convertible into the Shares.

As at the Latest Practicable Date, the Minority Shareholders were interested in an aggregate of 1,747,059,920 Shares, representing approximately 30.34% of the issued capital of the Company. All of the Minority Shareholders, other than the concert parties which include Lehman Brothers and its affiliates, will be entitled to vote at the Court Meeting.

Further, as at the Latest Practicable Date, there were 34,164,000 Options, the full exercise of which would result in an increase in the same number of the Shares, representing approximately 0.59% of the issued capital of the Company as enlarged by the issue of these Shares. As at the Latest Practicable Date, there were also outstanding Convertible Bonds in the principal amount of US\$1 million convertible into an aggregate of 1,816,116 new Shares, representing approximately 0.03% of the issued capital of the Company as enlarged by the issue of these Shares. Other than these Options and outstanding Convertible Bonds, the Company did not have in issue any outstanding options, warrants, derivatives or securities convertible into the Shares as at the Latest Practicable Date.

#### THE OPTION OFFER

The 34,164,000 Options consist of 8,800,000 vested Options, which are exercisable at any time and 25,364,000 unvested Options, none of which will be exercisable before July 2009 at the earliest.

The Option Offer for the cancellation of every vested and unvested Option, which is conditional upon the Scheme of Arrangement becoming effective, will be calculated by deducting the exercise price per Option from the value of the Cancellation Consideration of HK\$7.60 per Share, which is equal to the closing price of HK\$5.44 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day plus the cash portion of the Cancellation Consideration of HK\$2.16 per Scheme Share cancelled.

Further details of the Option Offer are set out in the section headed "The Option Offer" in the Explanatory Statement on pages 72 to 73 of this document and in the letter containing the Option Offer to be despatched to the holders of the Options.

Under the rules of the share option scheme, the Company may at any time cancel an Option by paying to its holder its fair market value as determined by the board of directors after consultation with the Company's auditors or an independent financial adviser. To the extent that there are Options which have vested but remain unexercised at the Expiry Time and whose holders have not accepted the Option Offer, the Company will exercise its right under the rules of the share option scheme to cancel all of the Options and pay to the holders the fair market value of their Options as at the Expiry Time, and it is expected that the amounts so paid will not exceed the amounts the holders of such vested Options would have received if the Option Offer had been accepted by them. The purpose of the Shares following the exercise of such Options after the Expiry Time with the result that these Shares will not form part of the Scheme Shares to be cancelled on the Effective Date, thereby undermining the objective of the Scheme of Arrangement and, hence, the Proposal to privatize the Company.

The share option scheme also provides that if a scheme of arrangement in respect of the Company under Section 166 of the Companies Ordinance has become effective, all vested Options may be exercised within a three-month period after the effective date of the scheme of arrangement, failing which the Options will lapse. As none of the unvested Options will become exercisable before the end of the three-month period from the Effective Date, all such Options whose holders have not accepted the Option Offer by the Expiry Time will automatically lapse at the end of that three month period, which is expected to be 4 February 2009.

#### THE BOND OFFER

The Company had outstanding Convertible Bonds in the principal amount of US\$1 million as at the Latest Practicable Date. The outstanding Convertible Bonds are convertible into the Shares at a price of HK\$4.269 per Share and, if so converted, will result in the issue of an aggregate of 1,816,116 Shares.

Conditional upon the Scheme of Arrangement becoming effective, the consideration payable under the Bond Offer to the Bondholders will be determined by multiplying the number of the Shares convertible from the outstanding Convertible Bonds by the value of the Cancellation Consideration of HK\$7.60 per Share, which is equal to the closing price of HK\$5.44 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day plus the HK\$2.16 cash portion of the Cancellation Consideration for every Scheme Share cancelled.

Further details of the Bond Offer are set out in the section headed "The Bond Offer" in the Explanatory Statement on page 74 of this document and in the letter containing the Bond Offer to be despatched to the Bondholders.

Under the terms of the Convertible Bonds, the Company may redeem them if less than 10% of the principal amount of US\$180 million of the Convertible Bonds remains outstanding. Since the outstanding Convertible Bonds represent less than 10% of the principal amount, the Company will redeem all of the outstanding Convertible Bonds if the Bond Offer is not accepted in full by the Bondholders by the Expiry Time. Similar to the case of the holders of the vested Options who have not accepted the Option Offer as described above, the redemption will eliminate the possibility of issuing any Shares arising from the conversion after the Expiry Time with the result that the Bondholders remain shareholders of the Company after its privatization.

#### FINANCIAL RESOURCES

The total share portion and cash payments under the Proposal will be 1,747,059,920 CNCB H Shares and approximately HK\$3,846 million respectively assuming full acceptance of the Option Offer and the Bond Offer, or 1,783,040,036 CNCB H Shares and approximately HK\$3,851 million respectively assuming the Options will be fully exercised and the outstanding Convertible Bonds will be fully converted prior to the Expiry Time. However, taking into account the fact that the unvested Options will not be exercisable before the full implementation of the Proposal, the total share portion and cash payments under the Proposal will be 1,757,676,036 CNCB H Shares and approximately HK\$3,823 million respectively, assuming (i) full acceptance of the Option Offer by holders of the unvested Options, (ii) all vested Options will be fully exercised and (iii) the outstanding Convertible Bonds will be fully converted, in each case prior to the Expiry Time.

Lehman Brothers is satisfied that sufficient CNCB H Shares and financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

# REASONS FOR THE PROPOSAL AND EFFECTS OF THE SCHEME OF ARRANGEMENT

You are urged to read carefully the sections entitled "Reasons for the Proposal" and "Effect of the Scheme of Arrangement" in the Explanatory Statement appearing respectively on pages 77 to 78 and pages 84 to 85 of this document.

#### FRAMEWORK AGREEMENT AND THE THIRD CNCB TRANSFER

The Third CNCB Transfer constitutes a special deal under Rule 25 of the Takeovers Code, and is conditional upon, among other things, the Scheme of Arrangement becoming effective. Your attention is accordingly drawn to the sections entitled "Strategic Alliance between CITIC Group and BBVA and the Framework Agreement", particularly the paragraph in respect of the Third CNCB Transfer, in the Explanatory Statement appearing on pages 88 to 90 of this document.

The Executive has indicated that it is prepared to consent to the Third CNCB Transfer if (a) a majority of the Minority Shareholders who are not involved or interested in the Third CNCB Transfer have approved such transfer at the Extraordinary General Meeting

and (b) the Independent Financial Adviser has stated in its letter to the Independent Board Committee that the Third CNCB Transfer is fair and reasonable. As regards the latter condition, the letter from the Independent Financial Adviser, which states that the Third CNCB Transfer is fair and reasonable, appears in the section entitled "Letter from the Independent Financial Adviser" on pages 19 to 67 of this document.

#### COURT MEETING AND EXTRAORDINARY GENERAL MEETING

For the purpose of exercising your votes at the Court Meeting and the Extraordinary General Meeting, you are requested to read carefully the sections entitled "Court Meeting and Extraordinary General Meeting" and "Actions to be taken" in the Explanatory Statement appearing on pages 94 to 96 and page 96, respectively, of this document. The notices of the Court Meeting and of the Extraordinary General Meeting are to be found on pages CM-1 to CM-2 and EGM-1 to EGM-3 respectively of this document.

#### FURTHER INFORMATION

A letter from the Independent Board Committee which contains its recommendation to the Minority Shareholders, the holders of the Options and the Bondholders in relation to the Proposal, together with the letter from the Independent Financial Adviser, are set out on pages 17 to 18 and pages 19 to 67 respectively of this document. The Explanatory Statement, together with the appendices thereto, are set out on pages 68 to 96 of this document. In addition, the terms of the Scheme of Arrangement are set out on pages S-1 to S-8 of this document. You are advised to read such letters and documents carefully before taking any action in respect of the Proposal.

> Yours faithfully, For and on behalf of the Board CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED Dou Jianzhong Director and Chief Executive Officer

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE



中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED (incorporated in Hong Kong with limited liability) (Stock Code: 183)

16 September 2008

To the Minority Shareholders, the holders of the Options and the Bondholders

Dear Sir or Madam,

#### PROPOSAL TO PRIVATIZE CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND PROPOSED WITHDRAWAL OF THE LISTING OF CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

Terms defined in the document issued by the Company to you of which this letter forms part (the "Document") shall have the same meanings in this letter unless the context otherwise requires.

We have been appointed by the board of directors of the Company as the Independent Board Committee to make recommendations to the Minority Shareholders, the holders of the Options and the Bondholders in respect of the Proposal.

Having considered the terms of the Proposal and taking into account the advice of the Independent Financial Adviser, in particular the factors, reasons and recommendations as set out in the letter from the Independent Financial Adviser appearing on pages 19 to 68 of the Document, we consider that the terms of the Proposal and the Third CNCB Transfer are fair and reasonable so far as the Minority Shareholders, the holders of the Options and the Bondholders are concerned. Accordingly, we recommend that the Minority Shareholders other than the concert parties, including Lehman Brothers and its associates, vote in favour of the resolution to be proposed at the Court Meeting to approve the Scheme of Arrangement, the special resolution to be proposed at the Extraordinary General Meeting to give effect to the Scheme of Arrangement and the ordinary resolution to be proposed at the Extraordinary General Meeting to approve the Third CNCB Transfer. In addition, we also recommend that the holders of the Options accept the Option Offer and the Bondholders accept the Bond Offer.

## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee draws the attention of the Minority Shareholders, the holders of the Options and the Bondholders to (i) the letter from the Board on pages 10 to 16 of the Document; (ii) the Explanatory Statement on pages 68 to 96 of the Document together with the appendices; and (iii) the letter from the Independent Financial Adviser on pages 19 to 67 of the Document, which sets out the factors and reasons taken into consideration in arriving at its recommendations to the Independent Board Committee.

As at the Latest Practicable Date, members of the Independent Board Committee held Options in respect of an aggregate of 1,600,000 Shares, details of which are set out in appendix V to this document. Each of us intends to accept the Option Offer in respect of our Options.

Yours faithfully, **Rafael Gil-Tienda Lam Kwong Siu Tsang Yiu Keung Paul Fan Yifei Feng Xiaozeng** *Independent Board Committee* 

The following is the full text of the letter of advice from Somerley Limited, the Independent Financial Adviser to the Independent Board Committee, which has been prepared for the purpose of incorporation into this document, setting out its advice to the Independent Board Committee in respect of the Proposal.



#### SOMERLEY LIMITED

10th Floor The Hong Kong Club Building 3A Chater Road Central Hong Kong

16 September 2008

To: the Independent Board Committee

Dear Sir/Madam,

## PROPOSAL TO PRIVATIZE CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED BY WAY OF A SCHEME OF ARRANGEMENT UNDER SECTION 166 OF THE COMPANIES ORDINANCE AND PROPOSED WITHDRAWAL OF THE LISTING OF CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

#### INTRODUCTION

We refer to our appointment as the independent financial adviser to the independent board committee of the Company in connection with the Proposal. Capitalized terms used in this letter, unless the context otherwise requires, shall have the same meanings as defined in the composite document dated 16 September 2008 despatched to the shareholders of the Company, the holders of the Options and the Bondholders (the "Document"), of which this letter forms a part.

The Proposal will be effected by way of the Scheme of Arrangement and also involves offers to cancel the Options and to acquire the outstanding Convertible Bonds. Details of the Proposal are contained in the Document. We have been appointed to give advice on whether or not the terms of the Proposal and the Third CNCB Transfer, which constitutes a special deal under the Takeovers Code and details of which are included in the paragraph below headed "The Third CNCB Transfer", are fair and reasonable, and whether (i) the Minority Shareholders other than the concert parties (which include Lehman Brothers and its affiliates) should be recommended to vote in favour of the Scheme of Arrangement at the Court Meeting as well as to vote in favour of the Scheme of Arrangement and the Third CNCB Transfer at the Extraordinary General Meeting, and (ii) the holders of the Options and the Bondholders should be recommended to accept the Option Offer and the Bond Offer respectively.

In accordance with Rule 2.1 of the Takeovers Code, the Independent Board Committee comprising Mr. Fan Yifei and Mr. Feng Xiaozeng, both being non-executive directors of the Company, and Mr. Rafael Gil-Tienda, Mr. Lam Kwong Siu and Mr. Tsang Yiu Keung Paul, all being the independent non-executive directors of the Company, has been formed to advise the Minority Shareholders, the holders of the Options and the Bondholders on the Proposal and the Third CNCB Transfer. As regards the other non-executive directors of the Company, Mr. Chang Zhenming and Mr. Ju Weimin are directors of the Offeror; Mr. Chen Xiaoxian, Mr. Liu Jifu and Mr. Wang Dongming are associated with CITIC Group; and Mr. Jose Barreiro and Mr. Manuel Galatas are associated with BBVA. They are therefore not considered to be independent for the purpose of giving any advice or recommendation to the Minority Shareholders, holders of the Options or Bondholders (as applicable) in respect of the Proposal and the Third CNCB Transfer. Accordingly, none of them have been included in the Independent Board Committee.

We are independent from, and not connected with, CITIC Group, the Offeror, BBVA, the Company, any of their respective substantial shareholders or any of the concert parties and, accordingly, are eligible to give independent advice on the Proposal and the Third CNCB Transfer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from CITIC Group, the Offeror, BBVA, the Company, any of their respective substantial shareholders or any of the concert parties.

In formulating our advice and recommendations, we have relied on the information and facts supplied, and the opinions expressed, by the directors and management of the Company, all of which we have assumed to be true, accurate and complete in all material respects. We have reviewed the published information on the Group, including its audited consolidated financial statements for the three years ended 31 December 2007 and its unaudited consolidated financial statements for the six months ended 30 June 2008; and on CNCB, including its audited consolidated financial statements for the three years ended 31 December 2007 and its unaudited consolidated financial statements for the three months ended 31 March 2008 and six months ended 30 June 2008 respectively; as well as CKWB's audited consolidated financial statements for the three years ended 31 December 2007 and its unaudited consolidated financial statements for the six months ended 30 June 2008. We have reviewed the trading of the Shares and the CNCB H Shares on the Hong Kong Stock Exchange. We have sought and received confirmation from the directors of the Company that no material information, facts or opinions have been omitted from the information and facts supplied and the opinions expressed by them. We consider that the information, facts and opinions provided to us are sufficient for us to reach the advice and recommendations as set out in this letter. We have relied on such information, facts and opinions and we have no reason to doubt the truth and accuracy of the information, facts and opinions provided to us or that any material information, facts or opinions have been omitted or withheld. We have also assumed that all representations contained or referred to in the Document were true at the time they were made and at the date of the Document and will continue to be true at the times of the Court Meeting and the Extraordinary General Meeting. However, we have not conducted any independent investigation into the business and affairs of the Group or CNCB.

#### PRINCIPAL FACTORS AND REASONS CONSIDERED

In considering whether the Proposal and the Third CNCB Transfer are fair and reasonable, we have taken into account the principal factors and reasons set out below:

#### 1. Background to and reasons for the Proposal

The Company is the Hong Kong and offshore financial services flagship of CITIC Group, which conducts its PRC banking operations principally through CNCB. The CNCB H Shares and CNCB A Shares are listed on the Hong Kong Stock Exchange and Shanghai Stock Exchange respectively in April 2007. Prior to the listing, CNCB introduced the Company and BBVA as strategic shareholders. The BBVA Group is a leading financial institution in Spain and Latin America, and has strong presence in the USA, Europe and Asia. As at the Latest Practicable Date, the Company and BBVA had respective interests of approximately 15.00% and approximately 4.83% in CNCB. BBVA also had an approximately 14.51% interest in the Company as at the Latest Practicable Date.

Since the Company and BBVA have acquired interests in CNCB, it is the intention of the Company, BBVA and CNCB to enhance tri-partite collaboration. Such collaboration will allow each party to leverage on the others' strengths in their respective operating territories.

The Company has announced in a series of press announcements from November 2006 to December 2007 that it was in discussions with BBVA regarding strategic alliance, business cooperation and increase in the shareholding of the Company. CITIC Group and BBVA also initiated discussions which resulted in the Proposal and it was intended that CITIC Group would, at an appropriate time and subject to all regulatory and other approvals, inject its interest in the post-privatized Group (excluding CNCB H Shares) into CNCB, thereby resulting in a better alignment of the banking businesses operated through CKWB and CNCB. It is also expected that potential synergies can be realized from further tri-partite cooperation among the Company, BBVA and CNCB after the privatization. Privatization of the Company would promote this cooperation by simplifying regulatory requirements for connected transactions among CKWB, CNCB and BBVA. While the Company remains a Hong Kong listed company, transactions with CNCB are subject to both the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules") and the relevant listing rules of the Shanghai Stock Exchange, compliance with which is costly and time consuming, and transactions with BBVA are similarly subject to the Listing Rules.

It is apparent from the above press announcements and statement of plans that CITIC Group and BBVA intend to rationalize their interests in the Company and CNCB and expand the business in Hong Kong, the PRC and internationally from a common platform. It is stated in the "Explanatory Statement" of the Document that if the Proposal is not approved, subject to regulatory and necessary third parties' approval, CITIC Group would still proceed with the restructuring plan by proposing to inject its majority interest in the Company into CNCB. This means that there is no likelihood of significant assets of

the Company, such as CKWB, being sold off to third parties as in the recent case of Wing Lung Bank Ltd., or of an offer for the Company from a third party being considered by CITIC Group. This is an important factor in our analysis of the implications of the Scheme of Arrangement on the Minority Shareholders set out in paragraphs 10 to 11 below.

The market prices of the Shares and the CNCB H Shares have been tracking each other very closely. A discussion of the relationship between the Shares and CNCB H Shares is set out in paragraph 7 below headed "Price of the Shares vs CNCB H Shares and implied value of remaining assets of the Group". Each Share has an attributable asset backing of approximately 1.02 CNCB H Shares. On average, the price of each Share was only approximately HK\$0.03 higher than the market value of the underlying 1.02 CNCB H Shares, which could be viewed as the value the market places on the rest of the Company's net assets. On 10 June 2008, the Offeror and the Company jointly announced the Proposal whereby the Company proposed to cancel each Scheme Share held by the Minority Shareholders at HK\$1.46 in cash plus one CNCB H Share. On 27 August 2008, it was announced that the cash portion of the Cancellation Consideration would be increased from HK\$1.46 to HK\$2.16 for every Scheme Share cancelled. This means that the Minority Shareholders are offered in effect HK\$2.16 per Share in cash for the rest of the Company's net assets, which the market has valued on an average of approximately HK\$0.03 per Share. As referred to above, if the Proposal is not approved, subject to regulatory and necessary third parties' approval, CITIC Group proposes to implement the restructuring plan by injecting its interest in the Group into CNCB. On the basis of the current shareholding structure, CITIC Group believes that a waiver from making a general offer to the Minority Shareholders can be obtained by CNCB pursuant to Note 6 to Rule 26 of the Takeovers Code. As such, the proposed injection would not give rise to a second opportunity for the Minority Shareholders to unlock the value of their Shares.

The small price differential between the Shares and the attributable value of the CNCB H Shares may also reflect a discount which the market imposes for the indirect holding of CNCB H Shares rather than a direct holding. Implementation of the Proposal would allow the Minority Shareholders in effect to exchange their Shares for a direct holding of CNCB H Shares. CNCB Shares have a much larger market capitalization, higher liquidity (in terms of number of shares traded) and much larger exposure to the PRC market (Please see further discussion on paragraph 6 below headed "Share price and liquidity"). CNCB's growth in net profit and return on shareholders' equity are also significantly higher than that of the Company for the periods under review (Please see more detailed discussion in paragraph 5 below headed "Comparison of performance of the Group and CNCB").

CITIC Group intends that CKWB will continue to be CITIC Group's exclusive vehicle for the development of commercial banking business in Hong Kong and a commercial banking platform for new business expansion in Asia. Subject to the successful implementation of the Proposal, all of the 15% holding of the CNCB H Shares of the Company will be sold to CITIC Group and BBVA and HK\$3 billion of the sales proceeds will be initially retained by the Company and then on-lent to CKWB to support its short to medium term expansion requirements, which is expected to accelerate as a result of the further tri-partite collaboration among the Company, CNCB and BBVA.

If the Company continues to be separately listed, it will have to consider how to repay the Bridge Loans of approximately HK\$5.1 billion, which will mature in December 2008, and to satisfy CKWB's expansion requirements, which are estimated to amount to HK\$3 billion over the short to medium term. Options available to the Company include:

- (a) Equity issue: the equity capital markets are currently not receptive to equity issues. A sizeable equity fund raising in this climate may need to be on terms which risk significantly diluting the proportionate interests of the shareholders of the Company or require a substantial discount to the current price, or both;
- (b) Debt capital market issue: given the uncertain outlook of the global debt capital markets, sourcing replacement funding on competitive terms is expected to be difficult. If the Proposal is not implemented, the Company will still have to repay or refinance the Bridge Loans before the end of 2008. Based on the current interest rate for 5-year HK\$ denominated loans, Lehman Brothers, the Offeror's financial adviser, estimates that refinancing may result in an increase in interest rate of 250 to 300 basis points over the current interest rates of the Bridge Loans; or
- (c) Asset sale: as referred to in the paragraph below headed "Present business of the Group", the Group has only one sizeable subsidiary, namely CKWB. Besides CKWB, the only significant investment which is readily marketable is the holding of CNCB H Shares. If the Proposal is not approved, subject to obtaining the necessary third party and regulatory approvals, including BBVA's right to exercise its first right of refusal, the Company may consider selling some or all of its shareholding in CNCB by way of a pro rata sale to all its shareholders and/or a sale to independent third parties and/or through other appropriate mechanisms in order to obtain funding. The Minority Shareholders would then have to obtain their own funding should they wish to acquire CNCB H Shares in order to maintain their attributable share of CNCB interest now held through the Company. In addition, it is likely that the Company would not be able to equity account for the results and net assets of CNCB following the sale of its interest in CNCB.

The Company considers that equity issue and debt capital market issue will not be feasible under the current market conditions.

### 2. Principal terms of the Scheme of Arrangement

The Minority Shareholders will receive the following as the Cancellation Consideration:

For every Scheme Share cancelled ..... one CNCB H Share (the "Share Cancellation Consideration") and HK\$2.16 in cash (the "Cash Cancellation Consideration")

The Scheme of Arrangement will become effective and binding on the Company, the Offeror, BBVA and the holders of the Scheme Shares, subject to the fulfillment or waiver, as applicable, of certain conditions. The following summary, in our view, consists of the more important conditions from the Minority Shareholders' point of view:

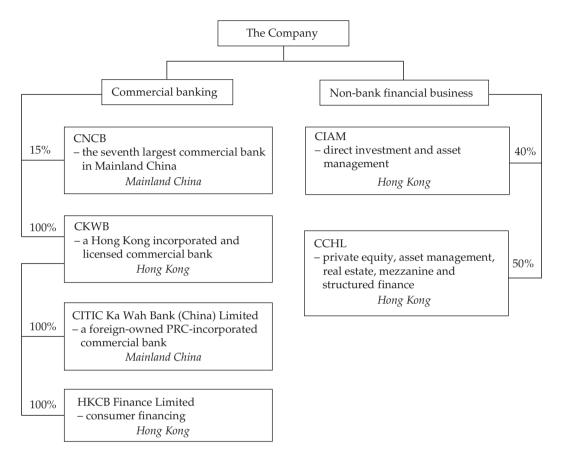
- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number, representing not less than three-fourths in value of the Shares held by the Minority Shareholders other than the concert parties (which include Lehman Brothers and its affiliates) that are cast either in person or by proxy at the Court Meeting, provided that the number of the votes cast against the resolution as regards the Scheme of Arrangement is not more than 10% of the votes attaching to all of the Shares held by the Minority Shareholders other than the concert parties (which include Lehman Brothers and its affiliates);
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the shareholders of the Company present and voting in person or by proxy at the Extraordinary General Meeting to give effect to the Scheme of Arrangement, including the approval of the reduction of the capital of the Company; and
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the capital of the Company by the High Court and the registration by the Registrar of Companies of an office copy of the order of the High Court, together with a minute containing the particulars required by Section 61 of the Companies Ordinance.

Pursuant to the Takeovers Code, only the Minority Shareholders other than the concert parties (which include Lehman Brothers and its affiliates) can vote at the Court Meeting. All shareholders of the Company can vote on the resolution to give effect to the Scheme of Arrangement at the Extraordinary General Meeting.

The Proposal is put forward by Gloryshare Investments Limited, a wholly-owned subsidiary of CITIC Group, which owned approximately 55.15% of the issued shares of the Company as at the Latest Practicable Date. Upon the Scheme of Arrangement becoming effective: (i) the Scheme Shares, which represent approximately 30% of the Company's issued shares, will be cancelled and the New Shares will be issued as fully paid to the Offeror or other parties as the Offeror may direct; and (ii) the Offeror will then transfer or cause the transfer of half of the New Shares to BBVA. Hence, in effect, each of CITIC Group and BBVA will acquire approximately an additional 15% interest in the privatized Group.

### 3. Present business of the Group

Set out below is a summary of the main elements of the Group:



The Company, established in November 2002, is CITIC Group's Hong Kong and offshore financial services flagship and the holding company of CKWB, a Hong Kong licensed bank. As at the Latest Practicable Date, the Company also held approximately 15% of the entire issued share capital of CNCB and is able to exercise significant influence over CNCB through board representation. On that basis, CNCB is equity accounted for in the books of the Group.

In the non-banking financial services area, the Group holds a 40% interest in CITIC International Assets Management Limited ("CIAM"), which specializes in direct investment and asset management, and a 50% interest in CITIC Capital Holdings Limited ("CCHL") (formerly known as CITIC Capital Markets Holdings Limited), which specializes in private equity, asset management, real estate, mezzanine and structured finance.

CIAM and CCHL are accounted for as associates of the Company.

#### (a) Business of CKWB

Based in Hong Kong, CKWB is wholly-owned by the Company and provides a wide range of banking services and financial solutions, focusing on retail banking and wealth management services, as well as wholesale banking and treasury services, serving both corporations and individuals. CKWB's footprint in Greater China includes 27 branches in Hong Kong, a branch in Macau, a branch in Shanghai and a PRC-incorporated whollyowned subsidiary, CITIC Ka Wah Bank (China) Limited, which is headquartered in Shenzhen with branches in Shanghai and Beijing. CKWB also has overseas branches in New York and Los Angeles. The Bank is rated "Baa2" by Moody's Investors Service and "BBB+" with positive outlook by FITCH. The section below headed "Financial information on the Group and CNCB" sets out the historical financial performance and financial position of the Group, which consolidates the results and financial position of CKWB as the Group's principal subsidiary.

#### (b) Business of CNCB

CNCB is the seventh largest commercial bank in PRC in terms of total assets as at 31 December 2007. The CNCB H Shares and CNCB A Shares are listed on the Hong Kong Stock Exchange and the Shanghai Stock Exchange respectively. Established in 1987 in the name of CITIC Industrial Bank, it was renamed as CNCB in November 2005. CNCB is principally engaged in the provision of banking and financial services in the PRC, and is one of the 12 joint stock commercial banks in the PRC operating with a national licence. As at 30 June 2008, CNCB provides services to both corporates and consumers through 28 tier-one branches, 18 tier-two branches, 458 in-city branches and a finance company in Hong Kong.

#### (c) Business of CIAM

CIAM was established in 2002 as a wholly-owned subsidiary of the Company with a focus on the management and recovery of non-performing loans. Over time, it has expanded into fund management and China related asset management business through venture capital and direct investments. In December 2006, CIAM started to transform itself into a direct investment and asset management company with the introduction of three foreign strategic investors holding an aggregate 60% stake in the enlarged share capital of CIAM while the Company holds the remaining 40% stake. The Company's intention is to remain the single largest shareholder of CIAM in the foreseeable future. Listed investments of CIAM are carried at fair values while unlisted investments are equity accounted for or stated at cost after provision for impairment.

In April 2008, CIAM completed the acquisition of a 72% stake in a Hong Kong listed company, E2-Capital Holdings Limited ("E2-Capital"). CIAM further increased its stake in E2-Capital to approximately 90.49% following a mandatory general offer, which was completed in May 2008, for the other shares of E2-Capital at HK\$2.225 per share. E2-Capital changed its name to CIAM Group Limited ("CIAM Listco") with effect from 27 June 2008. CIAM Listco is an investment holding company which is engaged in direct investment business, including private equity and fund management business, as well as property development. It is believed that CIAM Listco would provide a flexible business structure and fund-raising platform on which to further the growth of CIAM. The closing price of the shares of CIAM Listco was HK\$2.22 as at 13 May 2008. Trading of the shares of CIAM

Listco has been suspended since 14 May 2008 pending restoration of CIAM Listco's public float to 25%. The results of CIAM Listco were consolidated into the accounts of CIAM as from April 2008.

In 2007, CIAM recorded a net income of approximately HK\$154 million, which was 2.3 times that of 2006. CIAM's revenues in 2007 include approximately HK\$30 million gains from investments, approximately HK\$19 million interest income from short-term lending and approximately HK\$45 million representing amount recovered from distressed assets. CIAM's profits for the year attributable to shareholders amounted to approximately HK\$101 million in 2007, representing an approximately 173% increase over 2006 and a record high since its incorporation in 2002.

During the first half of 2008, the results of CIAM were negatively impacted by challenges in Asian stock markets, leading to a decline in revenue and profit contributions from its listed investments. Income and profit attributable to the shareholders of CIAM for the six months ended 30 June 2008 amounted to approximately HK\$30 million and approximately HK\$2 million respectively, representing approximately 61% and 97% decrease respectively over the same period in 2007.

#### (d) Business of CCHL

Formed in 2002, CCHL is 50% owned by the Company, and is a China-focused investment management and advisory firm. Headquartered in Hong Kong, CCHL also has local presence in Shanghai, Beijing, New York and Tokyo. The core businesses of CCHL include private equity, asset management, real estate, mezzanine and structured finance. With the know-how and expertise of financial professionals and the support and network of CITIC Group, CCHL is positioned to capitalize on opportunities in China, particularly in the investment and finance area. The remaining 50% of CCHL is owned by an associated company of CITIC Group. Investments of CCHL comprise principally listed and unlisted financial assets, including investment funds, which are carried at fair values in CCHL's financial statements.

In 2007, the profit attributable to the equity shareholders of CCHL grew approximately 71% from 2006 to approximately HK\$401 million, while total assets under management increased to approximately US\$1.6 billion from approximately US\$1.1 billion in 2006.

For the six months ended 30 June 2008, profit attributable to shareholders of CCHL decreased by approximately 63% to approximately HK\$113 million when compared to the same period in 2007. This was mainly due to the disposal in the first half of 2007 of several investments, which resulted in substantial realized gains and performance fees in the same period last year, and the impact of the global investment market turmoil on CCHL's marketable securities.

### 4. Financial information on the Group and CNCB

As the Scheme of Arrangement principally involves exchanging the Shares for a direct holding of CNCB H Shares, it is therefore, in our view, important to compare the historical financial performance and financial position of the Group with those of CNCB.

#### (*i*) The Group

#### Historical financial performance of the Group

Set out below is the abridged audited consolidated income statements of the Group for the two years ended 31 December 2007 and the abridged unaudited consolidated income statements for the six months ended 30 June 2008 and 30 June 2007 respectively, all prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") as extracted from the Company's 2007 annual report and 2008 interim results announcement:

	For the six months ended 30 June		For the year ended 31 December		
	<b>2008</b> HK\$ (million) (unaudited)	<b>2007</b> HK\$ (million) (unaudited)	<b>2007</b> HK\$ (million) (audited)	<b>2006</b> HK\$ (million) (audited)	
Net interest income Net fee and commission income Net loss and write-down on structured	790 436	631 385	1,359 822	1,070 560	
investment vehicles ("SIV(s)") Other net trading income Net expense from financial instruments designated at fair value through	(718) 171	348	(1,311) 589	- 651	
profit or loss Net hedging (loss)/gain Other operating income	(64) (1) 22	(77)	(249) 2 62	(70)	
Operating income	636	1,311	1,274	2,260	
Operating expenses	(690)	(614)	(1,234)	(1,145)	
Operating (loss)/profit before impairment	(54)	697	40	1,115	
Impairment losses written back/(charged for) Net profit on disposal of available-for-sale	10	(42)	(72)	(57)	
securities and held-to-maturity investments	37		7	68	
Operating (loss)/profit	(7)	655	(25)	1,126	
Gain on dilution of investment in associates Profit on disposal of a subsidiary Net (loss)/profit on disposal of property	-	202	198 -	- 1	
and equipment Revaluation gain on investment properties Share of profits of associates	(1) 28 1,443	19 5 737	18 60 1,601	72 3 132	
Profit before taxation	1,463	1,618	1,852	1,334	
Income tax	(23)	(108)	-	(206)	
Profit after taxation	1,440	1,510	1,852	1,128	
Dividends paid to equity shareholders of the Company:					
Interim dividend Final dividend	-	-	-	247 321	
	_			568	

#### 2007 compared to 2006

Of the approximately HK\$1.9 billion net profits, approximately HK\$1.6 billion represented share of profits of associates and approximately HK\$198 million arose principally from gain on dilution of investment in CNCB when it became listed on the Hong Kong Stock Exchange on 27 April 2007. Contribution to net profits from associates also largely came from CNCB, which amounted to approximately HK\$1.3 billion for the year ended 31 December 2007. As the disposal of the 60% interest in CIAM (originally a subsidiary of the Company) and the stake acquisition of CNCB were only completed on 4 December 2006 and 29 December 2006 respectively, share of profits of associates for the year ended 31 December 2006 was primarily derived from the contribution of CCHL and was therefore significantly lower compared to that in 2007.

Excluding share of profits of associates, the results of the Group largely reflect the results of CKWB, which is the major subsidiary of the Company, and are analyzed in the paragraphs below.

Net interest income grew by approximately 27%, from approximately HK\$1,070 million in 2006 to approximately HK\$1,359 million in 2007. This was largely because loan and advances to customers and other accounts grew by approximately 30%, from approximately HK\$51.9 billion as at 31 December 2006 to approximately HK\$67.7 billion as at 31 December 2007.

The Group's net fees and commission income grew substantially by approximately 47% to approximately HK\$822 million in 2007. The main drivers for this growth were increases in wealth management related income and corporate loans related fees. Other net trading income decreased by approximately 10% to approximately HK\$589 million, mainly resulting from the decrease in interest income from unlisted trading assets and net gains from trading securities held by the Group.

The operating income for the year ended 31 December 2007 decreased significantly by approximately 44% compared to 2006 from approximately HK\$2,260 million to approximately HK\$1,274 million. Such decrease primarily resulted from the net loss and write-down on SIVs in 2007 which offset the Group's growth in both net interest income and non-interest income. The Group's investments in SIVs came under extreme pressure amid the global liquidity crisis in the second half of 2007. As a result, the values of the SIVs were written down by approximately HK\$1,311 million, which represented the changes in fair value of the investments in 2007.

Operating expenses increased moderately by approximately 8% when compared to 2006. The amount includes mainly staff costs and property and equipment expenses (including depreciation), which amounted to approximately HK\$724 million and approximately HK\$238 million respectively in 2007. Without taking into account the writedown on SIVs, the Group's cost-to-income ratio of its core businesses decreased from approximately 50.7% in 2006 to approximately 47.7% in 2007.

The Group recorded approximately HK\$72 million of impairment losses in 2007, representing an approximately 26% increment when compared to that of 2006, which was mainly impairment losses on loans and advances and the increase was largely in line with the growth of the Group's loan portfolio.

## First half of 2008 compared to first half of 2007

The Group recorded a net profit of approximately HK\$1,440 million for the six months ended 30 June 2008, as a result of share of profits of associates totalling HK\$1,443 million. Of the HK\$1,443 million profits, approximately HK\$1,388 million profits came from CNCB. Excluding share of profits of associates, the results of the Group largely reflected the results of CKWB.

Net interest income for the first half of 2008 grew by approximately 25% to approximately HK\$790 million, as a result of the Group's continued expansion of its loan portfolio and the gradual repricing of its loan portfolio, given the overall tightening in the local credit market. Net fees and commission income increased by approximately 13% to approximately HK\$436 million during the first half of 2008, which is due to the growth in corporate loans related income, wealth management related income and trade bills commissions.

Despite the growth in net interest income and net fee and commission income, the Group recorded a decrease in operating income for the first half of 2008 by approximately 51%, from approximately HK\$1,311 million during the first half of 2007 to approximately HK\$636 million during the first half of 2008. This was primarily due to the mark-to-market write-downs of the remaining carrying value of SIVs of the Group totalling approximately HK\$718 million during the period.

Operating expenses increased by approximately 12% when compared to the first half of 2007. The amount includes mainly staff costs, which amounted to approximately HK\$411 million when compared to approximately HK\$381 million during the first half of 2007. Without taking into account the write-down on SIVs, the Group's cost-to-income ratio of its core businesses increased from approximately 46.8% for the first half of 2007 to approximately 51.0% for the first half of 2008.

The Group recorded approximately HK\$10 million of impairment losses written back during the first half of 2008 when compared to an approximately HK\$42 million impairment losses charged during the first half of 2007, which arose from recovery of bad debts during the period.

#### Financial position of the Group

A summary of the audited consolidated balance sheets of the Group as at 31 December 2007 and 31 December 2006 and the unaudited consolidated balance sheet of the Group as at 30 June 2008, all prepared in accordance with the HKFRS as extracted from the Company's 2007 annual report and 2008 interim results announcement is set out below:

	As at 30 June 2008 HK\$(million) (unaudited)	As at 31 D 2007 HK\$(million) (audited)	2006
Assets			
Cash and balances with banks, central banks			
and other financial institutions	1,290	1,503	1,268
Placements with and advances to banks,			
central banks and other financial institutions	7,065	12,648	12,392
Trade bills	1,128	1,523	492
Trading assets ( <i>note</i> 1)	1,709	3,479	6,415
Securities designated at fair value through	107	F01	1 004
profit or loss	406	531	1,004
Loans and advances to customers and other accounts Available-for-sale securities ( <i>note</i> 2)	77,407 19,762	67,704 22,125	51,906 4,973
Held-to-maturity investments	19,702	22,123	4,973
Interest in associates ( <i>note</i> 3)	22,965	20,636	11,478
Property and equipment	1,086	1,075	1,000
Goodwill (note 4)	1,008	1,008	1,008
Tax recoverable	166	71	
Deferred tax assets	89	82	30
Total assets	134,081	132,385	102,142
Liabilities			
Deposits and balances of banks and			
other financial institutions (note 5)	10,565	6,649	832
Deposits from customers	78,820	83,795	65,422
Trading liabilities	925	880	429
Certificates of deposit issued	4,786	6,863	7,258
Debt securities issued	2,342	2,314	2,301
Convertible bonds issued	8	8	247
Current taxation	13	7	113
Deferred tax liabilities	1	- 1 450	22
Other liabilities	3,911	1,459	1,385
Loan capital	3,925	3,926	3,901
Total liabilities	105,296	105,901	81,910
<b>T</b> 14			
Equity			E 022
Share capital	5,759	5,758 20,726	5,023
Reserves	23,026		15,209
Total equity attributable to equity shareholders			
of the Company	28,785	26,484	20,232
or the Company		20,404	
Total equity and liabilities	134,081	132,385	102,142
iotai cyaity and machines	104,001	102,000	102,172

Notes:

- (1) Include SIV investments which had been fully written off as at 30 June 2008 and had a carrying value of approximately HK\$704 million as at 31 December 2007.
- (2) Include investment in the capital note issued by Farmington with a carrying value of approximately US\$84 million (approximately HK\$658 million) and approximately US\$71 million (approximately HK\$554 million) as at 30 June 2008 and 31 December 2007 respectively as discussed below.
- (3) Include a 15% strategic stake in CNCB, 40% of CIAM and 50% of CCHL with a carrying value of approximately HK\$20,387 million, HK\$965 million and HK\$1,613 million respectively as at 30 June 2008, and a carrying value of approximately HK\$18,138 million, HK\$973 million and HK\$1,525 million respectively as at 31 December 2007.
- (4) Represents the goodwill arising from the acquisition of Hong Kong Chinese Bank and its subsidiaries, which are now part of CKWB.
- (5) Include the Bridge Loans of approximately HK\$5.1 billion taken out by the Company in 2007. The Bridge Loans are repayable to the lenders in December 2008.

Besides a strategic holding in CNCB and investments in CIAM and CCHL, all of which are accounted for as investment in associates, the Group's principal assets and liabilities include (i) the consolidated assets and liabilities of CKWB, which are further analyzed in the following section; (ii) goodwill of approximately HK\$1,008 million arising from the acquisition of Hong Kong Chinese Bank and its subsidiaries which are now part of CKWB; (iii) the Bridge Loans amounting to approximately HK\$5.1 billion; and (iv) other net assets of approximately HK\$216 million and approximately HK\$312 million as at 30 June 2008 and 31 December 2007 respectively, including net cash of approximately HK\$192 million and approximately HK\$2.5 billion Bridge Loans, approximately HK\$2.6 billion was applied to complete the top-up acquisition of CNCB H Shares upon the listing of CNCB H Shares in April 2007, and the remaining HK\$2.5 billion was applied to finance the business and expansion needs of CKWB. The new capital strengthened CKWB's core capital ratio and total capital adequacy ratio.

As at 31 December 2007, total loans and advances to customers and other accounts rose by approximately 30% for the year of 2007 to approximately HK\$67.7 billion, and a further approximately 14% during the first half of 2008 to approximately HK\$77.4 billion. The Group's total assets amounted to approximately HK\$132.4 billion as at 31 December 2007, representing approximately a 30% increase from that of 2006. As at 30 June 2008, total assets amounted to approximately HK\$134.1 billion, representing a further increase of approximately 1% during the first half of 2008. This largely reflects the gradual exit from its fund investments business and the reduction of available-for-sale securities, offsetting the increase in its loan portfolio.

Set out below is a breakdown of loans and advances to customers and other accounts analyzed by type:

	As at 30 June		As at 31 December 2007 2006			
	2008 HK\$(million)	1	20 HK\$(million)	07	200 HK\$(million)	16
Industrial, commercial and						
financial	29,953	39.7%	29,236	44.4%	21,328	42.1%
Individuals	14,641	19.4%	14,227	21.6%	13,691	27.0%
Gross loans and advances for use						
in Hong Kong	44,594	59.1%	43,463	66.0%	35,019	69.1%
Trade finance	4,991	6.6%	4,468	6.8%	3,508	6.9%
Gross loans and advances for use outside Hong Kong	25,839	34.3%	17,902	27.2%	12,158	24.0%
Gross loans and advances to						
customers	75,424	100.0%	65,833	100.0%	50,685	100.0%
Impairment allowances Accrued interest and other	(305)		(294)		(329)	
accounts less impairment allowances	2,288		2,165		1,550	
Loans and advances to customer	s					
and other accounts	77,407		67,704		51,906	

Increase in gross loans and advances to customers in 2007 mainly arose from an increase in loans for manufacturing sector, property investment sector and financial sector. Gross loans and advances for use outside Hong Kong also increased substantially in 2007 and the first half of 2008, and accounted for approximately 34.3% and approximately 27.2% of the total loan portfolio as at 30 June 2008 and 31 December 2007 respectively.

Gross impaired loans and advances to customers decreased by approximately 11% from approximately HK\$846 million as at 31 December 2006 to approximately HK\$757 million as at 31 December 2007, but increased by approximately 24% to approximately HK\$938 million as at 30 June 2008. Gross impaired loans and advances as a percentage of total loans and advances to customers stood at approximately 1.2% at 30 June 2008:

	As at 30 June As at 31 December		
	2008	2007	2006
	HK\$(million)	HK\$(million)	HK\$(million)
Gross impaired loans and advances to customers	938	757	846
Impairment allowances - individually assessed (note	) (128)	(71)	(76)
	810	686	770
Gross impaired loans and advances as a percentage of total loans and advances to customers	1.2%	1.2%	1.7%

*Note:* The allowances were made after taking into account the realizable value of collaterals in respect of such loans and advances of approximately HK\$664 million and approximately HK\$601 million as at 30 June 2008 and 31 December 2007 respectively, which mainly comprised mortgages over residential or commercial properties and cash deposited with the Group.

CKWB had investments in two SIVs, namely, Beta Finance Corporation ("Beta") and Five Finance Corporation ("Five"), which were included as trading assets in the consolidated balance sheets of both CKWB and the Group. Given the continuing uncertainties in the global credit and capital markets, CKWB made a decision to fully write-down the remaining value of these SIVs amounting to approximately HK\$718 million in the first half of 2008.

As announced in the Company's press announcements dated 26 November 2007 and 20 December 2007, CKWB then held another SIV investment, namely Victoria Finance Limited ("Victoria"), which was restructured into a fully-funded vehicle called Farmington Finance Limited ("Farmington"). Unlike an SIV which relies on short-term funding against a portfolio of long-term assets, Farmington was created with long-term funding taken out with a senior debt provider. This long-term funding will be repayable by instalments which fully match the maturities of Farmington's underlying assets. The fully funded nature of Farmington immediately released the pressure to seek replacement funding in the capital markets and the need to sell assets to repay short-term funding if replacement funding could not be secured. The carrying values of CKWB's investment in Farmington amounting to US\$71 million and US\$84 million as at 31 December 2007 and 30 June 2008 respectively were disclosed as available-for-sale securities in the consolidated balance sheets of CKWB and the Group. Farmington's carrying values were determined on the basis of the net present value of discounted future cash flow of Farmington's underlying investment portfolio, considering that the vehicle will be maintained until all assets mature and there will be no defaults in the portfolio. At the time of the restructuring, CKWB provided the senior debt provider with partial loan default protection against nonperformance 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 Farmington's 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 the 2008 interim results announcement, there was no settlement request claimed on the CDS, nor was there any indication that Farmington would not be able to meet its payments under the long-term senior debts as they become due. Hence, no provision was made in respect of the CDS. However, the directors of the Company note that there are continuing uncertainties in the global credit and financial markets, the full future impact of which is unknown.

Total deposits from customers and certificates of deposit issued also grew by approximately 25% for the year of 2007 to approximately HK\$90.7 billion as at 31 December 2007, but dropped by approximately 8% during the first half of 2008 to approximately HK\$83.6 billion as a result of the general tightening of market liquidity and the low interest rate environment. Net asset value as at 30 June 2008 was approximately HK\$28.8 billion, representing an approximately 8.7% increase from the net asset value as at 31 December 2007.

	As at 30 June	e As at 31 December	
	2008	2007	2006
The Group			
Loans to deposits	91.6%	74.3%	70.4%
Loans to total assets	57.1%	50.9%	50.1%
Return on shareholders' equity	12.6%	7.4%	11.3%
Return on shareholders' equity			
(excluding SIVs impact)	14.6%	11.7%	11.3%
СКШВ			
Capital adequacy ratio	15.6%	15.8%	16.7%

The followings are the key financial ratios of the Group or CKWB:

As at 31 December 2007, the loans to deposits ratio and loans to total assets ratio of the Group both increased from approximately 70.4% and approximately 50.1% to approximately 74.3% and approximately 50.9% respectively. During the first half of 2008, however, the two ratios increased substantially to approximately 91.6% and approximately 57.1% respectively, as a result of the general liquidity tightening in the market, which resulted in the increase in loans and advances and at the same time a decrease in deposits from customers. Active deposit campaigns and balance sheet management led to the decrease of the loans to deposits ratio to around 85% by the end of July 2008. If the impact of loss arising from, or write-downs on, the SIVs is excluded, the Group's return on shareholders' equity showed a slight increment for the year ended 31 December 2007 to approximately 11.7%, and a further improvement for the first half of 2008 to approximately 14.6%.

The capital adequacy ratio of CKWB decreased slightly from approximately 16.7% as at 31 December 2006 to approximately 15.8% as at 31 December 2007, and stood at approximately 15.6% as at 30 June 2008.

#### Financial position of CKWB

The following summary of the audited consolidated balance sheets of CKWB as at 31 December 2007 and 31 December 2006 and the unaudited consolidated balance sheet of CKWB as at 30 June 2008, all of which have been prepared in accordance with the HKFRS as extracted from its 2007 annual report and 2008 interim results announcement, is set out below:

	As at 30 June 2008 HK\$(million) (unaudited)	As at 31 D 2007 HK\$(million) (audited)	Pecember 2006 HK\$(million) (audited)
Assets			
Placements with and advances to banks,			
central banks and other financial institutions	7,065	12,648	12,393
Loans and advances to customers and other accounts	77,476	67,751	51,919
Available-for-sale securities (note 1)	19,762	22,126	4,973
Held-to-maturity investments	-	-	10,176
Other assets (note 2)	5,869	8,258	10,211
Total assets	110,172	110,783	89,672
Liabilities			
Deposits and balances of banks and			
other financial institutions	5,455	1,539	832
Deposits from customers	78,820	84,018	65,966
Certificates of deposit issued	4,786	6,863	7,258
Debt securities issued	2,342	2,314	2,301
Loan capital	3,925	3,927	3,901
Other liabilities	5,138	2,484	2,132
Total liabilities	100,466	101,145	82,390
Equity			
Share capital	5,583	5 <i>,</i> 583	3,083
Reserves	4,123	4,055	4,199
Total equity attributable to equity shareholders of CKWB	9,706	9,638	7,282
Total equity and liabilities	110,172	110,783	89,672

Notes:

- (1) Include investment in the capital note issued by Farmington with a carrying value of approximately US\$84 million (approximately HK\$658 million) and approximately US\$71 million (approximately HK\$554 million) as at 30 June 2008 and 31 December 2007 respectively.
- (2) Include SIV investments which had been fully written off as at 30 June 2008 and had a carrying value of approximately HK\$704 million as at 31 December 2007.

As at 30 June 2008, CKWB's total assets amounted to approximately HK\$110.2 billion, representing a slight decrease by approximately 1% from those as at 31 December 2007. Total equity attributable to the equity shareholders of CKWB increased by approximately 32%, from approximately HK\$7,282 million as at 31 December 2006 to approximately HK\$9,638 million as at 31 December 2007, and further increased by approximately 1% to HK\$9,706 million as at 30 June 2008.

#### (ii) CNCB

As the majority of the consideration payable to the Minority Shareholders takes the form of CNCB H Shares, we set out below the relevant information on CNCB.

#### Operating results of the CNCB

The following table summarizes the audited consolidated financial results of CNCB for the two years ended 31 December 2007 and the unaudited consolidated financial results of CNCB for the six months ended 30 June 2008 and 30 June 2007, all of which were prepared in accordance with the International Financial Reporting Standards ("IFRS") and extracted from CNCB's 2007 annual report and 2008 interim results announcement:

	For the six months ended 30 June			ear ended eember
	<b>2008</b> RMB (million) (unaudited)	<b>2007</b> RMB (million) (unaudited)	<b>2007</b> RMB (million) (audited)	<b>2006</b> RMB (million) (audited)
Interest income Interest expense	29,099 (10,871)	18,123 (6,867)	41,494 (15,324)	28,444 (11,971)
Net interest income	18,228	11,256	26,170	16,473
Fee and commission income Fee and commission expense	1,551 (170)	715 (110)	2,365 (285)	965 (206)
Net fee and commission income	1,381	605	2,080	759
Net trading gain/(loss) Net gain from investment securities Other operating income	483 88 180	(77) 42 83	(834) 284 255	454 45 
Operating income	20,360	11,909	27,955	17,927
General and administrative expenses Provisions for impairment losses	(7,735) (1,422)	(5,137) (1,162)	(11,795) (2,988)	(9,259) (1,666)
Profit before taxation	11,203	5,610	13,172	7,002
Income tax	(2,774)	(2,387)	(4,850)	(3,144)
Net profit	8,429	3,223	8,322	3,858
Profit appropriations	2,088	726	726	3,000

#### 2007 compared to 2006

The operating results of CNCB improved substantially for the year ended 31 December 2007. The net profit and operating income of CNCB for the year ended 31 December 2007 when compared with those for the year ended 31 December 2006 increased by approximately 115.7% and approximately 55.9% respectively to approximately RMB8,322 million and approximately RMB27,955 million. The increase in net profits for the year ended 31 December 2007 was mainly attributable to an increase in net interest income and an increase in net fee and commission income.

Unlike the situation for CKWB in Hong Kong where non-interest income is increasingly important, the net interest income of CNCB accounted for by far the largest portion of the total operating income of CNCB, representing approximately 93.6% and approximately 91.9% of the operating income of CNCB for the years ended 31 December 2007 and 2006 respectively. The increase in net interest income during the year ended 31 December 2007 was mainly attributable to the continued growth in loans and advances to customers of CNCB. The net interest spread of CNCB increased slightly from approximately 2.53% to approximately 2.95% over the last year.

In April 2007, a total of 2,302 million CNCB A Shares and 5,618 million CNCB H Shares were issued by CNCB with net proceeds amounting to approximately RMB44.8 billion, which contributed significantly to the funding of CNCB during the period. However, customer deposits remained the principal funding source for loans and advances to customers.

General and administrative expenses mainly comprise staff costs, property and equipment expenses and business tax and surcharges. For the year ended 31 December 2007, general and administrative expenses were approximately RMB11,795 million, as compared to approximately RMB9,259 million for the same period in 2006. As a result of the increase in staff costs of CNCB for the expansion of its operations and in other expenses including business tax and surcharges, there were sharp increases in the general and administrative expenses of CNCB over the year ended 31 December 2007. In particular, staff costs increased from approximately RMB2,914 million to approximately RMB4,777 million.

The impairment losses charged over the two years ended 31 December 2007 were mainly provisions for loans and advances to customers. The impairment allowances as a percentage of gross loans and advances decreased from about approximately 2.1% in 2006 to about approximately 1.6% in 2007. This is discussed further below.

#### First half of 2008 compared to first half of 2007

The operating results of CNCB showed a further improvement during the first half of 2008, where net profit increased substantially by approximately 161.5% to approximately RMB8,429 million when compared to the first half of 2007. This was primarily a result of the continued increase in net interest income from CNCB's loan portfolio. Loans and advances to customers increased by approximately 10.1% during the first half of 2008 to approximately RMB623 billion as at 30 June 2008. The net interest spread of CNCB increased further to approximately 3.21% during the first half of 2008, compared to approximately 2.82% during the same period in 2007.

General and administrative expenses for the first half of 2008 were approximately RMB7,735 million as compared to approximately RMB5,137 million for the same period in 2007, mainly due to the increase in staff costs from approximately RMB1,597 million for the first half of 2007 to approximately RMB3,865 million for the first half of 2008.

A majority of the impairment losses charged for the first half of 2008 and 2007 were provisions for loans and advances to customers. The impairment allowances as a percentage of gross loans and advances increased slightly from approximately 1.6% as at 31 December 2007 to approximately 1.7% as at 30 June 2008.

#### Financial position and asset components of the CNCB

The audited consolidated balance sheet of CNCB as at 31 December 2007 and the unaudited consolidated balance sheet of CNCB as at 30 June 2008, prepared in accordance with the IFRS, as extracted from CNCB's 2008 interim results announcement are set out below. A number of reclassifications were made to CNCB's consolidated balance sheets as at 30 June 2008 and 31 December 2007 as included in the 2008 interim results announcement of CNCB. As we had not been provided with CNCB's consolidated balance sheet as at 31 December 2006 following the revised classifications, we have not included in the following the consolidated balance sheet of CNCB as at 31 December 2006.

AssetsCash and balances with central bank148,195123,369Amounts due from banks and other financial institutions30,86326,655Balances under resale agreements44,745118,046Loans and advances to customers623,192565,866Trading assets4,6146,500Derivatives41,102,049Investment securities244,993153,348Property and equipment9,1018,948Deferred tax assets1,112954Other assets6,2055,451Total assets1,117,1701,011,186Liabilities136,70397,248Amounts due to banks and other financial institutions136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Currrent tax liabilities3,7513Other liabilities1,027,012927,095Equity10,20012,00012,000Total liabilities1,027,012927,095Share capital39,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests55Total equity and liabilities1,117,1701,011,186		As at 30 June 2008 RMB (million) (unaudited)	As at 31 December 2007 RMB (million) (audited)
Cash and balances with central bank $148,195$ $123,369$ Amounts due from banks and other financial institutions $30,863$ $26,655$ Balances under resale agreements $44,745$ $118,046$ Loans and advances to customers $623,192$ $565,866$ Trading assets $4,614$ $6,500$ Derivatives $4,150$ $2.049$ Investment securities $244,993$ $153,348$ Property and equipment $9,101$ $8,948$ Deferred tax assets $1,112$ $954$ Other assets $6,205$ $5,451$ Total assets $1,117,170$ $1,011,186$ Liabilities $136,703$ $97,248$ Balances under repurchase agreements $133,33$ $15754$ Derivatives $2,545$ $1,914$ Deposits from customers $849,464$ $787,211$ Current tax liabilities $1,643$ $3,444$ Deferred tax liabilities $1,643$ $3,444$ Deferred tax liabilities $1,027,012$ $927,095$ Equity $10,027,012$ $927,095$ $90,033$ $39,033$ Restrives $40,864$ $41,138$ $84,086$ Minority interests $5$ $5$ $5$ Total equity attributable to shareholders of CNCB $90,158$ $84,091$	Assets		
Amounts due from banks and other financial institutions $30,863$ $26,655$ Balances under resale agreements $44,745$ $118,046$ Loans and advances to customers $623,192$ $565,866$ Derivatives $4,614$ $6,500$ Derivatives $4,150$ $2,049$ Investment securities $244,993$ $153,348$ Property and equipment $9,101$ $8,948$ Deferred tax assets $1,112$ $954$ Other assets $6,205$ $5,451$ Total assets $1,117,170$ $1,011,186$ Liabilities $36,703$ $97,248$ Balances under repurchase agreements $11,393$ $15,754$ Derivatives $2,545$ $1,914$ Deposits from customers $849,464$ $787,211$ Current tax liabilities $375$ $13$ Other liabilities $375$ $13$ Other liabilities $1,027,012$ $927,095$ EquityShare capital $39,033$ $39,033$ Reserves $40,864$ $41,138$ Retained earnings $10,2256$ $3,915$ Total equity attributable to shareholders of CNCB $90,153$ $84,091$ Minority interests $5$ $5$ Total equity $90,158$ $84,091$		148.195	123,369
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Derivatives $4,150$ $2,049$ Investment securities $244,993$ $153,348$ Property and equipment $9,101$ $8,948$ Deferred tax assets $1,112$ $954$ Other assets $6,205$ $5,451$ Total assets $1,117,170$ $1,011,186$ Liabilities $136,703$ $97,248$ Balances under repurchase agreements $11,393$ $15,754$ Derivatives $2,545$ $1,914$ Deposits from customers $849,464$ $787,211$ Current tax liabilities $3,75$ $13$ Other liabilities and provisions $12,889$ $9,511$ Subordinated debts/bonds issued $12,000$ $12,000$ Total liabilities $1,027,012$ $927,095$ EquityShare capital $39,033$ $39,033$ Reserves $40,864$ $41,138$ Retained earnings $10,256$ $3,915$ Total equity attributable to shareholders of CNCB $90,153$ $84,086$ Minority interests $5$ $5$ Total equity $90,158$ $84,091$	•	623,192	565,866
Investment securities244,993153,348Property and equipment9,1018,948Deferred tax assets1,112954Other assets6,2055,451Total assets1,117,1701,011,186Liabilities11,39315,754Amounts due to banks and other financial institutions136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities3,7513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued1,027,012927,095Equity1,027,012927,095Equity10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests55Total equity90,15884,091	Trading assets	4,614	6,500
Property and equipment9,1018,948Deferred tax assets1,112954Other assets $6,205$ $5,451$ Total assets $1,117,170$ $1,011,186$ Liabilities $1,117,170$ $1,011,186$ Amounts due to banks and other financial institutions $136,703$ $97,248$ Balances under repurchase agreements $11,393$ $15,754$ Derivatives $2,545$ $1,914$ Deposits from customers $849,464$ $787,211$ Current tax liabilities $1,643$ $3,444$ Deferred tax liabilities $375$ $13$ Other liabilities and provisions $12,889$ $9,511$ Subordinated debts/bonds issued $1,027,012$ $927,095$ Equity $1,027,012$ $927,095$ Equity $10,256$ $3,915$ Total equity attributable to shareholders of CNCB $90,153$ $84,086$ Minority interests $5$ $5$ Total equity $90,158$ $84,091$	Derivatives	4,150	2,049
Deferred tax assets1,112954Other assets6,2055,451Total assets1,117,1701,011,186Liabilities136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities1,6433,444Deferred tax liabilities12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity Share capital Retained earnings39,033 10,25639,033 3,9151Total equity attributable to shareholders of CNCB Minority interests90,153 584,091	Investment securities	244,993	153,348
Other assets6,2055,451Total assets1,117,1701,011,186Liabilities136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers2,5451,914Defored tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities12,20012,000Total liabilities1,027,012927,095EquityShare capital39,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests55Total equity90,15884,091	Property and equipment	9,101	8,948
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LiabilitiesAmounts due to banks and other financial institutions136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095EquityShare capital Reserves39,03339,033 40,864Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086 5Minority interests55Total equity90,15884,091	Other assets	6,205	5,451
Amounts due to banks and other financial institutions136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity90,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests555Total equity90,15884,091	Total assets	1,117,170	1,011,186
Amounts due to banks and other financial institutions136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity90,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests555Total equity90,15884,091			
Amounts due to banks and other financial institutions136,70397,248Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity90,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests555Total equity90,15884,091	Liabilities		
Balances under repurchase agreements11,39315,754Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity39,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests555Total equity90,15884,091		136,703	97,248
Derivatives2,5451,914Deposits from customers849,464787,211Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity1,027,012927,095Share capital39,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests555Total equity90,15884,091			
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Current tax liabilities1,6433,444Deferred tax liabilities37513Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity Share capital Retained earnings39,03339,033Retained earnings10,2563,915Total equity attributable to shareholders of CNCB Minority interests90,15384,086Minority interests55Total equity90,15884,091	Deposits from customers	849,464	
Other liabilities and provisions12,8899,511Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity Share capital Reserves39,03339,033Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB Minority interests90,15384,086Minority interests55Total equity90,15884,091	*	1,643	3,444
Subordinated debts/bonds issued12,00012,000Total liabilities1,027,012927,095Equity Share capital Reserves39,03339,033Retained earnings10,2563,915Total equity attributable to shareholders of CNCB Minority interests90,15384,086Minority interests55Total equity90,15884,091	Deferred tax liabilities	375	13
Total liabilities       1,027,012       927,095         Equity       39,033       39,033         Share capital       39,033       39,033         Reserves       40,864       41,138         Retained earnings       10,256       3,915         Total equity attributable to shareholders of CNCB       90,153       84,086         Minority interests       5       5         Total equity       90,158       84,091	Other liabilities and provisions	12,889	9,511
Equity       39,033       39,033         Share capital       39,033       39,033         Reserves       40,864       41,138         Retained earnings       10,256       3,915         Total equity attributable to shareholders of CNCB       90,153       84,086         Minority interests       5       5         Total equity       90,158       84,091	Subordinated debts/bonds issued	12,000	12,000
Share capital       39,033       39,033         Reserves       40,864       41,138         Retained earnings       10,256       3,915         Total equity attributable to shareholders of CNCB       90,153       84,086         Minority interests       5       5         Total equity       90,158       84,091	Total liabilities	1,027,012	927,095
Share capital       39,033       39,033         Reserves       40,864       41,138         Retained earnings       10,256       3,915         Total equity attributable to shareholders of CNCB       90,153       84,086         Minority interests       5       5         Total equity       90,158       84,091	Equity		
Reserves40,86441,138Retained earnings10,2563,915Total equity attributable to shareholders of CNCB90,15384,086Minority interests55Total equity90,15884,091		39,033	39,033
Total equity attributable to shareholders of CNCB90,15384,086Minority interests55Total equity90,15884,091	•	40,864	41,138
Minority interests5Total equity90,15884,091	Retained earnings	10,256	3,915
Minority interests5Total equity90,15884,091	Total equity attributable to shareholders of CNCB	90,153	84,086
Total equity and liabilities1,117,1701,011,186	Total equity	90,158	84,091
	Total equity and liabilities	1,117,170	1,011,186

As at 30 June 2008, CNCB had total assets of approximately RMB1,117 billion, with approximately RMB623 billion in loans and advances to customers, approximately RMB245 billion in investment securities and approximately RMB148 billion in cash and balances with central bank. CNCB's main source of funding was customers' deposits, which amounted to approximately RMB849 billion as at 30 June 2008.

Loans and advances to customers increased over the first half of 2008 from approximately RMB566 billion as at 31 December 2007 to approximately RMB623 billion as at 30 June 2008.

Loans and advances to customers were mainly made up of corporate loans, amounting to approximately RMB515 billion, representing approximately 81.3% of the gross total loans as at 30 June 2008. CNCB has a diversified corporate loan portfolio, without a high concentration of loans in a particular industry. Set out below is a table of loans and advances to customers analyzed by economic sectors as at 30 June 2008 and 31 December 2007 respectively:

	As a 30 June RMB (million)		As a 31 Deceml RMB (million)	
Manufacturing	159,237	30.9%	145,272	31.2%
Transportation, storage and				
postal services	61,469	11.9%	62,856	13.5%
Production and supply of electric				
power, gas and water	54,017	10.5%	44,392	9.5%
Real estate development	50,558	9.8%	41,741	9.0%
Wholesale and retail	48,300	9.4%	42,239	9.1%
Others	141,874	27.5%	129,020	27.7%
Gross corporate loans	515,455	100.0%	465,520	100.0%

A majority of the loan portfolio of CNCB was allocated to the more developed regions of the PRC as set out below:

	As a 30 June RMB (million)		As 31 Decem RMB (million)	
Yangtze River Delta Bohai Sea Rim	194,771 185,238	30.7% 29.2%	182,058 167,329	31.7% 29.1%
Pearl River Delta and West Coast of Taiwan Strait Others	97,427 156,376	15.4% 24.7%	90,358 135,463	15.7% 23.5%
Gross loans and advances to customers	633,812	100.0%	575,208	100.0%
Less: impairment allowances	(10,620)		(9,342)	
Net loans and advances to customers	623,192		565,866	
Impairment allowances as a percentage of gross loans and advances to customers	1.7%		1.6%	

Note: "Bohai Sea Rim" refers to the following areas where tier-1 branches of CNCB are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang and Jinan; "Yangtze River Delta" refers to the following areas where tier-1 branches of CNCB are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo; "Pearl River Delta and West Coast of Taiwan Strait" refers to the following areas where tier-1 branches of CNCB are located: Guangzhou, Shenzhen, Dongguan and Fuzhou.

The percentage of gross impaired loans and advances of CNCB, which are graded substandard, doubtful or loss, remained stable at approximately 1.5% as at 31 December 2007 and 30 June 2008. Set out below is the amount of gross impaired loans and advances as well as their percentage to the total balance of the loan portfolio:

	As at 30 June 2008 RMB (million)	As at 31 December 2007 RMB (million)
Gross loans and advances to customers Gross impaired loans and advances to customers	633,812 9,202	575,208
% of gross impaired loans and advances to customers to gross loans and advances to customers	1.5%	1.5%

The total impairment allowances made by CNCB as a percentage of gross impaired loans and advances to customers were relatively stable, as illustrated below:

	As at 30 June 2008 RMB (million)	As at 31 December 2007 RMB (million)
Gross impaired loans and advances to customers Total impairment allowances	9,202 10,620	8,492 9,342
Percentage of total impairment allowances to gross impaired loans and advances to customers	115.4%	110.0%

An impaired loan may not be fully written off. We understand that CNCB's impairment policy takes into account factors including the existence and value of security for a particular loan.

CNCB's lending business is mainly funded by deposits from corporate customers. As at 30 June 2008 and 31 December 2007, approximately 87.0% and approximately 81.3% of the deposits came from corporations while the remaining balance was from individuals.

The majority of the deposits came from the more affluent areas in the PRC. Set out below is the geographical distribution of the customers placing deposits with CNCB based on the value of their deposits:

	As at 30 June 2008		As at 31 December 2007	
	RMB		RMB	
	(million)		(million)	
Bohai Sea Rim	426,601	50.2%	355,927	45.2%
Yangtze River Delta	202,182	23.8%	176,372	22.4%
Pearl River Delta and				
West Coast of Taiwan Strait	61,035	7.2%	99,913	12.7%
Others	159,646	18.8%	154,999	19.7%
Total deposits from customers	849,464	100.0%	787,211	100.0%

*Note:* Please refer to the table above in relation to the geographical distribution of loan portfolio of CNCB for detailed definitions of the geographical segments.

The followings are the key financial ratios of CNCB as extracted or derived from information contained in CNCB's 2008 interim results announcement:

	As at 30 June 2008	As at 31 December 2007
Capital adequacy ratio	14.3%	15.3%
Loans to deposits	74.6%	73.1%
Loans to total assets	56.7%	56.9%
Return on shareholders' equity	19.4%	14.4%

CNCB's capital adequacy ratio dropped slightly to approximately 14.3% as at 30 June 2008. As at the same date, the loans to deposits ratio and loans to total assets ratio remained stable at approximately 74.6% and approximately 56.7% respectively. Return on shareholders' equity improved substantially to approximately 19.4% during the first half of 2008, due to the strong earnings of CNCB recorded for the period.

#### 5. Comparison of performance of the Group and CNCB

The following table illustrates the ke	y financial statistics of the	Group and CNCB:
--	-------------------------------	-----------------

	The Group		CNCB		
	As at 30 June 2008	As at 31 December 2007	As at 30 June 2008	As at 31 December 2007	
Scale of operations	HK\$(million)	HK\$(million)	RMB(million)	RMB(million)	
Total assets	134,081	132,385	1,117,170	1,011,186	
Net profit (note 1)	1,440	1,852	8,429	8,322	
Financial ratios	%	0/ /0	%	%	
Growth in total assets (note 2)	1.3	29.6	10.5	43.1	
Growth in net profit (note 2)	(4.6)	64.2	161.5	115.7	
Loans to deposits	91.6	74.3	74.6	73.1	
Return on shareholders' equity	12.6	7.4	19.4	14.4	

Notes:

(1) Approximately HK\$1,443 million (six months ended 30 June 2008) and approximately HK\$1,601 million (2007) of the net profits represented the Group's share of profits of associates. The Group's holding in CNCB contributed approximately HK\$1,388 million and HK\$1,338 million for the six month period ended 30 June 2008 and in the year of 2007 respectively.

(2) Growth in total assets in 2008 represents year-to-date growth of total assets as at 30 June 2008 when compared with those as at 31 December 2007. Growth in net profit in 2008 represents the growth of net profits for the six months ended 30 June 2008 when compared with the corresponding period in 2007.

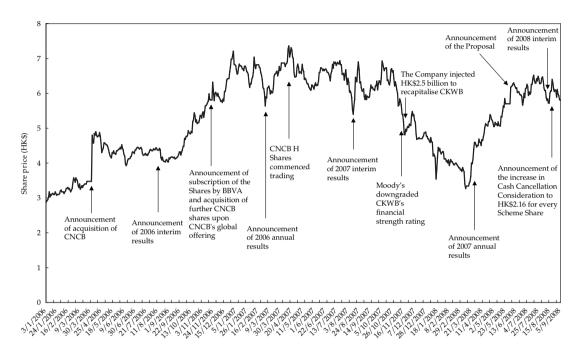
CNCB is a national commercial bank with operations throughout the PRC, while the Group, with its principal subsidiary CKWB, is principally based in Hong Kong. As shown in the above table, as the scale of operations of CNCB is much larger than that of the Group, its total assets and net profits are accordingly much higher. Through its expansion in the past few years, CNCB has demonstrated a higher growth potential than the Group, both in terms of the growth in asset base and the growth in net profit.

CNCB also has a bigger geographical coverage in terms of wholesale and retail banking businesses which gives it a stronger growth momentum relative to the Group. CNCB outperformed the Group in terms of return on shareholders' equity by approximately 7% in both 2007 and the first half of 2008.

#### 6. Share price and liquidity

- (i) The Company
- (a) Market prices of the Shares

The following chart shows the historical price performance of the Shares from January 2006 up to and including the Latest Practicable Date:



Source: Bloomberg

On 3 April 2006, the Company announced the proposed acquisition of approximately 19.9% interest in CNCB, and the price of the Shares rose by approximately 38% from the previous closing price per Share of HK\$3.475 to HK\$4.8. Market prices of the Shares were quite stable between April and September of 2006. Starting from September 2006, the prices of the Shares increased from a low of HK\$4.03 per Share as at 1 September 2006 to a high of HK\$7.21 per Share on 3 January 2007. During the same period, the Company announced the subscription of the Shares by BBVA, and the further acquisition of CNCB H Shares. The prices of the Shares reached a high of HK\$7.36 per Share at 18 April 2007, around the time of CNCB's global offering.

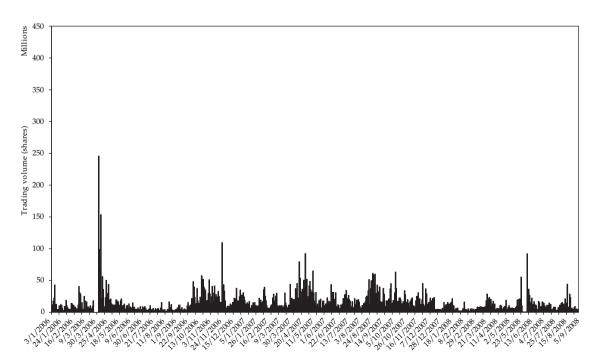
The prices of the Shares started to significantly underperform the market at the end of August 2007 with the onset of the US subprime crisis and amidst general market concerns with regard to CKWB's exposures to SIVs. Towards the end of October 2007, prices of the Shares dropped sharply. On 21 November 2007, Moody's downgraded CKWB's credit rating to Baa2 (with stable outlook) owing to its SIV exposures and fund investments. On 26 November 2007, the Company announced the HK\$2.5 billion capital injection into CKWB. On 27 March 2008, the Company announced its 2007 annual results, with a net

profit of approximately HK\$1,852 million, representing an approximately 64% increase compared to that of 2006. The increase in net profits was largely attributable to the promising results of CNCB for 2007. The results announcement also reflected the HK\$1,311 million write-down by CKWB at the end of 2007 for its SIV exposures. Since then, the prices of the Shares rose from HK\$3.62 per Share on 27 March 2008 to a high of HK\$5.85 per Share on 30 May 2008. At that time, the news on the sale of a controlling stake of Wing Lung Bank was also released to the market.

Trading of the Shares was suspended from 3 June 2008, pending the announcement of the Proposal. When the announcement of the Proposal was published on 11 June 2008 and trading of the Shares was resumed, the prices of the Shares rose to HK\$6.17 per Share, representing an approximately 8.2% increase compared to the closing price of HK\$5.70 per Share on the Last Trading Day. Since then and up to and including 26 August 2008, the prices of the Shares have fluctuated within a range of HK\$5.66 to HK\$6.52 per Share. On 27 August 2008, trading of the Shares was suspended pending announcement of the increase in the Cash Cancellation Consideration. On the same day, it was announced that the Cash Cancellation Consideration was increased from HK\$1.46 per Scheme Share to HK\$2.16 per Scheme Share, and trading of the Shares resumed. On 28 August 2008, price of the Shares closed at HK\$6.40, compared to its closing price of HK\$6.07 as at 26 August 2008. Since then, the price of the Shares fluctuated around HK\$6.0 per Share. As at the Latest Practicable Date, the Shares closed at HK\$5.80.

#### (b) Liquidity

The following chart shows the daily trading volume of the Shares from January 2006 up to and including the Latest Practicable Date:



Source: Bloomberg

The following table sets out (i) the total number of the Shares traded per month; (ii) the percentage of the monthly trading volume to the issued share capital of the Company; and (iii) the percentage of the monthly trading volume to the Shares held by the public respectively for each full month from January 2006 to August 2008; and from 1 September 2008 to the Latest Practicable Date:

Month	Number of the Shares traded per month (million)	Shares traded during the month as a percentage of the issued share capital of the Company	Shares traded during the month as a percentage of the Shares held by the public
January 2006	194.0	6.1%	13.8%
January 2006	233.3	7.3%	16.6%
February 2006 March 2006			
March 2006	167.9	5.3%	11.9%
April 2006	903.2	28.2%	64.1%
May 2006	228.0	7.1%	16.2%
June 2006	145.8	4.6%	10.3%
July 2006	88.4	2.8%	6.3%
August 2006	107.3	3.4%	7.6%
September 2006	156.4	4.9%	11.1%
October 2006	558.4	17.0%	37.3%
November 2006	652.6	19.1%	40.1%
December 2006	305.9	6.1%	18.2%
January 2007	285.1	5.6%	16.7%
February 2007	321.8	6.4%	18.7%
March 2007	301.5	5.3%	17.5%
April 2007	676.1	11.8%	39.1%
May 2007	477.7	8.3%	27.4%
June 2007	313.4	5.4%	18.0%
July 2007	334.6	5.8%	19.2%
August 2007	532.3	9.2%	30.5%
September 2007	461.3	8.0%	26.4%
October 2007	478.2	8.3%	27.4%
November 2007	372.8	6.5%	21.4%
December 2007	258.8	4.5%	14.8%
January 2008	199.7	3.5%	11.4%
February 2008	75.1	1.3%	4.3%
March 2008	156.2	2.7%	8.9%
April 2008	196.1	3.4%	11.2%
May 2008	237.9	4.1%	13.6%
June 2008	320.6	5.6%	18.4%
July 2008	214.1	3.7%	12.3%
August 2008	236.5	4.1%	13.5%
Average	318.5	7.0%	19.5%
From 1 September 2008 up to			
the Latest Practicable Date	53.0	0.9%	3.0%

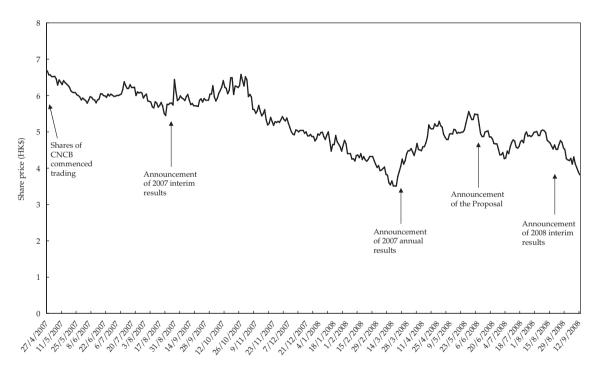
Source: Bloomberg

The number of the Shares traded per month in general does not exceed 500 million. The volume of the Shares traded from January 2006 to August 2008 represented between approximately 1.3% and approximately 28.2% of the Company's total Shares in issue and between approximately 4.3% and approximately 64.1% of the Shares in public hands. The number of Shares traded from 1 September 2008 up to the Latest Practicable Date represented approximately 0.9% and approximately 3.0% of the Company's total Shares in issue and the Shares in public hands respectively.

(ii) CNCB

#### (a) Market prices of CNCB H Shares

The following chart shows the historical price performance of the CNCB H Shares since the day they were first traded on the Hong Kong Stock Exchange on 27 April 2007, up to and including the Latest Practicable Date:

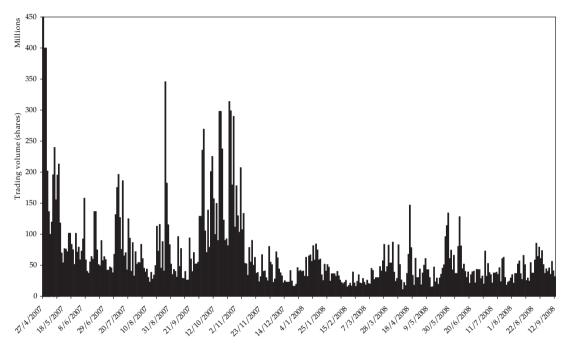


Source: Bloomberg

The CNCB H Shares were offered to the market at HK\$5.86 per CNCB H Share at the initial public offering. From the commencement of trading of the CNCB H Shares on the Hong Kong Stock Exchange on 27 April 2007 up to October 2007, the prices of the CNCB H Shares fluctuated within a range of HK\$5.45 to HK\$6.68 per CNCB H Share. Starting from November 2007, the prices of the CNCB H Shares dropped to a low of HK\$3.51 each as at 20 March 2008. On 26 March 2008, CNCB announced its 2007 annual results, which reported a net profit of RMB8,322 million, representing an approximately 116% increase compared to 2006. The prices of CNCB H Shares rose from HK\$3.91 on 26 March 2008 to a high of HK\$5.56 on 30 May 2008. Since the announcement of the Proposal, CNCB H Shares have fluctuated within a range of HK\$3.82 to HK\$5.05 per CNCB H Share. As at the Latest Practicable Date, the CNCB H Shares closed at HK\$3.82.

#### (b) Liquidity

The following chart shows the daily trading volume of the CNCB H Shares since the day when they were first traded on the Hong Kong Stock Exchange up to and including the Latest Practicable Date:



Source: Bloomberg

The following table sets out (i) the total number of the CNCB H Shares traded per month; (ii) the percentage of the monthly trading volume to the issued share capital of CNCB; and (iii) the percentage of the monthly trading volume to the CNCB H Shares held by the public respectively for each full month from May 2007 (being the first full month

after the CNCB H Shares were traded on the Hong Kong Stock Exchange) to August 2008; and from 1 September 2008 to the Latest Practicable Date:

Month	Number of CNCB H Shares traded per month (million)	CNCB H Shares traded during the month as a percentage of the issued share capital of CNCB H Shares	CNCB H Shares traded during the month as a percentage of CNCB H Shares held by the public
May 2007	2,499.6	20.2%	38.2%
June 2007	1,391.8	11.2%	21.3%
July 2007	1,815.6	14.6%	27.7%
August 2007	1,774.4	14.3%	27.1%
September 2007	1,012.9	8.2%	15.5%
October 2007	3,526.3	28.4%	53.9%
November 2007	1,965.0	15.8%	30.0%
December 2007	724.7	5.8%	11.1%
January 2008	1,104.1	8.9%	16.9%
February 2008	519.2	4.2%	7.9%
March 2008	641.6	5.2%	9.8%
April 2008	1,037.9	8.4%	15.9%
May 2008	930.5	7.5%	14.2%
June 2008	1,011.9	8.2%	15.5%
July 2008	790.8	6.4%	12.1%
August 2008	892.8	7.2%	13.6%
Average	1,352.4	10.9%	20.7%
From 1 September 2008 up to the Latest Practicable Date	451.8	3.6%	6.9%

Source: Bloomberg

The number of the CNCB H Shares traded was substantial, and in general exceeded 1 billion. The volume of the CNCB H Shares traded from May 2007 to August 2008 represented between approximately 4.2% and approximately 28.4% of the total CNCB H Shares in issue and between approximately 7.9% and approximately 53.9% of the CNCB H Shares in public hands. The number of Shares traded from 1 September 2008 up to the Latest Practicable Date represented approximately 3.6% and approximately 6.9% of the Company's total Shares in issue and the Shares in public hands respectively.

#### Comment

CNCB has a total market capitalization of approximately HK\$200 billion, and a market capitalization of approximately HK\$47 billion for the CNCB H Shares as at the Latest Practicable Date. The market capitalization of the CNCB H Shares was approximately two times the market value of the Shares prior to announcement of the Proposal. From the above liquidity analysis, the CNCB H Shares traded as a percentage of public float approximates that of the Shares traded as a percentage of public float. However, the actual number and value of the CNCB H Shares traded were consistently higher than those of the Shares.

# 7. Price of the Shares vs CNCB H Shares and implied value of remaining assets of the Group

The Group's assets principally comprise CKWB and a holding of a 15% stake in CNCB. Since the flotation of CNCB in April 2007, the Shares have been trading at a small premium, or even at a discount, to the value attributable to the Company's shareholding of CNCB H Shares. The table below sets out the price of the Shares, the value of CNCB H Shares attributable to each of the Shares during the same period and their differences:

Time Period	Average trading price per Share (A)	Average trading price per CNCB H Share (B)	Average value of CNCB H Shares attributable to each Share (C)=(B)x1.02 (Note)	Price difference (A)–(C)
The period from CNCB H Shares first traded on				
the Hong Kong Stock Exchange, being 27 April 2007,				
to the Last Trading Day	HK\$5.49	HK\$5.38	HK\$5.46	HK\$0.03
6 months from 3 December 2007 to the Last Trading Day	HK\$4.53	HK\$4.66	HK\$4.74	(HK\$0.21)
3 months from 3 March 2008 to the Last Trading Day	HK\$4.57	HK\$4.56	HK\$4.64	(HK\$0.07)
1 month from 2 May 2008 to the Last Trading Day	HK\$5.29	HK\$5.07	HK\$5.15	HK\$0.14
The Last Trading Day	HK\$5.70	HK\$5.44	HK\$5.53	HK\$0.17

*Note:* As at the Latest Practicable Date, the Company had 5,759,172,916 issued Shares and it held 5,855,002,200 CNCB H Shares. On that basis, each holder of one Share had an attributable interest in approximately 1.02 CNCB H Shares.

This data can also be presented in chart form. Chart 1 below presents the situation from the Company's point of view and illustrates the price difference between one Share and 1.02 CNCB H Shares. Pursuant to the terms of the Proposal, each holder of a Share will receive one CNCB H Share. Chart 2 therefore presents the situation on the basis of the terms of the Proposal and illustrates the price difference between one Share and one CNCB H Share (not 1.02 CNCB H Shares attributable to each Share).

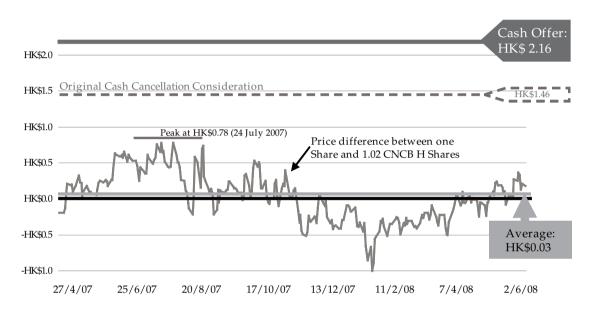
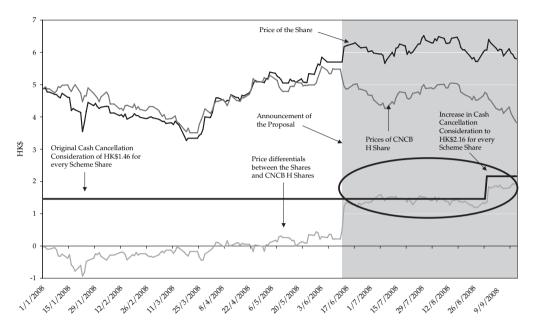


Chart 1:

As illustrated above, the market prices of the Shares and the market values of the Company's attributable interest in CNCB since CNCB was floated track each other very closely. In other words, the market appears to treat the Company as if it was a proxy for a holding of the CNCB H Shares. All of the rest of the Company's net assets, as shown above, were valued on average at only HK\$0.03 per Share. The Cash Cancellation Consideration of HK\$2.16 per Scheme Share is approximately 177% higher than the highest price difference of HK\$0.78 on 24 July 2007.

#### Chart 2:

The following chart compares the market prices of the Shares and the CNCB H Shares, both before and after the Announcement, and illustrates the price difference between the two:



As mentioned above, the price difference between the Shares and CNCB H Shares before the announcement of the Proposal reflected that all the rest of the Company's net assets were valued on average at only HK\$0.03 per Share. The price difference between the Shares and CNCB H Shares since announcement of the Proposal has widened and fell within a range from HK\$1.2 to HK\$1.58 up to 26 August 2008, and further widened to a range of HK\$1.78 to HK\$1.98 as from 28 August 2008 when the market was made known that the Cash Cancellation Consideration had been increased from HK\$1.46 to HK\$2.16. On the Latest Practicable Date, such difference amounted to approximately HK\$1.98. The sharp increase in the differential between the market prices of the Shares and the CNCB H Shares after the Announcement of the Proposal can, in our opinion, be taken as a measure of the benefit of the Scheme of Arrangement to the Minority Shareholders.

# 8. Cancellation Consideration compared to price of the Shares before the Announcement

Based on the closing price of HK\$5.44 per CNCB H Share on the Last Trading Day, the Cancellation Consideration had an aggregate value of HK\$7.60.

HK\$7.60 per Share represents:

- (i) a premium of approximately 33% over the closing price of HK\$5.70 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 44% over the average closing price of approximately HK\$5.29 per Share as quoted on the Hong Kong Stock Exchange for the one month up to and including the Last Trading Day;

- (iii) a premium of approximately 66% over the average closing price of approximately HK\$4.57 per Share as quoted on the Hong Kong Stock Exchange for the three months up to and including the Last Trading Day; and
- (iv) a premium of approximately 68% over the average closing price of approximately HK\$4.53 per Share as quoted on the Hong Kong Stock Exchange for the six months up to and including the Last Trading Day.

Based on the closing price of the CNCB H Shares as at the Latest Practicable Date, the value of the Cancellation Consideration was HK\$5.98.

#### 9. Premium compared to recent privatization proposals

We have reviewed all privatization proposals that we identified from the website of the Hong Kong Stock Exchange. Those privatization proposals were announced by companies listed on the Hong Kong Stock Exchange during the period from 1 January 2006 up to and including the Latest Practicable Date (the "Privatization Precedents"). The results of our research are as follows:

									nt) of the closing pr	
Date of Announcement	Offeree	activities	Offer price (HK\$)	Offer method	Market capitalization HK\$(billion) (note 1)	Successful/ failed	Last trading day (note 2)	One- month average (note 3)	Three- month average (note 3)	Six- month average (note 3)
16-Mar-06	Asia Aluminum Holdings Limited (930)	Metal products	1.45	Cash offer: HK\$1.45 per share	2.69	Successful	75%	94%	104%	98%
31-Mar-06	China Resources Cement Holdings Limited (712)	Building materials	2.45	Cash offer: HK\$2.45 per share, or Share offer: one share of Smooth Concept Investments Limited (which will hold the entire issued share capital of the company)	0.69	Successful	35%	65%	82%	99%
21-Jun-06	China National Aviation Company Limited (1110)	Airline services	2.80	Cash offer: HK\$2.80 per share	6.53	Successful	42%	53%	51%	66%
28-Jun-06	SNP Leefung Holdings Limited (623)	Printing and packaging	1.68	Cash offer: HK\$1.68 per share	0.53	Successful	62%	70%	54%	41%
10-Jul-06	Egana Jewellery & Pearls Ltd (926)	Jewellery	1.80	Cash offer: HK\$1.80 per share, or Share offer: one share of EganaGoldpfeil (Holdings) Limited (the offeror; stock code: 48) for every 1.5 shares	0.71	Successful	14%	24%	23%	28%
4-Aug-06	Wong's Kong King International (Holdings) Limited (532)	Chemical and electronic products	1.38	Cash offer: HK\$1.38 per share	0.79	Failed (note 4)	21%	36%	50%	62%
4-Sep-06	Winsor Industrial Corporation Ltd (98)	Textiles and clothing	5.50	Cash offer: HK\$5.50 per share	0.96	Successful	52%	72%	74%	68%
17-Nov-06	Saint Honore Holdings Ltd (192)	Bakery and eatery	2.95	Cash offer: HK\$2.95 per share, or Share offer: one share of Convenience Retail Asia Limited (the offeror; stock code: 8052) + cash of HK\$2.95 for every 2 share	0.44	Successful	46%	59%	59%	58%

Date of Announcement	Offeree	Principal activities	Offer price (HK\$)	Offer method	Market capitalization HK\$(billion) (note 1)	Successful/ failed			unt) of the e closing p Three- month average (note 3)	
13-Feb-07	Asia Satellite Telecommunications Holdings Limited (1135)	Commercial satellites services	18.30	Cash offer: HK\$18.30 per share	5.46	Failed (note 5)	31%	34%	36%	38%
9-Mar-07	Tom Online Inc. (8282)	Internet and multimedia services	1.52	Cash offer: HK\$1.52 per share	4.86	Successful	33%	17%	6%	13%
19-Apr-07	Shimao International Holdings Ltd (649)	Property development	1.05 ts	Cash offer: HK\$1.05 per share	0.58	Successful	52%	49%	46%	44%
14-Jun-07	Chia Hsin Cement Greater China Holdings Corporation (699)	Building materials	2.26	Share offer: 0.4545 share of TCC International Holdings Limited (the offeror; stock code: 1136) per share	2.53	Successful	3%	19%	46%	60%
7-Dec-07	Lei Shing Hong Limited (238)	Motor vehicles and other equipments	10.00	Cash offer: HK\$10.00 per share	5.62	Successful	89%	120%	151%	182%
13-Feb-08	Pacific Century Premium Developments Limited (432)	Property development	2.85 ts	Cash offer: HK\$2.85 per share	5.44	Failed (note 4)	26%	21%	16%	16%
28-Feb-08	Mirabell International Holding Limited (1179)	Footwear and related apparels	6.00	Cash offer: HK\$6.00 per share	1.37	Successful	15%	17%	19%	21%
2-Jun-08	China Netcom Group Corporation (Hong Kong) Limited (906)	Tele- commu- nication services	27.87	Share offer: 1.508 shares of China Unicom Limited (the offeror; stock code: 762) per share	180.83	Pending	3%	14%	20%	19%
10-Jun-08	The Company	Banking and financial services	7.60	Cash Cancellation Consideration of HK\$2.16 + Share Cancellation Consideration of 1 CNCB H Share	32.82		33%	44%	66%	68%
				Averag Hig Lov	h:		37% 89% 3%	48% 120% 14%	52% 151% 6%	57% 182% 13%

Source: The official website of the Hong Kong Stock Exchange and Bloomberg

Notes:

- (1) These represent the market capitalization based on the closing price of the respective companies on the last trading day immediately before the announcement of the privatization proposals.
- (2) It represents the premium/(discount) of the offer prices for the shares of the respective companies over/(to) the closing prices of the shares of the respective companies on the last trading day before the announcement of the privatization proposals.
- (3) They represent the premium/(discount) of the offer prices for the shares of the respective companies over/(to) the average closing prices of the shares of the respective companies from one month, three months and six months up to the last trading day before the announcement of the privatization proposals.

- (4) The two proposed privatizations were disapproved as less than 75% of the independent shareholders voted for the privatization proposals.
- (5) Privatization failed as the United States Department of State did not approve to implement the proposed privatization, which is one of the conditions precedent for the privatization proposal.

As illustrated above, the premiums of the Cancellation Consideration of HK\$7.60 (calculated on the basis that the Share Cancellation Consideration was valued at HK\$5.44) over the price of the Shares on the Last Trading Day and the 1-month average price of the Shares are lower than that of the Privatization Precedents; whereas the premiums represented by the Cancellation Consideration over the 3-month average and 6-month average prices of the Shares are higher than the market premium over the 3-month and 6-month average prices offered in the Privatization Precedents. We consider it more reliable to refer to the longer term average prices, which is more representative of the price performance of an individual stock, for comparison purpose.

#### 10. Analysis of Cash Cancellation Consideration

(i) As compared to book value of the Group's assets and liabilities, other than the Share Cancellation Consideration ("non-CNCB net assets")

	Unaudited as at 30 June 2008 HK\$(million)	Per Share (HK\$)
		, <i>, , , , , , , , , , , , , , , , , , </i>
CKWB (note 1)	9,706	1.69
CCHL (note 2)	1,613	0.28
CIAM (note 2)	965	0.17
CNCB H Shares	20,387	3.54
Other unallocated assets & liabilities	216	0.03
Goodwill (note 3)	1,008	0.17
	33,895	5.88
Less: Bridge Loans	(5,110)	(0.89)
Consolidated net asset value ("NAV") of the Group	p 28,785	4.99
Less: Share Cancellation Consideration (note 4)	(20,053)	(3.48)
	8,732	1.51
Add: adjustment for value of		
Residual CNCB H Shares (note 5)	32	0.01
Non-CNCB net assets	8,764	1.52
Cash portion of Cancellation Consideration		2.16
Implied price to book ratio ("P/B")		1.42x

Notes:

- (1) This represents the audited net book value of CKWB as at 30 June 2008 as extracted from CKWB's audited accounts.
- (2) These represent the carrying values of CCHL and CIAM in the books of the Company as at 30 June 2008.
- (3) This represents goodwill arising from the acquisition of Hong Kong Chinese Bank and its subsidiaries which are now part of CKWB.
- (4) This represents book value of 5,759,172,916 CNCB H Shares as at 30 June 2008, i.e. one-for-one compared to the issued share capital of the Company, not the Company's entire holding of CNCB H Shares see note (5) below.
- (5) As at the Latest Practicable Date, the Company had 5,759,172,916 Shares in issue and the Group held 5,855,002,200 CNCB H Shares. Excluding the Share Cancellation Consideration, the Group would hold 95,829,284 CNCB H Shares (the "Residual CNCB H Shares") with a carrying value of approximately HK\$334 million as at 30 June 2008. Based on their closing price as at the Latest Practicable Date of HK\$3.82 per CNCB H Share, the Residual CNCB H Shares had an aggregate market value of approximately HK\$366 million. This sum exceeds the book value of the Residual CNCB H Shares of HK\$334 million as at 30 June 2008 by approximately HK\$32 million.
- (ii) As compared to the earnings of the Group for the year ended 31 December 2007 other than contributions from the profit of CNCB attributable to the Share Cancellation Consideration ("non-CNCB earnings")

	Non-CNCB earnings HK\$(million)	Non-CNCB earnings excluding SIV losses HK\$(million)
Net profit per the Group's 2007 annual report Less: Share of profit of CNCB (note 1) Gain on dilution of investment in associates,	1,852 (1,316)	1,852 (1,316)
principally from CNCB Non-CNCB earnings	(198)	(198)
<i>Add:</i> Net loss and write-down of SIVs <i>Less:</i> Tax effect on net loss and write-down		1,311
of SIVs (note 2) Non-CNCB earnings adjusted for SIVs		(229)
Basic non-CNCB earnings per Share (HK\$) ( <i>note 3</i> ) Cash portion of Cancellation Consideration (HK\$) Implied price-to-earnings ratio ("P/E")	0.060 2.16 36.0x	0.252 2.16 8.6x

Notes:

- (1) These represent the contributions from 5,759,172,916 CNCB H Shares, i.e. one-for-one compared to the issued share capital of the Company, not the Company's entire holding of CNCB H Shares.
- (2) Assumes the tax effect on the HK\$1,311 million net loss and write-down of SIVs using the applicable rate of 17.5% for Hong Kong Profits Tax.
- (3) This represents the non-CNCB earnings divided by the weighted average number of 5,636,649,176 Shares in issue during the year ended 31 December 2007.

On this basis, the audited consolidated non-CNCB net assets per Share are HK\$1.52, and the Cash Cancellation Consideration of HK\$2.16 per Share represents an implied P/B of 1.42 times. The implied P/E calculated on the basis of non-CNCB earnings is 36.0 times, and the implied P/E after adjusting for items associated with SIV investments is 8.6 times. The non-CNCB net assets include other investments besides CKWB, but CKWB is the most important element. The implied P/B ratings and P/E ratings for other Hong Kong licensed banks from recent transactions and based on market prices are set out in paragraph 11 below for comparison.

#### 11. P/B and P/E for comparable banks to CKWB

(i) Wing Lung Bank Ltd. ("Wing Lung Bank")

On 20 March 2008, Wing Lung Bank announced a sale of its controlling stake by the controlling shareholder to China Merchants Bank Co., Ltd. at HK\$156.50 per share, which implied a P/B of approximately 2.9 times, calculated on the basis of Wing Lung Bank's net asset value of HK\$53.75 per share as at 31 December 2007, and a P/E of approximately 26.5 times the basic earnings per share of HK\$5.91 for the year ended 31 December 2007.

We consider that Wing Lung Bank is not a close comparable to the Proposal, as the Wing Lung Bank transaction represents an auction sale of a controlling interest, while the Proposal involves principally a share exchange and is intended to be part of a restructuring plan involving CNCB and the Company.

#### (ii) Other comparable Hong Kong listed banks

Other than Wing Lung Bank, we have reviewed the following companies which are all Hong Kong listed banks that we have identified from Bloomberg as comparable to the Company in terms of asset size (the "Comparable Companies"). The Comparable Companies have total unaudited assets as at 30 June 2008 falling within the range of 50%

above and below the total unaudited assets of the Group of approximately HK\$134.1 billion as at 30 June 2008:

Bank	Total assets as at 30 June 2008 HK\$(billion)	Market capital- ization HK\$(billion)	June 2008 P/B	2007 P/E
Wing Hang Bank, Limited	140.3	21.6	2.0x	10.6x
Industrial and Commercial Bank of				
China (Asia) Limited ("ICBC Asia")	202.9	21.3	1.4x	11.9x
Dah Sing Banking Group	114.6	10.1	1.1x	12.6x
Chong Hing Bank Limited	73.8	7.6	1.2x	15.1x
		Average: Median:	1.4x 1.3x	12.6x 12.3x
Non-CNCB net assets as implied by the Cash Cancellation Consideration Non-CNCB earnings as implied by			1.4x	
the Cash Cancellation Consideration Non-CNCB earnings excluding SIV losses				36.0x
as implied by the Cash Cancellation Consideration				8.6x

Source: (i) Bloomberg, and (ii) annual reports and 2008 interim results announcements of the respective companies.

*Note:* The market capitalizations, June 2008 P/Bs and 2007 P/Es of the Comparable Companies are calculated based on the closing share prices of the Comparable Companies as at the Latest Practicable Date. In particular, the June 2008 P/Bs and 2007 P/Es of the Comparable Companies are calculated based on the net book value of the Comparable Companies as at 30 June 2008 and the 2007 net profits of the Comparable Companies respectively. The June 2008 P/B and 2007 P/E of the non-CNCB net assets are the implied P/B and the implied P/E of the non-CNCB net assets as calculated on the basis of the Cash Cancellation Consideration, details of which are set out in the paragraph headed "Analysis of Cash Cancellation Consideration" above.

The average and median P/E implied by the market prices of the Comparable Companies are approximately 12.6 times and 12.3 times respectively, which are lower than the P/E of approximately 36.0 times implied by the terms of the Proposal. If the SIV losses of the Group in 2007 are excluded, the P/E implied by the terms of the Proposal is approximately 8.6 times.

For the first half of 2008, all Comparable Companies recorded a decrease in net profit compared to the first half of 2007 with considerable impairment losses or unrealized losses for their investments in SIVs and/or collateralized debt obligations charged during the period, except ICBC Asia which recorded a 27% increase in interim net profits in 2008. Although there were general increases in net interest incomes and expansions in loan portfolios among the Comparable Companies, they were mostly accompanied by increased impairment charges which possibly reflected deteriorations in credit qualities.

On P/B basis, the average and median P/B implied by the market prices of the Comparable Companies are approximately 1.4 times and 1.3 times respectively, compared to the P/B of 1.4 times of the other net assets of the Group (which principally comprise CKWB) as implied by the terms of the Proposal.

The P/B and P/E implied by the terms of the Proposal are in our view broadly comparable to those of the Comparable Companies. However, we have not placed too much reliance on the above comparisons as the market prices of the Comparable Companies are based on a sale of shares in the market, while the Proposal, on the other hand, involves principally an exchange of shares. Through this exchange, it is intended that the Minority Shareholders would hold direct interests in CNCB (which possibly would include CITIC Group's majority interest in the post-privatized Group in due course).

#### 12. Option Offer

In parallel with, but conditional upon, the Scheme of Arrangement becoming effective, the Offeror will make a cash offer to the holders of the Options to cancel their Options (whether or not such Options have been vested). The Option Offer will be made at the see-through price of the Options:

# For each Option ...... HK\$7.60 in cash less the exercise price of the relevant Option

HK\$7.60 represents the aggregate of (i) the closing price of HK\$5.44 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day; and (ii) HK\$2.16 in cash per Scheme Share cancelled.

			Deemed value of	
Number of	Number of		Cancellation	See-through
Options	Options	<b>Exercise</b> price	Consideration for	price of
outstanding	vested	per Share	this purpose	each Option
		( <i>HK</i> \$) (A)	( <i>HK\$</i> ) (B)	( <i>HK</i> \$) (B-A)
1,052,000	1,052,000	3.54	7.60	4.06
1,232,000	1,232,000	3.775	7.60	3.825
1,608,000	1,608,000	2.925	7.60	4.675
4,908,000	4,908,000	4.275	7.60	3.325
25,364,000	0	6.57	7.60	1.03

As at the Latest Practicable Date, details of the Options were as follows:

Holders of the Options may choose to subscribe for the Shares by exercising their Options if, and to the extent that, their Options have vested. Any Shares to be issued pursuant to the exercise of any such Options up to the Expiry Time will constitute Scheme Shares and the holders of such Shares will be eligible to receive the Cancellation Consideration.

Under the rules of the share option scheme of the Company, the Company may cancel an Option by paying to its holder an amount equal to the fair market value of the Option at the date of cancellation as determined by the board of directors of the Company after consultation with the Company's auditors or an independent financial adviser appointed by the board of directors of the Company. To avoid the possibility of having to issue the Shares following the exercise of such Options after the Expiry Time with the result that these Shares will not form part of the Scheme Shares to be cancelled on the Effective Date, to the extent that there are Options which have vested but remain unexercised at the Expiry Time and whose holders have not accepted the Option Offer, the Company will exercise its right under the rules of the share option scheme of the Company to cancel all of such Options and pay to the holders the fair market value of their Options as at the Expiry Time, and it is expected that the amounts will be no more than the amounts they would have received if the Option Offer had been accepted by them.

Pursuant to the rules of the share option scheme of the Company, if the Scheme of Arrangement has become effective, all vested Options may be exercised within a threemonth period after Effective Date, failing which the Options will lapse. A large majority of the Options have not yet vested, i.e. cannot yet be exercised by their respective holders (and will not vest before three months after 31 December 2008, being the long stop date for the Scheme of Arrangement). In these circumstances, all such Options whose holders have not accepted the Option Offer by the Expiry Time will automatically lapse at the end of that three-month period.

#### 13. Bond Offer

In parallel with, but conditional upon, the Scheme of Arrangement becoming effective, the Offeror will make a cash offer to acquire all of the outstanding Convertible Bonds. As the Convertible Bonds are convertible into the Shares at a conversion price of HK\$4.269 per Share, the Bond Offer will be made on the following basis:

#### Offer price for the Convertible Bonds ...... HK\$7.60 in cash for each underlying Share which may fall to be allotted and issued upon conversion at the conversion price

As at the Latest Practicable Date, the Company had in issue and outstanding Convertible Bonds in the principal amount of US\$1 million, which will mature on 8 December 2008 and bear a coupon rate of 0.25% per annum. The outstanding Convertible Bonds, if converted at the conversion price of HK\$4.269 per Share, would result in the issue of an aggregate of 1,816,116 Shares.

On this basis, the aggregate offer price for the US\$1 million outstanding Convertible Bonds will amount to approximately US\$1.8 million, or approximately HK\$13.8 million, for the 1,816,116 Shares that would be issued upon full conversion of the Convertible Bonds.

By accepting the Bond Offer, the Bondholders will sell the Convertible Bonds to the Offeror or their nominee(s) free from all liens, charges and third party interests, including the right to interest accrued since the last interest payment date of 8 June 2008.

The outstanding Convertible Bonds are not held by CITIC Group, the Offeror, BBVA or any of their concert parties (which include Lehman Brothers and its affiliates). In the event that the outstanding Convertible Bonds or part thereof are converted before the Expiry Time, the Shares to be issued pursuant to such conversion will form part of the Scheme Shares and their holders shall be eligible to receive the Cancellation Consideration under the Scheme of Arrangement. The holders of such Shares will be entitled to vote at the Court Meeting.

Under their terms, the Company may redeem the Convertible Bonds if less than 10% of their principal amount remains outstanding. Since the outstanding Convertible Bonds represent less than 10% of the principal amount, if the Bond Offer is not accepted in full, the Company will redeem all of the outstanding Convertible Bonds at their principal amount, together with accrued interest, at the Expiry Time.

#### 14. The Third CNCB Transfer

Pursuant to the Framework Agreement, upon the Scheme of Arrangement becoming effective and subject to obtaining relevant regulatory approvals and satisfying other conditions, BBVA will increase its shareholding in CNCB by the Offeror transferring such number of CNCB H Shares (expected to amount to approximately 0.6% of CNCB's issued share capital) to BBVA so that BBVA will hold approximately 10.07% of the issued share capital of CNCB (calculated on the basis that the First CNCB Transfer and the Second CNCB Transfer having been completed and that any CNCB H Shares lent by BBVA under the Stock Borrowing Agreement having been returned to it).

The Third CNCB Transfer constitutes a special deal under Rule 25 of the Takeovers Code. The Executive has indicated that it is prepared to consent to such transfer if (a) the Minority Shareholders other than the concert parties (which include Lehman Brothers and its affiliates) who are not involved in or interested in the Third CNCB Transfer have approved such a transfer by a majority vote at the Extraordinary General Meeting, and (b) the independent financial adviser to the Independent Board Committee has stated in its letter to the Independent Board Committee that the Third CNCB Transfer is fair and reasonable.

The sale price per CNCB H Share to be paid by BBVA in respect of the Third CNCB Transfer will be the higher of:

- (i) HK\$5.10 (being approximately the average closing price of the CNCB H Shares for the month of May 2008); and
- (ii) the highest closing price per CNCB H Share from 3 June 2008 to the Effective Date (subject to a maximum price of HK\$5.86 per CNCB H Share, being the price per CNCB H Share at its initial public offering in 2007).

The closing price of the CNCB Shares at the Latest Practicable Date was HK\$3.82 per Share. The highest closing price of the CNCB H Shares from 3 June 2008 up to and including the Latest Practicable Date was HK\$5.49 per CNCB H Share. According to the above formula, the Third CNCB Transfer will be priced at HK\$5.49 to HK\$5.86 per CNCB H Share, depending on the price performance of CNCB H Shares up to the Effective Date. The above price range is higher than the HK\$5.44 per CNCB H Share used as the basis for the offers to the holders of the Options and the Bondholders. Given that the pricing formula for the Third CNCB Transfer will be based on the highest closing market price of CNCB H Shares from 3 June 2008 to the Effective Date (subject to a maximum of HK\$5.86 per CNCB H Share), and in view of the relatively small amount of shares involved, we consider the acquisition of CNCB H Shares by BBVA on the terms proposed are fair and reasonable and does not prejudice the Minority Shareholders. In addition, as discussed above, the increase in BBVA's shareholding is part of a restructuring with the potential in due course to benefit the Minority Shareholders if and when they become shareholders of CNCB.

#### DISCUSSION AND ANALYSIS

#### (i) Minority Shareholders

In our evaluation, we have regarded the Scheme of Arrangement principally as an exchange of shares, not as an outright sale. This makes a considerable difference as regards our opinion on its fairness and reasonableness. A "fair exchange is no robbery"; but in an outright sale, the priority is to maximize cash proceeds.

The primary reason why we have analyzed the Scheme of Arrangement as an exchange and not as an outright sale is that the majority of the Cancellation Consideration comprises CNCB H Shares. Based on the price of HK\$5.44 per CNCB H Share when the Proposal was announced, the proportion of the Share Cancellation Consideration is approximately 72%, and the proportion of the Cash Cancellation Consideration of HK\$2.16 is approximately 28%. Based on the closing price of HK\$3.82 per CNCB H Share as at the Latest Practicable Date, the proportion of the Share Cancellation Consideration is approximately 64%.

The intention of CITIC Group and BBVA to rationalize their interests in CNCB and CKWB and expand the business domestically and internationally from a common platform has been well flagged in press announcements and other public statements. The Scheme of Arrangement seems to us a reasonable method of proceeding towards this objective which requires balancing the interests of various parties, including those of the Minority Shareholders. We believe it has been made clear to the Minority Shareholders and the market in general that a break-up of the Company and the sale of its holdings in CNCB to third parties are not consistent with the declared policy of the controlling shareholders of the Company. On the other hand, if the Company retains its separate listing, closer co-operation with CNCB and BBVA would be subject to both the Listing Rules and the relevant listing rules of the Shanghai Stock Exchange, the compliance with which is costly and time consuming, and the Company will have to make its own plans, including the sale of some or all of its 15% shareholding in CNCB as mentioned in paragraph 1 above

headed "Background to and reasons for the Proposal", to repay the Bridge Loans of approximately HK\$5.1 billion (due before the end of 2008) and to satisfy CKWB's expansion requirements.

It is instructive, in our opinion, to look in particular at the charts set out in paragraph 7 above. Chart 1 shows the differential between the unit market price of the Shares and the market value of the Company's attributable interest in the 1.02 CNCB H Shares since CNCB was floated in April 2007 up to the announcement of the Proposal. They tracked each other very closely. In other words, the market appears to treat the Company as if it was a proxy for its attributable holding of the CNCB H Shares. All of the rest of the Company's net assets, on the basis set out in the chart, are valued on average over the period since CNCB's flotation at only HK\$0.03 per Share. Chart 2 shows the differential since the announcement of the Proposal. The differential has widened post-announcement of the Proposal. On this analysis, a major benefit of the Proposal for the Minority Shareholders is that it has increased the value attributed by the market to the Group's non-CNCB net assets from approximately HK\$0.03 per Share to approximately HK\$1.98 per Share as at the Latest Practicable Date, or to HK\$2.16 per Share as implied by the Proposal.

In our opinion, it is also in the Minority Shareholders' interests to exchange their indirect holdings of the CNCB H Shares, through their interests in the Shares, for direct holdings of the CNCB H Shares. CNCB has a larger market capitalization than the Company and the average monthly trading volume of the CNCB H Shares is higher than that of the Company. Based on the comparison set out in the above section headed "Comparison of performance of the Group and CNCB", CNCB's return on shareholders' equity and growth rates were significantly higher than those of the Group. We believe the Group is a sound financial holding company and CKWB is an established bank in Hong Kong. Nevertheless, CNCB offers greater size, liquidity and exposure to the PRC market and therefore has, in our opinion, more attractive prospects.

In addition to the CNCB H Shares, the Minority Shareholders are being offered in effect HK\$2.16 per Share in cash for the non-CNCB net assets, which, as noted above, the market has valued on average at only HK\$0.03 per Share.

It may be objected that the shareholders of the Company already have an attributable interest in 1.02 CNCB H Share per Share and that HK\$2.16 is a low estimate of the net proceeds obtainable if the remaining assets of the Company were sold to the highest bidder and all the liabilities of the Company repaid. Indeed, in our analysis, HK\$2.16 per Share values the non-CNCB net assets at approximately 1.42 times book. On a P/B basis, Wing Lung Bank was priced at 2.9 times book value when it was recently put up for auction. On the other hand, Comparable Companies were valued in the stock market at an average of 1.4 times book value, and their median P/B amounted to 1.3 times. On a P/E basis, the HK\$2.16 implies respective P/Es of 36.0 and 8.6 times the 2007 net profits, before and after adjusting for items, is higher than the average P/E of 12.6 times and the median P/E of 12.3 times represented by market prices of similar banks in Hong Kong, and the 26.5 times P/E at which Wing Lung Bank's controlling stake was priced.

We regard the terms of the Scheme of Arrangement to be broadly comparable to the rating of similar Hong Kong listed banks. On P/B basis, the pricing for the Scheme Shares is lower than the price for Wing Lung Bank. However, we do not regard the Wing Lung Bank case as direct comparable to the terms of the Proposal which, in our opinion, should be more appropriately viewed as a share exchange and not an outright sale of a controlling stake. A break up of the Company, involving for example a reduction of capital to allow a one-for-one distribution of CNCB H Shares followed by a sale of the non-CNCB net assets to the highest bidder, would in our opinion be likely to generate significantly higher proceeds for the Minority Shareholders than the Proposal. However, this is purely hypothetical as no break-up is proposed and none could reasonably be expected given the declared policy of the controlling shareholders of the Company.

In a share exchange, the Minority Shareholders are still "in the game", becoming shareholders of a larger group, which is intended in due course to include CITIC Group's majority interest in the post-privatized Group. In our opinion, the Minority Shareholders are better off becoming direct shareholders of CNCB, plus receiving HK\$2.16 in cash, than remaining as shareholders of the Company with less attractive growth prospects and a very heavily discounted value – on average only HK\$0.03 per Share – for the Company's non-CNCB net assets.

#### (ii) Holders of the Options and Bondholders

The consideration receivable under the Option Offer and the Bond Offer is set on a basis which provides a fixed cash amount. Such holders will not receive any CNCB H Shares although, as the amounts involved are relatively small, it should be possible for such holders to reinvest the cash proceeds in CNCB H Shares, if they wish, without a material impact on the market price of CNCB H Shares. The prices for the cancellation of the Options and the acquisition of the outstanding Convertible Bonds are the "see-through" prices as discussed in the sections headed "Option Offer" and "Bond Offer" above. This is the conventional basis for the cancellation of options and the acquisition of takeover proposal in Hong Kong.

In this particular case, any vested Options can be exercised within 3 months after the Scheme of Arrangement becomes effective and will lapse after that. To avoid the difficulties that may be caused by potential exercise of any Options after the Expiry Time which will give rise to the Shares falling outside the Scheme Shares, to the extent that there are Options which have vested but remain unexercised at the Expiry Time and whose holders have not accepted the Option Offer, the Company will at the Expiry Time exercise its right under the rules of the share option scheme of the Company to cancel all of such Options and pay to the holders the fair market value of their Options as at the Expiry Time, and the amounts will be no more than the amounts they would have received if the Option Offer had been accepted by them. Holders of the Options which have vested may consider waiting to see if the market price of the Shares rises above HK\$7.60 per Share during this period, bearing in mind that the market price at the Latest Practicable Date of HK\$5.80 per Share was considerably lower. In that case, they may consider exercising their Options before the Expiry Time and selling the Shares in the market, if the net proceeds of sale exceed the "see-through" price receivable, or voting such Shares in favour of the Scheme of Arrangement.

Outstanding Options which have not vested will simply lapse three months after the Effective Date and so holders of such Options are strongly advised to accept the Option Offer. For such holders, there seems to us no advantage in delaying as the Option Offer will not proceed if the Scheme of Arrangement does not become effective, so the holders' position is not jeopardized by early acceptance of the relevant Option Offer.

Of the original issue of Convertible Bonds of US\$180 million, only US\$1 million remains outstanding and the rest having been converted. Pursuant to their terms, the Company will redeem the Convertible Bonds which remains outstanding as at the Expiry Time and have not been tendered for acceptance under the Bond Offer, at nominal value, together with accrued interest. Assuming all outstanding Convertible Bonds of US\$1 million is tendered for acceptance, the total amount payable under the Bond Offer amounts to approximately HK\$13.8 million, which equals to HK\$7.60 cash offer price multiplied by 1,816,116 new Shares to be issued upon full conversion of the outstanding Convertible Bonds. This sum is expected to be significantly higher than the aggregate of the principal outstanding amount of the Convertible Bonds of US\$1 million, or approximately HK\$7.75 million, and the interest accrued from 8 June 2008 to the Expiry Time to which the Bondholders will no longer be entitled if they accept the Bond Offer. It is currently expected that the Expiry Time will be 4:00 p.m. on 31 October 2008. Based on the current timetable and assuming all the outstanding Convertible Bonds are tendered for acceptance, the forgone interest will amount to approximately US\$993, or approximately HK\$7,695. Consequently, the choice for the Bondholder is, as for holders of the vested Options, to accept the Bond Offer. Alternatively, the Bondholders may consider whether to convert before the Expiry Time and sell, if the market price of the Shares exceeds HK\$7.60 during the relevant period, or vote their Shares in favour of the Scheme of Arrangement.

#### RECOMMENDATION

Based on the above principal factors and reasons, we consider the terms of the Scheme of Arrangement and the Third CNCB Transfer fair and reasonable so far as the Minority Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Minority Shareholders other than the concert parties (which include Lehman Brothers and its affiliates) to approve the Scheme of Arrangement at the Court Meeting and to vote in favour of the special resolution to give effect to the Scheme of Arrangement and in favour of the ordinary resolution to approve the Third CNCB Transfer at the Extraordinary General Meeting.

We also consider the terms of the Option Offer and the Bond Offer to be fair and reasonable so far as their respective holders are concerned and advise the Independent Board Committee to recommend holders of the Options and the Bondholders to accept the proposals set out in the letters containing the Option Offer and the Bond Offer respectively. Holders of vested Options and the Bondholders may also consider the alternative courses of action set out in the above section headed "Discussion and Analysis" as regards the Option Offer and the Bond Offer.

Yours faithfully, for and on behalf of **SOMERLEY LIMITED M. N. Sabine** *Chairman* 

# EXPLANATORY STATEMENT

This Explanatory Statement constitutes the statement required under Section 166A of the Companies Ordinance.

#### INTRODUCTION

On 10 June 2008, the Offeror and the Company jointly announced that on 3 June 2008, the Offeror had requested the board of directors of the Company to put forward to the Minority Shareholders the Proposal for the privatization of the Company which, if implemented, would result in the Company becoming wholly-owned by the Offeror and BBVA and the withdrawal of the listing of the Shares from the Hong Kong Stock Exchange. On 27 August 2008, it was further announced by the Offeror and the Company jointly that the Offeror had requested the board of directors of the Company to put forward to the Minority Shareholders a revised Proposal to the extent that the cash portion of the Cancellation Consideration would be increased from HK\$1.46 to HK\$2.16 but with all other terms remaining unchanged. The Offeror also confirmed in such announcement that there would be no further revision to the Cancellation Consideration.

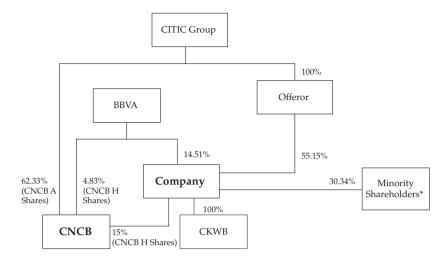
The Offeror is a wholly-owned subsidiary of CITIC Group and, as at the Latest Practicable Date, owned approximately 55.15% of the issued share capital of the Company. The board of directors of the Company, having reviewed the Proposal, agreed to put it forward by way of this document to the Minority Shareholders, the holders of the Options and the Bondholders for consideration.

The primary purpose of this Explanatory Statement is to explain the terms and effects of the Proposal and, specifically, to provide the Minority Shareholders with additional information in relation to the Scheme of Arrangement.

The proposed privatization of the Company will be implemented by way of a scheme of arrangement under Section 166 of the Companies Ordinance. Upon the Scheme of Arrangement becoming effective, the Scheme Shares will be cancelled and the New Shares will be issued as fully paid to the Offeror, which will in turn transfer 50% of the New Shares to BBVA.

As at the Latest Practicable Date, the Offeror and BBVA owned approximately 55.15% and 14.51% of the issued share capital of the Company respectively. In addition, as at the Latest Practicable Date, the Company and BBVA owned approximately 15.00% and 4.83% of the issued share capital of CNCB respectively in the form of the CNCB H Shares, and CITIC Group owned approximately 62.33% of the issued share capital of CNCB in the form of CNCB A Shares. The chart below illustrates the shareholding structures of both the Company and CNCB as at the Latest Practicable Date.

# EXPLANATORY STATEMENT



\* The Shares held by the Minority Shareholders include 3,802,000 Shares owned by Lehman Brothers and its affiliates as at the Latest Practicable Date.

#### THE PROPOSAL

#### SCHEME OF ARRANGEMENT

Subject to the conditions of the Proposal being fulfilled or waived, as applicable, the proposed privatization of the Company will be implemented by way of the Scheme of Arrangement between the Company and the holders of the Scheme Shares. The Scheme of Arrangement involves a reduction of the authorized and issued share capital of the Company by the cancellation of the Scheme Shares. Upon the reduction of capital taking effect, the authorized share capital of the Company will be restored to its former amount by the creation of the New Shares, which will be equal to the number of the Scheme Shares cancelled. With the amount of credit arising in the Company's books of account from the reduction of capital, the New Shares, credited as fully paid, will be issued to the Offeror or such other parties as the Offeror may direct. The Scheme of Arrangement provides that, in consideration of the cancellation of the Scheme Shares of the Company at the Record Time, which is expected to be 4:00 p.m. on 4 November 2008, will be entitled to receive from the Offeror:-

#### one CNCB H Share and HK\$2.16 in cash ..... for every Scheme Share cancelled.

The transfer of the CNCB H Shares as part of the Cancellation Consideration to a holder of the Scheme Shares will be subject to stamp duty payable to the Hong Kong government, currently charged at 0.2% on the prevailing market price of each CNCB H Share at the time of the transfer. Half of the applicable amount of the stamp duty incurred in the transfer will have to be borne by the relevant holder of the Scheme Shares and will accordingly be deducted from the HK\$2.16 cash portion of the Cancellation Consideration payable to him. By way of illustration only, based on the closing price of HK\$3.82 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date, the half share of such stamp duty to be borne by a holder of a Scheme Share in respect of a transfer of a CNCB H Share will be HK\$0.00382.

#### EXPLANATORY STATEMENT

The CNCB H Shares offered under the Scheme of Arrangement shall be fully paid or credited as fully paid, free from all liens, charges and incumbrances and shall rank pari passu with the existing CNCB H Shares in issue in respect of ranking for dividends and capital and voting rights attached thereto. The CNCB H Shares are listed on the Hong Kong Stock Exchange.

The holders of the Scheme Shares will be entitled to dividends declared and payable on CNCB H Shares with a record date after the date on which the relevant CNCB H Shares have been registered in their names.

#### SHAREHOLDING STRUCTURES OF THE COMPANY

As at the Latest Practicable Date, the authorized share capital of the Company was HK\$8,000 million, divided into 8,000 million Shares, and the issued share capital of the Company was HK\$5,759,172,916 divided into 5,759,172,916 Shares.

Of the 5,759,172,916 Shares in issue, CITIC Group (through the Offeror) and BBVA were interested in 3,176,395,029 Shares and 835,717,967 Shares respectively as at the Latest Practicable Date, representing approximately 55.15% and 14.51% of the issued capital of the Company respectively. The Shares in which CITIC Group was interested were beneficially owned by the Offeror with 3,082,279,336 Shares registered in its name and the balance of 94,115,693 Shares being held by HKSCC Nominees Limited in a nominee custodian account on account of CITIC Securities Brokerage (HK) Limited. BBVA beneficially owned 835,717,967 Shares, all of which were registered in the name of HKSCC Nominees Limited in a nominee custodian account of BBVA owned will form part of the Scheme Shares and, accordingly, these Shares will neither be represented nor voted at the Court Meeting.

Further, as at the Latest Practicable Date, Lehman Brothers and its affiliates, being concert parties, owned 3,802,000 Shares, representing approximately 0.07% of the issued capital of the Company. In addition, these concert parties had a short position in respect of 218,000 Shares and had lent to and borrowed from third parties 4,000 Shares and 350,000 Shares respectively. They also had, through derivative interests, a long position in respect of an aggregate of 288,000 Shares, details of which are set out in section 3 of Appendix IV to this document. Such positions held by Lehman Brothers and its affiliates may change up to the Record Time due to acceptance and delivery of the Shares pursuant to pre-existing or non-discretionary contractual obligations. Thus the total number of the Shares held by Lehman Brothers and its affiliates may fluctuate up to the Record Time.

Furthermore, seven directors of the Company who are concert parties held an aggregate of 9,280,000 unvested Options, none of which is exercisable until July 2009 at the earliest. Two of them also held an aggregate of 2 million vested Options, the exercise of which will result in the issue of a corresponding number of Shares.

Although the Shares owned by all of the concert parties identified in the preceding two paragraphs will form part of the Scheme Shares, such Shares will not, in compliance with the Takeovers Code, be voted at the Court Meeting. However, the Offeror, BBVA and the concert parties have indicated that, if the Scheme of Arrangement is approved at the

Court Meeting, all of the Shares owned by them will be voted in favour of the special resolution to give effect to the Scheme of Arrangement at the Extraordinary General Meeting.

Save as set out above, none of CITIC Group, the Offeror, BBVA and any of the concert parties holds any other Shares, warrants, options, derivatives or other securities convertible into the Shares as at the Latest Practicable Date.

Further, as at the Latest Practicable Date, there were 34,164,000 Options, the full exercise of which would result in an increase in the same number of the Shares, representing approximately 0.59% of the issued capital of the Company as enlarged by the issue of these Shares. As at the Latest Practicable Date, there were also outstanding Convertible Bonds in the principal amount of US\$1 million convertible into an aggregate of 1,816,116 Shares, representing approximately 0.03% of the issued capital of the Company as enlarged by the issue of these Shares. Other than these Options and outstanding Convertible Bonds, the Company did not have in issue any outstanding options, warrants, derivatives or securities convertible into the Shares as at the Latest Practicable Date.

As at the Latest Practicable Date, the Minority Shareholders were interested in an aggregate of 1,747,059,920 Shares, representing approximately 30.34% of the issued capital of the Company. Of the Minority Shareholders, Lehman Brothers and its affiliates as concert parties were interested in a total of 3,802,000 Shares as explained above, or approximately 0.07% of the issued capital of the Company. As such, they will be precluded by the Takeovers Code from voting their Shares at the Court Meeting. Accordingly, all of the Minority Shareholders, other than the concert parties which include Lehman Brothers and its affiliates, will be entitled to vote at the Court Meeting.

The table below sets out the shareholding structures of the Company as at the Latest Practicable Date and after the transfer by the Offeror to BBVA of 50% of the New Shares as contemplated in the Framework Agreement immediately upon the Scheme of Arrangement has become effective:

Owner of the Shares	As at the Late Practicable D		After the Schen Arrangement bec effective and tran 50% of the New Sl the Offeror to E	coming asfer of nares by
	Number of		Number of	
	Shares	%	Shares	%
Offeror	3,176,395,029	55.15	4,049,924,989	70.32
BBVA	835,717,967	14.51	1,709,247,927	29.68
Subtotal Minority Shareholders other than	4,012,112,996	69.66	5,759,172,916	100
concert parties	1,743,257,920	30.27	0	0
Concert parties*	3,802,000	0.07	0	0
Total issued share capital	5,759,172,916	100	5,759,172,916	100

\*Note: The 3,802,000 Shares represent the interests that Lehman Brothers and its affiliates held in the Company as at the Latest Practicable Date. In addition, Lehman Brothers and its affiliates had a further short position in respect of 218,000 Shares and had lent to and borrowed from third parties 4,000 Shares and 350,000 Shares respectively. They also had as at the Latest Practicable Date, through derivative interests, a long position in respect of 288,000 Shares, details of which are set out in section 3 of Appendix IV to this document. These interests have been disclosed herein pursuant to Lehman Brothers' role as the financial adviser to the Offeror. The Shares owned by Lehman Brothers will form part of the Scheme Shares but will not be entitled to be voted at the Court Meeting.

#### THE OPTION OFFER

The 34,164,000 Options consist of 8,800,000 vested Options, which are exercisable at any time, and 25,364,000 unvested Options, none of which will be exercisable before July 2009 at the earliest.

As at the Latest Practicable Date, the 8,800,000 vested Options, of which 3,240,000 were held by five directors of the Company with two of them being concert parties, comprised Options over 1,052,000, 1,232,000, 1,608,000 and 4,908,000 Shares with exercise prices of HK\$3.54, HK\$3.775, HK\$2.925 and HK\$4.275 per Share respectively. The 25,364,000 unvested Options were granted to their holders with an exercise price of HK\$6.57 per Share. In the event that any of the vested Options is exercised by the Expiry Time, thus resulting in a corresponding number of the Shares being issued at or before the Record Time, such Shares will become Scheme Shares and their holders shall be eligible to receive the Cancellation Consideration under the Scheme of Arrangement. Further, any such Shares issued at or before the time fixed for determining the entitlements to attend and vote at the Court Meeting will entitle their holders to attend and vote at the Court Meeting, save for the two directors of the Company referred to above who are concert parties holding an aggregate of 2 million vested Options and, accordingly, will be precluded from voting at the Court Meeting under the Takeovers Code. In respect of the Options vested in the other three directors of the Company, any Shares issued arising from the exercise of such Options may be voted at the Court Meeting upon the confirmation of their holders that they are not concert parties.

The Option Offer is made in compliance with Rule 13 of the Takeovers Code and is conditional upon the Scheme of Arrangement becoming effective.

As consideration for the cancellation of the Options, the Offeror will make the Option Offer in the form of a letter to be despatched separately to the holders of the Options regardless of whether or not their Options have vested in them. The amount of the cash payment in respect of each Option cancelled will be calculated by deducting the exercise price per Option from the value of the Cancellation Consideration of HK\$7.60 per Share, which is equal to the closing price of HK\$5.44 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day plus the HK\$2.16 cash portion of the

Cancellation Consideration for every Scheme Share cancelled. Accordingly, the cash payments under the Option Offer will be as follows:-

for cancellation of every vested Option with an exercise price of HK\$3.54 per Share
for cancellation of every vested Option with an exercise price of HK\$3.775 per Share
for cancellation of every vested Option with an exercise price of HK\$2.925 per Share HK\$4.675
for cancellation of every vested Option with an exercise price of HK\$4.275 per Share
for cancellation of every unvested Option with an exercise price of HK\$6.57 per Share

The holders of the Options who wish to accept the Option Offer should complete and sign on the form of acceptance appended to the letter containing the Option Offer. By accepting the Option Offer, such holders irrevocably undertake to the Company not to exercise their Options the subject of the acceptance and further agree to the cancellation of their Options and all rights attaching to them shall thereupon lapse and have no further effect.

Under the rules of the share option scheme, the Company may at any time cancel an Option by paying to its holder its fair market value as determined by the board of directors after consultation with the Company's auditors or an independent financial adviser. To the extent that there are Options which have vested but remain unexercised at the Expiry Time and whose holders have not accepted the Option Offer, the Company will exercise its right under the rules of the share option scheme to cancel all of the Options and pay to the holders the fair market value of their Options as at the Expiry Time, and it is expected that the amounts will be no more than the amounts the holders of the vested Options would have received if the Option Offer had been accepted by them. The purpose of the Shares following the exercise of such Options after the Expiry Time with the result that these Shares will not form part of the Scheme Shares to be cancelled on the Effective Date, thereby undermining the objective of the Scheme of Arrangement and, hence, the Proposal to privatize the Company.

The share option scheme also provides that if a scheme of arrangement in respect of the Company has become effective, all vested Options may be exercised within a threemonth period after the effective date of the scheme of arrangement, failing which the Options will lapse. As none of the unvested Options will become exercisable before the end of the three-month period from the Effective Date, all such Options whose holders have not accepted the Option Offer by the Expiry Time will automatically lapse at the end of that three month period, which is expected to be 4 February 2009.

#### THE BOND OFFER

As at the Latest Practicable Date, the Company had outstanding Convertible Bonds in the principal amount of US\$1 million convertible into an aggregate of 1,816,116 Shares at a price of HK\$4.269 per Share.

In the event that the outstanding Convertible Bonds or part thereof are converted by the Expiry Time thus resulting in the issue of the Shares at or before the Record Time, such Shares will form part of the Scheme Shares and the Bondholders will be eligible to receive the Cancellation Consideration under the Scheme of Arrangement. In addition, any Shares so issued at or before the time fixed for determining entitlements to attend and vote at the Court Meeting will entitle their holders to attend and vote at the Court Meeting.

The Bond Offer, which is conditional upon the Scheme of Arrangement becoming effective, is made in compliance with Rule 13 of the Takeovers Code.

As consideration for the acquisition of the outstanding Convertible Bonds, the Offeror will make the Bond Offer in the form of a letter to be despatched to the Bondholders, who are not associated with CITIC Group, the Offeror, BBVA or the concert parties. The cash consideration payable under the Bond Offer will be determined by multiplying the number of the Shares convertible from the outstanding Convertible Bonds by the value of the Cancellation Consideration of HK\$7.60 per Share, which is equal to the closing price of HK\$5.44 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day plus HK\$2.16 in cash for every Scheme Share cancelled. If the Bondholders wish to accept the Bond Offer, they will be required to complete and sign the form of acceptance appended to the letter containing the Bond Offer. Details of the Bond Offer are set out below:-

for each Share convertible from the Convertible Bonds at an exercise price of HK\$4.269 ......HK\$7.60 in cash.

Under the terms of the Convertible Bonds, the Company may redeem them if less than 10% of the principal amount of US\$180 million of the Convertible Bonds remains outstanding. Since the outstanding Convertible Bonds represent less than 10% of the principal amount, the Company will redeem all of the outstanding Convertible Bonds if the Bond Offer is not accepted in full by the Bondholders by the Expiry Time. Similar to the case of the holders of the vested Options who have not accepted the Option Offer as described above, the redemption will eliminate the possibility of issuing any Shares arising from the conversion after the Expiry Time with the result that the Bondholders remain shareholders of the Company after its privatization.

## CONDITIONS OF THE SCHEME OF ARRANGEMENT

The Scheme of Arrangement will become effective and binding on the Company, the Offeror, BBVA and all of the holders of the Scheme Shares subject to the fulfilment or waiver, as applicable, of the following conditions:

- (a) the approval of the Scheme of Arrangement (by way of poll) by a majority in number, representing not less than three-fourths in value of the Shares held by the Minority Shareholders other than the concert parties that are cast either in person or by proxy at the Court Meeting, provided that the number of the votes cast against the resolution to approve the Scheme of Arrangement is not more than 10% of the votes attaching to all of the Shares held by such Minority Shareholders;
- (b) the passing of a special resolution by a majority of not less than 75% of the votes cast by the shareholders of the Company present and voting in person or by proxy at the Extraordinary General Meeting to give effect to the Scheme of Arrangement, including the approval of the reduction of the capital of the Company;
- (c) the sanction of the Scheme of Arrangement (with or without modifications) and the confirmation of the reduction of the capital of the Company by the High Court and the registration by the Registrar of Companies of an office copy of the order of the High Court, together with a minute containing the particulars required by Section 61 of the Companies Ordinance;
- (d) all Authorisations having been obtained or granted, as the case may be, in Hong Kong and any other relevant jurisdictions;
- (e) all Authorisations remaining in full force and effect without variation, and all necessary statutory or regulatory obligations in all relevant jurisdictions having been complied with and no requirement having been imposed by any of the relevant authorities which is not expressly provided for, or is in addition to the requirements expressly provided for, in the relevant laws, rules, regulations or codes in connection with the Proposal or any matters, documents (including circulars) or things relating thereto, in each case up to and at the time when the Scheme of Arrangement becomes effective; and
- (f) all necessary consents which may be required under any existing contractual obligations of the Group having been obtained and remaining in full force and effect without modification, including but not limited to the consent required under the Bridge Loans.

Condition (a) to the Scheme of Arrangement takes into account the approval requirements under Rule 2.10 of the Takeovers Code, in addition to the statutory requirements under Section 166 of the Companies Ordinance. Under Section 166 of the Companies Ordinance, the Scheme of Arrangement will, subject to the sanction of the

High Court, be binding between the Company and the holders of the Scheme Shares if the Scheme of Arrangement is approved by way of poll by a majority in number of the Minority Shareholders, representing not less than three-fourths in value of their Shares, present and voting either in person or by proxy at the Court Meeting. Under Rule 2.10 of the Takeovers Code, however, the Scheme of Arrangement has to be approved by at least 75% of the votes attaching to the Shares held by the Minority Shareholders other than the concert parties that are cast either in person or by proxy at the Court Meeting; and the number of votes cast against the resolution to approve the Scheme of Arrangement at the Court Meeting is not more than 10% of the votes attaching to all of the Shares held by such Minority Shareholders. Based on the 1,743,257,920 Shares held by the Minority Shareholders of such Shares would amount to 174,325,792 Shares.

Conditions (a) to (c) cannot be waived in any event. In the event that condition (d) or condition (e) is not fulfilled, the Offeror reserves the right to assess the materiality of the non-fulfilment and to waive its fulfilment to such extent as it considers appropriate. The Offeror reserves the right to waive condition (f) either in whole or in part in respect of any particular matter.

All of the above conditions will have to be fulfilled or waived, as applicable, on or before 31 December 2008 (or such later date as the Offeror and the Company may agree or as the High Court may allow), otherwise the Scheme of Arrangement will lapse. If the Scheme of Arrangement is withdrawn, not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn.

Assuming that the above conditions are fulfilled or, as applicable, waived, the Scheme of Arrangement will become effective on the Effective Date, which is expected to be 5 November 2008, and the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn on the same day pursuant to Rule 6.15 of the Listing Rules.

An announcement will be made by the Offeror and the Company if the Scheme is withdrawn or lapses. Further announcements regarding the Proposal will be made as and when appropriate.

#### FINANCIAL RESOURCES

The total share portion and cash payments under the Proposal will be 1,747,059,920 CNCB H Shares and approximately HK\$3,846 million respectively, assuming full acceptance of the Option Offer and the Bond Offer, or 1,783,040,036 CNCB H Shares and approximately HK\$3,851 million respectively, assuming the Options will be fully exercised and the outstanding Convertible Bonds will be fully converted prior to the Expiry Time. However, taking into account the fact that the unvested Options will not be exercisable before the full implementation of the Proposal, the total share portion and cash payments under the Proposal will be 1,757,676,036 CNCB H Shares and approximately HK\$3,823 million respectively, assuming (i) full acceptance of the Option Offer by the holders of the unvested Options, (ii) all vested Options will be fully exercised and (iii) the outstanding Convertible Bonds will be fully converted, in each case prior to the Expiry Time.

In accordance with the Stock Borrowing Agreement, the total share portion of the Cancellation Consideration will be financed by CNCB H Shares lent to the Offeror by BBVA at the rate of 1.25% per annum on the value of the CNCB H Shares so lent. The total cash consideration, which will be paid by the Offeror, will be financed in equal amounts by CITIC Group and BBVA. There is no arrangement between CITIC Group or the Offeror and BBVA for the payment of interest on, repayment of or security for any liability, contingent or otherwise, which will depend to any significant extent on the business of the Company.

Lehman Brothers is satisfied that sufficient CNCB H Shares and financial resources are available to the Offeror to implement the Proposal in accordance with its terms.

The costs of the Scheme of Arrangement and of its implementation, which are expected to amount to approximately HK\$14 million, will be borne by the Offeror and, pursuant to the Framework Agreement, BBVA will share half of such costs. They consist of fees for financial advisers, legal advisers, printing and other related charges.

#### **REASONS FOR THE PROPOSAL**

The Proposal is an integral part of CITIC Group's overall strategy to restructure its commercial banking business. CITIC Group 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. The equity structure of the Company after its privatization will simplify the regulatory environment for future transactions involving the Company, BBVA and CNCB or between any of them under the listing rules of the Hong Kong Stock Exchange and the Shanghai Stock Exchange. This in turn will facilitate and maximize further synergies from the tripartite cooperation between the Company, CNCB and BBVA.

Through implementation of the Proposal, CITIC Group, as the ultimate parent of the Company, intends that:

- (i) the Company be privatized and delisted from the Hong Kong Stock Exchange through the Proposal;
- subject to all necessary third party and regulatory approvals, all of the 15% shareholding of the CNCB H Shares held by the Company be sold to the Offeror and BBVA in proportion to their respective shareholdings in the Company immediately after the transfer of 50% of the New Shares by the Offeror to BBVA;
- (iii) HK\$5.1 billion and HK\$3 billion of the proceeds from the sale referred to in(ii) above may be applied for the repayment of the Bridge Loans and to support the short to medium term expansion requirements of CKWB respectively; and
- (iv) subject to all necessary third party and regulatory approvals, the Offeror's majority interest in the Company be injected into CNCB. The terms of the

injection will be subject to negotiations between the Offeror and CNCB and, during such negotiations, the Offeror will take into account the interests of the holders of the Scheme Shares who have, after the Scheme of Arrangement has become effective, become shareholders of CNCB.

The transaction underpinning the Scheme of Arrangement is essentially an offer for the exchange of each Share for one CNCB H Share plus an additional cash amount. The share and cash portions of the Cancellation Consideration, when viewed as a whole, will provide the Minority Shareholders with an opportunity to:

- (i) realize their investments in the Company at a significant premium when compared to the historical trading prices of the Shares;
- (ii) participate in the future growth of CITIC Group's commercial banking business conducted through CNCB; and
- (iii) if the injection of the Offeror's majority interest in the Company into CNCB materializes, continue to participate in the future growth of the Company through their ownership of CNCB H Shares.

The Proposal is also formulated so as to provide a solution to the Company for the repayment of or refinancing the Bridge Loans maturing in December 2008. The Bridge Loans were obtained on normal commercial terms partly for funding the Company's topup investment in CNCB of approximately HK\$2.6 billion at the time of CNCB's listing in April 2007 and partly for capital injection of approximately HK\$2.5 billion into CKWB in December 2007 for the purpose of financing CKWB's business and expansion needs and strengthening its core capital ratio and total capital adequacy ratio. CITIC Group and BBVA have agreed that, if the Scheme of Arrangement became effective, the Company would fully repay the Bridge Loans in accordance with their terms and may apply part of the consideration paid by the Offeror and BBVA in connection with the First CNCB Transfer to cover such repayment. A further part of the consideration of HK\$3 billion will initially be retained by the Company and then on-lent to CKWB to support its expansion requirements. The remainder of the consideration will be returned to the shareholders of the Company.

## IF THE SCHEME OF ARRANGEMENT DOES NOT BECOME EFFECTIVE

Minority Shareholders should be aware that if the Scheme of Arrangement does not become effective:-

## (a) Injection of the Offeror's majority stake in the Company into CNCB

The Offeror still intends to inject its majority stake in the Company into CNCB so as to implement CITIC Group's overall strategy set out above, subject to all necessary third party and regulatory approvals. CITIC Group believes that, in such a case, CNCB can apply for a waiver pursuant to Note 6 to Rule 26 of the Takeovers

Code and thus will not be required to make any general offer to the Minority Shareholders. CITIC Group also does not expect that CNCB will propose a privatization of the Company since the Minority Shareholders have already voted against the Scheme of Arrangement. Moreover, the Offeror has no other intention of disposing its 55.15% interest in the Company. In view of the majority interest of the Offeror, it is highly unlikely that the Minority Shareholders will receive another offer from a third party to acquire their Shares if the Scheme of Arrangement does not become effective.

#### (b) Sale of CNCB H Shares and loss of equity accounting for such stake

The Company will have to consider selling some or all of its CNCB H Shares, possibly by way of a pro rata sale to all its shareholders and/or a sale to independent third parties and/or through other appropriate mechanisms, in order to repay the Bridge Loans and provide funding to CKWB. Any such sale will be subject to third party and regulatory approval, including BBVA's right to exercise its first right of refusal. In that case, the Company's costs for doing so will be borne, directly or indirectly, by all of its shareholders. Apart from the costs involved in the sale, the Company will not be able to account for its remaining stake in the CNCB H Shares by the equity accounting method. As a result, this will adversely affect the consolidated net asset value and consolidated net profit of the Company and, in turn, adversely affect market values attributable to the Shares. Based on equity accounting for the year ended 31 December 2007, the income attributable to the Company's stake in CNCB was approximately HK\$ 1,337.8 million.

The Company has considered other means of repaying the Bridge Loans, but given the credit and liquidity crisis in the global financial market, the cost of refinancing the Bridge Loans will be expensive. Based on the current interest rate for 5-year HK\$ denominated loans, it has been estimated by Lehman Brothers that the Bridge Loans may only be refinanced with an increase of 250 to 300 basis points above its current interest rate. The alternative of an equity issue by the Company to repay the Bridge Loans and fund CKWB may result in a significant dilution to the proportionate interests of the shareholders of the Company given the undesirable pricing conditions engendered by the uncertainty of the current state of the equity market. Thus the Company considers that these other methods for repaying the Bridge Loans will not be feasible under the current market conditions.

#### CANCELLATION CONSIDERATION

#### Cancellation Consideration is final

The increased Cancellation Consideration of one CNCB H Share and HK\$2.16 in cash for every Scheme Share cancelled as announced on 27 August 2008 is final and will not be revised by the Offeror.

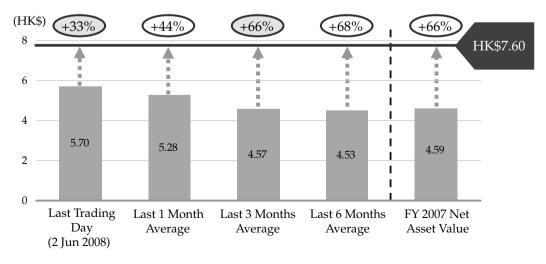
#### Comparison of value and financial effects

#### Comparison of value

Based on the closing price of HK\$5.44 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day, the Cancellation Consideration of one CNCB H Share and HK\$2.16 in cash, that is an aggregate value of HK\$7.60 for every Scheme Share cancelled under the Scheme of Arrangement, represents:

- (i) a premium of approximately 33% over the closing price of HK\$5.70 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 44% over the average closing price of approximately HK\$5.28 per Share as quoted on the Hong Kong Stock Exchange for the one month up to and including the Last Trading Day;
- (iii) a premium of approximately 66% over the average closing price of approximately HK\$4.57 per Share as quoted on the Hong Kong Stock Exchange for the three months up to and including the Last Trading Day;
- (iv) a premium of approximately 68% over the average closing price of approximately HK\$4.53 per Share as quoted on the Hong Kong Stock Exchange for the six months up to and including the Last Trading Day;
- (v) a premium of approximately 66% over the audited consolidated net asset value of approximately HK\$4.59 per Share as at 31 December 2007;
- (vi) a premium of approximately 52% over the unaudited net asset value of approximately HK\$4.99 per Share as at 30 June 2008; and
- (vii) a premium of approximately 31% over the closing price of HK\$5.80 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date.

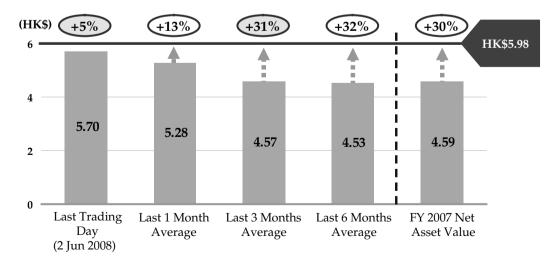
#### Cancellation Consideration (based on the closing price of HK\$5.44 per CNCB H Share on the Last Trading Day) vs. historical share price of the Company



Based on the closing price of HK\$3.82 per CNCB H Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date, the Cancellation Consideration of one CNCB H Share and HK\$2.16 in cash, that is an aggregate value of HK\$5.98 for every Scheme Share cancelled under the Scheme of Arrangement, represents:

- (i) a premium of approximately 5% over the closing price of HK\$5.70 per Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day;
- (ii) a premium of approximately 13% over the average closing price of approximately HK\$5.28 per Share as quoted on the Hong Kong Stock Exchange for the one month up to and including the Last Trading Day;
- (iii) a premium of approximately 31% over the average closing price of approximately HK\$4.57 per Share as quoted on the Hong Kong Stock Exchange for the three months up to and including the Last Trading Day;
- (iv) a premium of approximately 32% over the average closing price of approximately HK\$4.53 per Share as quoted on the Hong Kong Stock Exchange for the six months up to and including the Last Trading Day;
- (v) a premium of approximately 30% over the audited consolidated net asset value of approximately HK\$4.59 per Share as at 31 December 2007;
- (vi) a premium of approximately 20% over the unaudited consolidated net asset value of approximately HK\$4.99 as at 30 June 2008; and
- (vii) a premium of approximately 3% over the closing price of HK\$5.80 per Share as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date.

Cancellation Consideration (based on the closing price of HK\$3.82 per CNCB H Share on the Latest Practicable Date) vs. historical share price of the Company



#### Net asset value

As at 31 December 2007, the audited consolidated net asset value of the Company amounted to approximately HK\$26.48 billion, or approximately HK\$4.59 per Share based on 5,757,320,916 Shares in issue. Based on the closing price of HK\$5.44 per CNCB Share as quoted on the Hong Kong Stock Exchange on the Last Trading Day, the Cancellation Consideration of one CNCB H Share and HK\$2.16 in cash represents a premium of approximately 65% over the audited consolidated net asset per Share as at 31 December 2007.

#### Earnings

The Company's audited consolidated profit attributable to the shareholders of the Company for the year ended 31 December 2007 amounted to approximately HK\$1,852 million, representing earnings of approximately HK\$0.3286 per Share.

#### Dividends

The Company did not declare any dividends for the year ended 31 December 2007.

#### Unlocking value of the Shares

Since the listing of the CNCB H Shares on the Hong Kong Stock Exchange in April 2007, the trading prices of the Shares have been tracking closely the value of the Company's 15% shareholding in CNCB and have failed to reflect properly any of the other businesses or assets of the Company, specifically its wholly-owned subsidiary, CKWB. From the investors' point of view, the Shares are being treated as an investment proxy for the 15% shareholding of CNCB H Shares held by the Company by attributing little or no value to the core business of the Company in CKWB and its other subsidiaries.

By putting forward the Scheme of Arrangement, it is intended that the Minority Shareholders will directly receive the CNCB H Shares for which the market has been treating the Company as an investment proxy and will benefit from the higher capitalization and liquidity of the CNCB H Shares. If the plan of the Offeror for injecting its majority interest in the Company into CNCB directly or indirectly materializes, the Minority Shareholders will also be able to continue to participate in the Company indirectly through their holdings of the CNCB H Shares. In the meantime, the Minority Shareholders will receive cash payments at a significant premium to the prices at which the market has valued the Company's core businesses in CKWB and its other subsidiaries and associates without taking into account the direct or indirect costs attributable to all of the Company's shareholders associated with the repayment of the maturing Bridge Loans.

#### FUTURE PLANS FOR THE GROUP

It is the intention of CITIC Group and BBVA to continue with the core business of the Group in banking and financial services and there is no plan for the disposal of CKWB or otherwise redeploy the fixed assets of the Company outside its ordinary course of business. CITIC Group and BBVA also do not have any intention to introduce any major changes to the strategy, existing operations, management or employees of the Group or change the business commitments of CKWB to its customers. CITIC Group believes that CKWB's position will be further strengthened with the full support of CITIC Group and BBVA while at the same time CKWB can benefit from the potential of enhanced credit rating support and reduced funding costs for its required strategy.

CITIC Group also intends, subject to obtaining all necessary regulatory and other approvals, to inject the Offeror's majority interest in the Company into CNCB as set out in the section "Reasons for the Proposal" above, so as to facilitate and maximize further synergies from the tri-partite cooperation between the Company, BBVA and CNCB.

Further, CKWB will in due course, and subject to regulatory approval, be renamed CITIC Bank International Limited as the Company considers the new name will better reflect its role as CITIC Group's exclusive vehicle for the development of commercial banking business in Hong Kong and as a commercial banking platform for new business expansion in Asia.

#### EFFECT OF THE SCHEME OF ARRANGEMENT

#### **Ownership structure**

Upon the Scheme of Arrangement becoming effective, the Offeror will transfer to BBVA 50% of the New Shares, the consideration of which will be approximate to the Cancellation Consideration in the following respects:

- (i) for the cash portion of the Cancellation Consideration, BBVA will contribute 50% of the cash portion of all Cancellation Consideration payable to the Minority Shareholders; and
- (ii) for the share portion of the Cancellation Consideration, BBVA will pay to the Offeror an amount based on HK\$5.10 per CNCB H Share. The amount of HK\$5.10 per CNCB H Share was determined by reference to the average trading prices of CNCB H Shares in May 2008, the month immediately prior to the date of the Framework Agreement.

Save as stated above, there is no other agreement or arrangement with or understanding by the Offeror for the transfer, charge or pledge of the New Shares.

The table below sets out the information on the respective percentage holdings of the Shares held by the Offeror and BBVA as at (i) the Latest Practicable Date, (ii) upon the Scheme of Arrangement becoming effective, and (iii) upon the transfer to BBVA of 50% of the New Shares after the Scheme of Arrangement has become effective, all based on the assumption that no Options will be exercised, no outstanding Convertible Bonds will be converted and no new Shares will be issued prior thereto:

Owner of the Shares	Percentage ownership in the Company as at the Latest Practicable Date	Percentage ownership in the Company upon the Scheme of Arrangement becoming effective	Percentage ownership in the Company after the Scheme of Arrangement becoming effective and the Offeror transferring 50% of the New Shares to BBVA
Offeror	55.15%	85.49%	70.32%
BBVA	14.51%	14.51%	29.68%
Total	69.66%	100%	100%

On 3 June 2008, CITIC Group, the Offeror and BBVA also entered into a conditional shareholders' agreement relating to the operations of the Group and the rights and obligations in respect of their holdings of the Shares. The agreement will only become unconditional upon the transfer to BBVA of 50% of the New Shares. Further information about their intention on the Group is set out in the section above headed "Future Plans for the Group."

#### Material interests of directors and effects of the Scheme of Arrangement on such interests

Mrs. Chan Hui Dor Lam Doreen and Mr. Zhao Shengbiao, both executive directors of the Company, were interested in an aggregate of 5,148,803 Shares, representing approximately 0.09% of the issued Shares as at the Latest Practicable Date. Based on their confirmation to the Company that they are not concert parties, they will be entitled to attend and vote at the Court Meeting as Minority Shareholders in respect of their Shares since their rights under the Scheme of Arrangement will not be any different from those of any other Minority Shareholders. In addition, as at the Latest Practicable Date, 16 directors of the Company held vested and unvested Options entitling them to subscribe for an aggregate of 17,100,000 Shares. These directors have informed the Company that they would either exercise all or part of their respective vested Options by the Expiry Time or accept the Option Offer. In the event that they so exercise the vested Options and are not precluded by the Takeovers Code from doing so as concert parties, they have also stated that they will vote in favour of all of the resolutions for the approval and implementation of the Scheme of Arrangement.

Except for the interests set out above and as respectively described in Sections 3 and 6 in Appendix V to this document regarding their interests in the securities of and in any arrangements with the Company, none of the directors of the Company, whether as directors or shareholders or creditors of the Company or otherwise, has any material interest in the Scheme of Arrangement.

#### INFORMATION ON THE COMPANY

The Company is an investment holding company and is the parent company of CKWB, a Hong Kong licensed bank. It also accounts for the following companies as associates, namely (a) CITIC Capital Holdings Limited, a company which specializes in private equity, asset management, real estate, mezzanine and structured finance, (b) CITIC International Assets Management Limited, a company which specializes in private equity, direct investment and asset management, and (c) CNCB as further described in the following section.

A summary of the audited consolidated results of the Company for each of the two financial years ended 31 December 2006 and 2007 is set out below:

	For the ended 31 I	Increase compared to	
	2006	2007	previous year
	HK\$'000	HK\$'000	%
Operation income	2,259,792	1,274,132	(43.6)
Profit before taxation	1,333,644	1,852,677	38.9
Profit after taxation	1,127,518	1,852,461	64.3
Profit attributable to shareholders	1,126,135	1,852,461	64.5
Dividends	567,517	_	not applicable
Basic earnings per Share (HK cents)	34.66	32.86	(5.2)

The audited consolidated net assets attributable to the shareholders were approximately HK\$20,232 million as at 31 December 2006 and approximately HK\$26,484 million as at 31 December 2007.

The attention of the Minority Shareholders is drawn to Appendix I to this document which sets out the financial information relating to the Group.

Based on the closing price of HK\$5.80 per Share as at the Latest Practicable Date and the total number of the Shares in issue of 5,759,172,916 as at the Latest Practicable Date, the market capitalization of the Company was approximately HK\$33,403 million.

## **INFORMATION ON CNCB**

As at the Latest Practicable Date, the Company held 5,855,002,200 CNCB H Shares, representing approximately 15% of the issued capital of CNCB.

CNCB is a joint stock company incorporated in the PRC on 31 December 2006 and its principal place of business in Hong Kong is situate at 28th Floor, Three Pacific Place, 1 Queen's Road East, Hong Kong.

The principal activities of CNCB and its subsidiaries are the provision of corporate personal banking services, conducting treasury business and corresponding banking business and the provision of asset management, entrusted lending and custodian services in the PRC.

CNCB has two classes of shares, namely CNCB H Shares which are listed on the Hong Kong Stock Exchange and CNCB A Shares which are listed on the Shanghai Stock Exchange.

As at 31 December 2007, the total issued share capital of CNCB was approximately RMB39,033 million, comprising 12,401,802,481 CNCB H Shares and 26,631,541,573 CNCB A Shares. CNCB does not have any outstanding options, warrants, derivatives or securities convertible into CNCB Shares.

As at the Latest Practicable Date, 24,329,608,919 CNCB A Shares, and 5,855,002,200 and 1,885,311,281 CNCB H Shares, representing approximately 62.33%, 15.00% and 4.83% of the issued share capital of CNCB are owned by CITIC Group, the Company and BBVA respectively. The concert parties comprising Lehman Brothers and its affiliates owned 964,724 CNCB H Shares, had a short position in respect of 584,000 CNCB H Shares and had lent to and borrowed from third parties 64,610,000 CNCB H Shares and 64,663,276 CNCB H Shares respectively. They also had as at the Latest Practicable Date, through derivative interests, a long position and a short position in respect of an aggregate of 54,027,000 and 54,141,000 CNCB H Shares respectively, details of which are set out in section 4 of Appendix IV to this document.

Save as aforesaid, CITIC Group, the Offeror, BBVA and the concert parties do not hold any other CNCB Shares, warrants, options, derivatives or other securities convertible into the CNCB Shares.

Save for the matters set out in the sections above headed "Reasons for the Proposal" and "Future Plans for the Group", it is not expected that the implementation of the Scheme of Arrangement will have any material effect on the assets, liabilities, profits and business of CNCB, nor it is expected that the emoluments of the directors of CNCB will be affected by the implementation of the Scheme of Arrangement.

Further details of the changes in the shareholdings of CNCB as a result of the transactions contemplated by the Proposal and the Framework Agreement are described below.

#### INFORMATION ON CITIC GROUP AND ON THE OFFEROR

CITIC Group is a state-owned enterprise established in 1979 with the approval of the State Council of the PRC. CITIC Group operates a wide range of businesses in the financial services and industrial investment sectors. One of CITIC Group's main focuses is the development of financial businesses, with substantial interests in two commercial banks and non-banking financial institutions, including, among others, securities firms, a life insurance company as well as a trust company. CITIC Group's audited financial statements for the year ended 31 December 2007 is set out in Appendix II in this document.

The Offeror is incorporated in the British Virgin Islands and is a wholly-owned subsidiary of CITIC Group. The Offeror owns approximately 55.15% of the issued share capital of the Company.

#### **INFORMATION ON BBVA**

The BBVA Group is a highly diversified international finance group with strengths in the traditional banking businesses of retail banking, asset management, private banking and wholesale banking. The BBVA Group also has a portfolio of investments in some of Spain's leading companies. The BBVA Group is a leading financial institution in Spain and Latin America, with strong presence in the USA, Europe and Asia. BBVA has its securities listed on the Madrid Stock Exchange, the London Stock Exchange, the Frankfurt Stock Exchange, the Paris Stock Exchange, the Luxembourg Stock Exchange, the Borsa Italiana,

the SWX Swiss Exchange, the New York Stock Exchange (in the form of American Depositary Receipts only) and Bolsa Mexicana de Valores. As of 30 June 2008, BBVA had over 112,059 employees with 7,971 branches, among which 30,087 employees and 3,547 branches were located in Spain. BBVA owns 835,717,967 Shares, representing approximately 14.51% of the issued share capital of the Company. BBVA also owns approximately 4.83% of the issued share capital of CNCB through holding CNCB H Shares (excluding any attributable interest in CNCB H Shares held by the Company). BBVA has no ultimate controlling shareholder as none of its beneficial owners holds more than 5% of its issued share capital.

Owing to the transactions contemplated by the Framework Agreement, BBVA is a party acting in concert with the Offeror in respect of the Proposal.

# STRATEGIC ALLIANCE BETWEEN CITIC GROUP AND BBVA AND THE FRAMEWORK AGREEMENT

By its announcements dated 23 November 2006, 24 July 2007, 26 November 2007 and 20 December 2007, the Company announced that it was in discussions with BBVA regarding strategic alliance, business cooperation and increase in the shareholding of the Company. In connection with such discussions, CITIC Group and BBVA also initiated discussions which resulted in the Proposal and the transactions contemplated in the Framework Agreement. The successful implementation of the Proposal and the transactions contemplated in the Framework Agreement are part of CITIC Group's overall plan to better develop, after the successful privatization of the Company, the potential synergies between CKWB, BBVA and CITIC Group's commercial banking business in Mainland China operated by CNCB.

On 3 June 2008, CITIC Group, the Offeror and BBVA entered into the Framework Agreement pursuant to which the Offeror requested the board of directors of the Company to put forward the Proposal. On the same date, the same parties entered into the Stock Borrowing Agreement whereby CITIC Group and BBVA would fund the Proposal. By the Framework Agreement, CITIC Group, the Offeror and BBVA agreed that part of the consideration received by the Company in the First CNCB Transfer shall be used by the Company for the repayment of the Bridge Loans and to provide a further commitment of HK\$3 billion to support the short to medium term expansion requirements of CKWB.

Pursuant to the Framework Agreement, upon the Scheme of Arrangement becoming effective and subject to obtaining the relevant regulatory approvals and satisfying other conditions, BBVA will increase its shareholding in CNCB in the following manner:

#### (i) the First CNCB Transfer

by the Company transferring all of its CNCB Shares currently representing approximately 15% of the issued share capital of CNCB to the Offeror and BBVA in proportion to their respective shareholdings in the Company immediately after the transfer of 50% of the New Shares by the Offeror to BBVA. The sale price per CNCB H Share is expected to be determined by reference to the trading prices of the CNCB H Shares immediately prior to the transfer;

## (ii) the Second CNCB Transfer

by the Offeror transferring 52,892,289 CNCB H Shares to BBVA, representing approximately 0.14% of the issued share capital of CNCB, pursuant to the exercise of an option granted by CITIC Group to BBVA under the SOPA. The sale price for such CNCB H Shares was determined and agreed by the parties in 2006 when the SOPA was entered into and will be equal to RMB180,676,000, plus an amount representing the cost of funds to CITIC Group from the time when BBVA first acquired the CNCB H Shares under the SOPA to the time of the completion of the transfer of the 0.14% interest in CNCB; and

#### (iii) the Third CNCB Transfer

by the Offeror transferring such number of CNCB H Shares to BBVA such that BBVA will in aggregate hold 10.07% of the issued share capital of CNCB on the basis that the First CNCB Transfer and the Second CNCB Transfer having been completed and any CNCB H Shares lent by BBVA under the Stock Borrowing Agreement having been returned to BBVA. The sale price per CNCB H Share will be the higher of (a) HK\$5.10, being approximately the average closing price of the CNCB H Shares for the month of May 2008 and which was wrongly stated as HK\$5.06 in the Announcement; and (b) the highest closing price per CNCB H Share from 3 June 2008 to the Effective Date, subject to a maximum price of HK\$5.86 per CNCB H Share, being the price per CNCB H Share at its initial public offering in 2006.

The Third CNCB Transfer constitutes a special deal under Rule 25 of the Takeovers Code and the Executive has indicated that it is prepared to consent to such transfer if (a) the Minority Shareholders who are not involved in or interested in the Third CNCB Transfer have approved such a transfer by a majority vote at the Extraordinary General Meeting and (b) the Independent Financial Adviser has stated in its letter to the Independent Board Committee that the Third CNCB Transfer is fair and reasonable. An application has been made to the Executive for such consent.

The table below sets out information on the respective holdings of the CNCB Shares by CITIC Group, the Offeror, the Company and BBVA as at (i) the Latest Practicable Date, (ii) upon the completion of each of the First CNCB Transfer, (iii) the Second CNCB Transfer

and (iv) the Third CNCB Transfer, assuming none of CITIC Group, the Company and BBVA has disposed of any other CNCB Shares:

Owner of CNCB Shares	Approximate number of CNCB Shares as at the Latest Practicable Date	Approximate percentage ownership in CNCB as at the Latest Practicable Date	Approximate percentage ownership in CNCB upon the completion of the First CNCB Transfer	Approximate percentage ownership in CNCB upon the completion of the Second CNCB Transfer	Approximate percentage ownership in CNCB upon the completion of the Third CNCB Transfer
CITIC Group <sup>1</sup>	24,329,608,919	62.33%	62.33%	62.33%	62.33%
Offeror	0	0	5.72%	5.58%	4.93%
The Company <sup>1</sup>	5,855,002,200	15.00%	0	0	0
BBVA	1,885,311,281	4.83%	9.28%	9.42%	10.07%
	32,069,922,400	82.16%	77.33%	77.33%	77.33%
Concert parties <sup>2</sup>	964,724	0.00%	0.05%	0.05%	0.05%
Others <sup>3</sup>	6,962,456,930	17.84%	22.62%	22.62%	22.62%
	39,033,344,054	100%	100%	100%	100%

\*Notes:

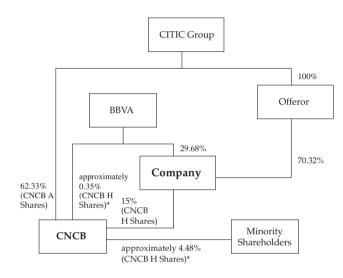
- 1. The CNCB Shares owned by CITIC Group are CNCB A Shares. The CNCB Shares owned by the Company, BBVA and the concert parties are CNCB H Shares.
- 2. The CNCB H Shares include the 964,724 CNCB H Shares in which Lehman Brothers and its affiliates owned as at the Latest Practicable Date. Lehman Brothers and its affiliates also had a short position in respect of 584,000 CNCB H Shares. In addition, Lehman Brothers and its affiliates had lent to and borrowed from third parties 64,610,000 and 64,663,276 CNCB H Shares respectively. They also had as at the Latest Practicable Date, through derivative interests, a long position and a short position in respect of an aggregate of 54,027,000 and 54,141,000 CNCB H Shares respectively, details of which are set out in section 4 of Appendix IV to this document.
- 3. This represents owners of CNCB Shares other than CITIC Group, the Offeror, BBVA and the concert parties including Lehman Brothers and its affiliates.

Pursuant to the Framework Agreement, the shareholdings of the Company, the Offeror and BBVA in CNCB may be adjusted in certain circumstances. However, such adjustments will not be material.

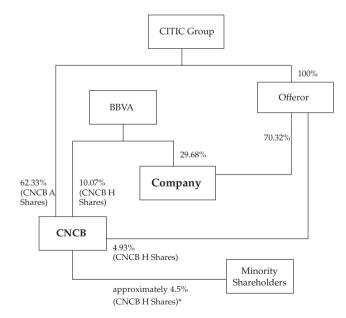
#### SIMPLIFIED SHAREHOLDING STRUCTURES OF THE COMPANY AND CNCB

The charts below illustrate the changes in the shareholdings of the Company and CNCB (i) upon the transfer of 50% of the New Shares from the Offeror to BBVA and prior to the return by the Offeror to BBVA of the CNCB H Shares lent pursuant to the Stock Borrowing, and (ii) upon completion of the Third CNCB Transfer.

(i) Simplified Shareholding Structure of the Company and CNCB upon the completion of the transfer of 50% of the New Shares by the Offeror to BBVA and prior to the return by the Offeror to BBVA of the CNCB H Shares lent pursuant to the Stock Borrowing



(ii) Simplified Shareholding Structure of the Company and CNCB upon the completion of the Third CNCB Transfer



\*Note: The Shares owned by the Minority Shareholders represent the share portion of the Cancellation Consideration to be transferred to them upon the implementation of the Scheme of Arrangement, which will be financed by CNCB H Shares lent by BBVA out of its 4.83% stake in CNCB pursuant to the Stock Borrowing.

#### WITHDRAWAL OF THE LISTING OF THE SHARES AND THE SHARE CERTIFICATES

Upon the Scheme of Arrangement becoming effective, all of the Scheme Shares will be cancelled and the share certificates for the Scheme Shares will thereafter cease to have effect as documents or evidence of title as from the Effective Date, which is expected to be 5 November 2008.

Conditional upon the approval of the Scheme of Arrangement at the Court Meeting and the passing of the special resolution to give effect to the Scheme of Arrangement at the Extraordinary General Meeting, the listing of the Shares from the Hong Kong Stock Exchange will be withdrawn in accordance with Rule 6.15 of the Rules governing the Listing of Securities on the Hong Kong Stock Exchange as soon as practicable. If the Scheme of Arrangement becomes effective on 5 November 2008, the listing of the Shares on the Hong Kong Stock Exchange is expected to be withdrawn at 9:30 a.m. on the same date.

The Scheme of Arrangement will lapse if any of the conditions described in the section above headed "Conditions of the Scheme of Arrangement" has not been fulfilled or waived, as applicable, on or before 31 December 2008 or such later date as the Offeror and the Company may agree or, to the extent applicable, as the High Court may allow. The holders of the Scheme Shares will be notified by way of an announcement of the last day for dealing in the Shares and the Effective Date.

If the Scheme of Arrangement is withdrawn or not approved or lapses, the listing of the Shares on the Hong Kong Stock Exchange will not be withdrawn.

#### ENTITLEMENTS TO AND PAYMENT OF CANCELLATION CONSIDERATION

All transferees of the Shares must lodge the duly completed transfer forms, together with the relevant certificate for the Shares, with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on 31 October 2008, being the day immediately prior to the date of the closure of the register of members of the Company.

Upon the Scheme of Arrangement becoming effective, the cash portion of the Cancellation Consideration will be paid and the share portion of the Cancellation Consideration will be transferred to the holders of the Scheme Shares whose names appear on the register of members of the Company at the Record Time within ten days of the Effective Date. On the basis that the Scheme of Arrangement becomes effective on 5 November 2008, the share certificates for the CNCB H Shares and cheques for the cash payment comprising the Cancellation Consideration, together with cheques for the payment of the Option Offer and the Bond Offer, will be despatched on or before 15 November 2008, in compliance with Rule 20.1 of the Takeovers Code. The Share certificates for the CNCB H Shares and the cheques for the payment of the cash portion of the Cancellation Consideration net of half the amount payable as stamp duty for the transfer of the CNCB H Shares will be sent to the persons entitled thereto at their respective registered addresses

or, in the case of joint holders, to the registered address of that joint holder whose name stands first on the register of members in respect of the joint holding. In the case of the holders of the Options and the Bondholders, cheques will be sent to the persons entitled thereto at their respective addresses kept in the Company's record. All such share certificates and cheques will be sent at the risk of the persons entitled thereto and none of CITIC Group, the Offeror, the Company, BBVA and any of their respective officers or agents will be responsible for any loss or delay in despatch.

On or after the day being six calendar months after the posting of such certificates and cheques, the Offeror shall have the right to cause the cancellation of any share certificate which has been returned or of any cheque which has not been cashed or has been returned uncashed and shall retransfer such CNCB H Shares represented by such share certificate into its own name as trustee for the person entitled thereto and place all dividends and other distributions and all monies represented by the cheque in a deposit or custodian account in the Offeror's name with a licensed bank in Hong Kong selected by the Company.

Before the expiry of six years from the Effective Date, the Offeror shall retransfer the CNCB H Shares and make payments from the deposit or custodian account of the sums, together with interest thereon, to persons who satisfy the Company that they are respectively entitled thereto. On the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to retransfer the CNCB H Shares or make any payments under the Scheme of Arrangement and the Offeror shall be absolutely entitled to the CNCB H Shares of which it was trustee and to the balance (if any) of the sums then standing to the credit of the deposit or custodian account in its name, including accrued interest subject to any deduction required by law and expenses incurred.

Settlement of the Cancellation Consideration to which any holder of the Scheme Shares is entitled and of the Option Offer and the Bond Offer will be implemented in full in accordance with the terms of the Proposal without regard to any lien, right of set-off, counterclaim or other analogous right to which the Company may otherwise be, or claim to be, entitled against such holders.

#### **OVERSEAS SHAREHOLDERS**

Offers made under the Proposal to those holders of the Scheme Shares, holders of the Options and the Bondholders who are not resident in Hong Kong may be subject to the laws of the relevant jurisdictions where they are located. Such overseas holders should inform themselves about and observe any applicable legal and regulatory requirements of their own jurisdictions. It is the responsibility of any overseas holders of the Scheme Shares, holders of the Options and Bondholders wishing to accept the offers under the Proposal to satisfy themselves as to the full observance of the laws of the relevant jurisdiction in connection therewith, including the obtaining of any governmental or exchange control or other consents which may be required, or the compliance with other necessary formalities and the payment of any issue, transfer or other taxes due in such jurisdiction.

#### TAXATION AND INDEPENDENT ADVICE

As the cancellation of the Scheme Shares upon the Scheme of Arrangement becoming effective does not involve the sale and purchase of any Hong Kong stock, no stamp duty will be payable pursuant to the Stamp Duty Ordinance, Chapter 117 of the Laws of Hong Kong, in this respect. However upon the Scheme of Arrangement becoming effective, the share portion of the Cancellation Consideration involves the transfer of the CNCB H Shares to the holders of the Scheme Shares and stamp duty will be payable on such transfer. Thus, the holders of the Scheme Shares will have to bear their half share of the stamp duty payable in respect of the transfer to them of the CNCB H Shares and the Offeror will deduct such stamp duty from the cash portion of the Cancellation Consideration payable to them. Currently, stamp duty is charged at the rate of 0.2% on the prevailing trading price of the CNCB H Shares at the time of transfer. By way of illustration only, based on the closing price of HK\$3.82 per CNCB H Shares as quoted on the Hong Kong Stock Exchange on the Latest Practicable Date, the half share of the stamp duty to be borne by a holder of a Scheme Share in respect of a transfer of a CNCB H Share will be HK\$0.00382.

No stamp duty is payable in relation to the acceptance of the Option Offer and the Bond Offer.

The holders of the Scheme Shares, the holders of the Options and the Bondholders, whether in Hong Kong or in other jurisdictions, are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the Proposal and, in particular, whether the receipt of the Cancellation Consideration or cash under the Option Offer and the Bond Offer will make them liable to taxation in Hong Kong or in other jurisdictions.

It is emphasized that none of the Company, the Offeror, CITIC Group, BBVA, Lehman Brothers, the Independent Financial Adviser, any of their respective officers or advisers and any other person involved in the Proposal accepts responsibility for any tax or other effects on, or liabilities of, any person or persons as a result of the implementation or otherwise of the Proposal.

#### COURT MEETING AND EXTRAORDINARY GENERAL MEETING

The High Court has directed that the Court Meeting be convened for the purpose of considering and, if thought fit, approving the Scheme of Arrangement (with or without modification). Only the Minority Shareholders other than the concert parties will be entitled to attend and vote at the Court Meeting under Rule 2.10 of the Takeovers Code. Such Minority Shareholders include Mrs. Chan Hui Dor Lam Doreen and Mr. Zhao Shengbiao, both executive directors of the Company, holding an aggregate of 5,148,803 Shares as at the Latest Practicable Date. These directors have indicated that they intend to vote their Shares in favour of the resolution for the approval of the Scheme of Arrangement at the Court Meeting. As at the Latest Practicable Date, two directors of the Company who are concert parties held an aggregate of 2 million vested Options, the exercise of which will result in a corresponding number of the Shares being issued to them. These Shares will

not, in compliance with the Takeovers Code, be voted at the Court Meeting. Shares owned by other concert parties, including Lehman Brothers and its affiliates, will likewise not be voted at the Court Meeting.

Following the conclusion of the Court Meeting, the Extraordinary General Meeting will be held for the purpose of considering and, if thought fit, passing a special resolution to give effect to the Scheme of Arrangement, including the reduction of the authorized and issued share capital of the Company, and an ordinary resolution for the approval of the Third CNCB Transfer as required by the Executive. All of the shareholders of the Company will be entitled to attend and vote in respect of the special resolution and only the Minority Shareholders who have not been involved in or are not interested in the Third CNCB Transfer will be entitled to attend and vote in respect of the ordinary resolution at the Extraordinary General Meeting. Thus the Offeror, BBVA and the concert parties including, Lehman Brothers and its affiliates, will not be entitled to vote on the Third CNCB Transfer. If the Scheme of Arrangement is approved at the Court Meeting, the Offeror, BBVA and the concert parties, including Lehman Brothers and its affiliates, have indicated that their respective Shares will be voted in favour of the special resolution to be proposed at the Extraordinary General Meeting.

Notice of the Court Meeting is set out on pages CM-1 to CM-2 of this document. The Court Meeting will be held on 16 October 2008 at the time and place specified in the notice.

Notice of the Extraordinary General Meeting is set out on pages EGM-1 to EGM-3 of this document. The Extraordinary General Meeting will be held at the same place and date at 10:30 a.m. or immediately after the conclusion or adjournment of the Court Meeting.

Pursuant to the articles of association of the Company, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless, before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll, a poll is demanded. A poll may be demanded by:-

- (1) the chairman of the meeting; or
- (2) at least three members present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative, for the time being entitled to vote at the meeting; or
- (3) any member or members present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative representing in aggregate not less than one-tenth of the total voting rights of all of the members having the right to attend and vote at the meeting; or
- (4) any member or members present in person or by proxy or, in the case of a member being a corporation, by its duly authorized representative holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

For the avoidance of doubt, the articles of association of the Company relating to general meetings do not apply to the Court Meeting, which must be convened and held in accordance with the directions of the High Court.

#### ACTIONS TO BE TAKEN

A pink form of proxy for use at the Court Meeting and a white form of proxy for use at the Extraordinary General Meeting are enclosed with this document.

Whether or not you are able to attend the Court Meeting or the Extraordinary General Meeting, you are strongly urged to complete and sign the enclosed forms of proxy in accordance with the instructions respectively printed thereon and to lodge them, together with the power of attorney or other authority (if any) under which they are signed or a notarially certified copy of that power or authority, as soon as possible and in any event not less than 48 hours before the appointed times for the meetings with the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806 – 1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. If the pink form of proxy is not so lodged, it may be handed to the chairman of the Court Meeting at the Court Meeting. In order to be valid, the white form of proxy for use at the Extraordinary General Meeting must be lodged not less than 48 hours before the time appointed for that meeting. The completion and return of the form of proxy for the Court Meeting or for the Extraordinary General Meeting will not preclude you from attending and voting in person at the relevant meeting. In such event, your relevant form of proxy will be deemed to have been revoked.

An announcement will be made by the Company on the results of the Court Meeting and the Extraordinary General Meeting. In addition, an announcement will be made on the result of the hearing of the petition to sanction the Scheme of Arrangement by the High Court and, if the Scheme of Arrangement is sanctioned, the last date of trading in the Shares on the Hong Kong Stock Exchange and the Effective Date.

For the purpose of determining the entitlements of the Minority Shareholders other than the concert parties to attend and vote at the Court Meeting and of the shareholders of the Company to attend and vote at the Extraordinary General Meeting, the register of members of the Company will be closed from 15 October 2008 to 16 October 2008 (both days inclusive) and during such period, no transfer of the Shares will be effected. In order to qualify to vote at the Court Meeting and the Extraordinary General Meeting, all duly completed instruments of transfer accompanied by the relevant share certificates must be lodged with the share registrar of the Company mentioned above not later than 4:00 p.m. on 14 October 2008.

#### FURTHER INFORMATION

Further information in relation to the Proposal is set out in the Appendices in this document, all of which form part of this Explanatory Statement.

#### 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of the Group for each of the three financial years ended 31 December 2007 extracted from its 2005, 2006 and 2007 annual reports and its unaudited consolidated results for the six months ended 30 June 2008 extracted from its results announcement dated 21 August 2008 except that the definitions used in this document have been adopted in the summary below.

#### Summary Consolidated Income Statement

	Period			
	ended			
	June 30		nded Decem	ber 31
	2008	2007	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Net interest income	790,023	1,358,869	1,069,538	1,099,257
Operating income	635,909	1,274,132	2,259,792	1,970,651
Profit before taxation	1,462,603	1,852,677	1,333,644	1,215,646
Income tax	(22,404)	(216)	(206,126)	(112,206)
Profit for the year/period	1,440,199	1,852,461	1,127,518	1,103,440
Attributable to: Equity shareholders of				
the Company	1,440,199	1,852,461	1,126,135	1,103,395
Minority interests			1,383	45
	1,440,199	1,852,461	1,127,518	1,103,440
Earnings per Share				
– Basic	25.01¢	32.86¢	34.66¢	34.51¢
– Diluted	25.00¢	32.79¢	32.58¢	32.38¢
Dividends				
Interim dividend	-	_	246,517	361,358
Final dividend			321,000	191,872
			567,517	553,230
Dividends per Share			13.3¢	17.3¢

*Note:* The audit report issued by KPMG for each of the three financial years ended 31 December 2005, 2006 and 2007 was not qualified.

## 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

The following information has been extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2007, except that the definitions used in this document have been adopted in the extract below.

#### **Consolidated Income Statement**

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

	Note	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Interest income	4	5,057,246	4,106,324
Interest expense	_	(3,698,377)	(3,036,786)
Net interest income		1,358,869	1,069,538
Fee and commission income		835,875	574,695
Fee and commission expense		(13,835)	(14,668)
Net fee and commission income	5	822,040	560,027
Net loss and write-down on structured			
investment vehicles		(1,311,170)	-
Other net trading income		589,257	651,327
Net trading (loss)/income	6	(721,913)	651,327
Net expense from financial instruments designated at			
fair value through profit or loss	7	(249,014)	(69,736)
Net hedging gain	8	2,455	129
Other operating income	9 _	61,695	48,507
Operating income		1,274,132	2,259,792
Operating expenses	10	(1,233,664)	(1,145,306)
Operating profit before impairment		40,468	1,114,486
Impairment losses on loans and advances	13	(72,476)	(35,100)
Impairment losses written back/(charged for)	10	(12,110)	(55,100)
on held-to-maturity investments		242	(3,957)
Impairment losses on available-for-sale securities		_	(17,461)
Impairment losses		(72,234)	(56,518)
Net profit on disposal of available-for-sale securities	14	6,905	90,199
Net loss on disposal of held-to-maturity investments		_	(22,306)
	_		
Operating (loss)/profit		(24,861)	1,125,861
Gain on dilution of investment in associates		198,313	_
Profit on disposal of a subsidiary		-	1,073
Net profit on disposal of property and equipment		18,167	71,884
Revaluation gain on investment properties	31(c)	60,104	3,376
Share of profits of associates	-	1,600,954	131,450

	Note	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
<b>Profit before taxation</b> Income tax	15	1,852,677 (216)	1,333,644 (206,126)
		(210)	
Profit for the year		1,852,461	1,127,518
Attributable to:			
Equity shareholders of the Company	16	1,852,461	1,126,135
Minority interests	44		1,383
Profit for the year		1,852,461	1,127,518
Dividends payable to equity shareholders of the Company attributable to the year:	17(a)		
Interim dividend declared and paid during the year		_	246,517
Final dividend proposed after the balance sheet date	-		321,000
	•	_	567,517
Earnings per Share	18		
Basic		32.86¢	34.66¢
Diluted		32.79¢	32.58¢
	-		

#### **Consolidated Balance Sheet**

At 31 December 2007 (Expressed in Hong Kong dollars)

	Note	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> <i>HK\$</i> ′000
Assots			
Assets Cash and balances with banks, central banks and			
other financial institutions	20	1,502,876	1,267,871
Placements with and advances to banks,	20	1,002,070	1,207,071
central banks and other financial institutions	21	12,647,588	12,392,538
Trade bills	22	1,523,200	491,994
Trading assets	23	3,479,009	6,414,870
Securities designated at fair value through			
profit or loss	24	531,025	1,003,579
Loans and advances to customers and other accounts	25	67,704,297	51,906,002
Available-for-sale securities	27	22,125,403	4,973,450
Held-to-maturity investments	28	-	10,176,493
Interest in associates	30	20,635,639	11,477,510
Property and equipment	31	•••	
– Investment property		238,380	124,776
– Other property and equipment	22	836,239	874,989
Goodwill	32	1,007,749	1,007,749
Tax recoverable	37(a)	71,248	20.004
Deferred tax assets	37(b)	82,374	29,904
Total assets		132,385,027	102,141,725
Equity and liabilities			
Deposits and balances of banks and			
other financial institutions	33	6,649,030	831,973
Deposits from customers	34	83,794,961	65,421,831
Trading liabilities	35	879,690	428,648
Certificates of deposit issued	36	6,863,124	7,257,719
Debt securities issued	39	2,314,394	2,300,889
Convertible bonds issued	40	7,648	247,191
Current taxation Deferred tax liabilities	37(a)	6,760	112,681
Other liabilities	37(b)	 1,459,451	22,586 1,384,810
Loan capital	41	3,926,390	3,901,326
Loan Capitai	41	5,920,390	
Total liabilities		105,901,448	81,909,654
E autitu			
Equity Share capital	42	5 757 221	5 022 422
Share capital Reserves	42 43	5,757,321 20,726,258	5,023,422 15,208,649
Reserves	40	20,720,230	13,200,049
Total equity attributable to equity shareholders			
of the Company		26,483,579	20,232,071
		100.005.005	
Total equity and liabilities	!	132,385,027	102,141,725

#### **Balance Sheet**

At 31 December 2007 (Expressed in Hong Kong dollars)

		2007		2006	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets					
Property and equipment	31(b)				
– Investment property	01(0)		75,700		_
- Other property and equipment			4,593		51,049
Investments in subsidiaries	29		7,500,518		4,987,561
Investments in associates	30		16,756,096		10,114,080
			24,336,907		15,152,690
Current assets					
Trading assets	23	-		60,893	
Loans and advances to customers					
and other accounts	25	29,800		13,860	
Amounts due from subsidiaries	26	1,115,461		1,483,461	
		1,145,261		1,558,214	
Current liabilities					
Other liabilities		14,915		42,896	
Deferred tax liabilities		1,473		-	
Balances of banks and other					
financial institutions		5,110,000		-	
Amounts due to subsidiaries	38	84,443		260,550	
		5,210,831		303,446	
NT ( (/1) 1 11), \/ (					
Net current (liabilities)/assets			(4,065,570)		1,254,768
Net assets			20,271,337		16,407,458
Equity					
Share capital	42		5,757,321		5,023,422
Reserves	43		14,514,016		11,384,036
	10				
Total equity and liabilities			20,271,337		16,407,458

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

		2007		2006	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January		-	20,232,071	-	9,455,853
Net income recognised directly in equity: Exchange differences on translation of: – financial statements of overseas branches, subsidiaries and associates	43	787,384		7,056	
- related borrowings	43	200	_	363	
			787,584		7,419
Surplus on revaluation of other premises upon reclassification to investment					
properties, net of deferred tax	43		33,670		9,488
Release of revaluation reserve on disposal of properties	43		6,011		(1,549)
Available-for-sale securities – changes in fair value – transfer from equity to	43	(337,476)		(37,338)	
income statement on disposal – transfer from equity to deferred tax	43 43	(7,356) 60,346	_	(79,221) 20,398	
			(284,486)		(96,161)
Disposal of a subsidiary	1.5			(1.5.5)	
– exchange differences reserve – fair value reserve – retained profits	43 43 43		_	(199) (28,513) 29,530	
			_		818
Share of associates – fair value reserve	43	(10,910)		(423)	
<ul> <li>share option reserve</li> </ul>	43	8,167	_	9,644	
			(2,743)		9,221
Profit for the year		-	1,852,461	-	1,127,518
Total recognised income and					
expense for the year		-	2,392,497	-	1,056,754

		2002		200	
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:					
- equity shareholders of the Company		2,392,497		1,055,371	
<ul> <li>minority interests</li> </ul>			-	1,383	
		2 202 407		1 056 754	
		2,392,497	-	1,056,754	
Dividends paid during the year		-	(322,056)		(438,591)
Minority interests attributable to					
associates/subsidiaries acquired/					
disposed during the year		-			(1,919)
Movements in equity arising from					
capital transactions:					
Shares issued under the share					
option scheme	40	( 200		E 010	
– share capital – share premium	42	6,300 19,396		5,012 17,942	
– transfer of share option reserve		17,070		17,742	
to share premium	43	(5,228)		(4,761)	
			-		
			20,468		18,193
Conversion of convertible bonds					
into ordinary shares					
– share capital	42	59,024		266,061	
– share premium	12	192,949		869,754	
– equity component	43	(11,768)	-	(61,294)	
			240,205		1,074,521
Issuance of shares	40	((0 575		1 554 400	
– share capital – share premium	42	668,575 3,229,214		1,554,490 3,746,322	
– general reserve	43			3,761,867	
0			-		
			3,897,789		9,062,679
Equity-settled share-based transactions	43		22,605		4,581
. ,		-			
		-	4,181,067		10,159,974
		-			
Total equity at 31 December			26,483,579		20,232,071

#### **Consolidated Cash Flow Statement**

For the year ended 31 December 2007 (Expressed in Hong Kong dollars)

	Note	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Operating activities			
Profit before taxation		1,852,677	1,333,644
Adjustments for non-cash items:			
Net loss and write-down on structured			
investment vehicles		1,311,170	_
Impairment losses on loans and advances		72,476	35,100
Share of profits of associates		(1,600,954)	(131,450)
Revaluation gain on investment properties		(60,104)	(3,376)
Net profit on disposal of property and equipment		(18,167)	(71,884)
Net profit on disposal of available-for-sale securities		(6,905)	(90,199)
Net loss on disposal of held-to-maturity investments Impairment losses (written back)/charged for		-	22,306
on held-to-maturity investments		(242)	3,957
Impairment losses on available-for-sale securities		(242)	17,461
Profit on disposal of a subsidiary		_	(1,073)
Equity-settled share-based payment expenses		22,605	4,581
Amortisation of deferred expenses		71,852	65,978
Interest expense on convertible bonds		1,908	34,121
Depreciation on property and equipment		82,087	110,330
Dividend income from equity securities		(20,291)	(33,164)
Interest expense on loan capital		318,035	266,781
Gain on dilution of investment in associates		(198,313)	-
Foreign exchange differences		35,946	24,382
		1,863,780	1,587,495
(Increase)/decrease in operating assets Placement with and advances to banks, central banks and other financial institutions with original			
maturity beyond three months		(2,469,812)	(1,356,567)
Treasury bills with original maturity beyond three months		(499,609)	99,468
Certificates of deposit held with original maturity		(499,009)	<i>99,</i> 400
beyond three months		(100,043)	449,923
Trading assets		1,624,691	58,159
Securities designated at fair value through		1,021,071	00/10/
profit or loss		472,554	76,213
Loans and advances to customers, other accounts		,	,
and trade bills		(16,525,959)	(8,566,774)
Held-to-maturity investments		9,988,152	6,432,528
Available-for-sale securities		(16,768,424)	970,777
		(24,278,450)	(1,836,273)
Increase/(decrease) in operating liabilities			
Deposits and balances of banks and			
other financial institutions		5,817,057	(3,325,473)
Deposits from customers		18,373,130	11,006,552
Trading liabilities		451,042	(232,489)
Certificates of deposit issued		(399,015)	(210,242)
Debt securities issued		4,944	6,284
Other liabilities		12,914	617,850
		24,260,072	7,862,482

	Note	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Cash generated from operations		1,845,402	7,613,704
Income tax paid			
Hong Kong Profits Tax paid		(192,373)	(130,325)
Overseas tax paid		(7,505)	(4,283)
Net cash generated from operating activities		1,645,524	7,479,096
Investing activities			
Dividends received from equity securities		20,291	33,164
Dividends received from associates		52,450	597
Purchase of property and equipment		(59,595)	(213,379)
Proceeds from disposal of property and equipment		29,143	186,985
Net cash outflow from disposal of a subsidiary		_	(340,828)
Purchase of an associate		(6,657,505)	
Net cash used in investing activities		(6,615,216)	(333,461)
Financing activities			
Ordinary dividends paid		(322,056)	(438,591)
Interest paid on convertible bonds		(20)	(2,467)
Interest paid on loan capital		(319,337)	(355,061)
Proceeds from loan capital issued		1,949,500	1,942,230
Redemption of loan capital		(1,949,363)	(2,331,346)
Proceeds from debt securities issued		_	41,125
Proceeds from shares issued		3,918,256	18,193
Net cash generated from/(used in)			
financing activities		3,276,980	(1,125,917)
Net (decrease)/increase in cash and			
cash equivalents		(1,692,712)	6,019,718
Cash and cash equivalents at 1 January		12,031,996	6,012,278
Cash and cash equivalents at 31 December	47	10,339,284	12,031,996
Cash flows from operating activities include:			
Interest received		5,046,225	4,095,834
		(3,246,327)	(2,711,111)

#### Notes to the Financial Statements

(Expressed in Hong Kong dollars unless otherwise indicated)

#### 1. PRINCIPAL ACTIVITIES

The principal activities of the Company and its subsidiaries, which materially affect the results or comprise the assets and liabilities of the Group, are the provision of banking and related financial services.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

The Company is a limited company incorporated and domiciled in Hong Kong and has its registered office at Suites 2701–9, 27th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong. The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the Group) and the Group's interest in associates.

#### (a) Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs"), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

#### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as trading, designated at fair value through profit or loss and available-for-sale (see note 2(h)(ii));
- investment property (see note 2(k)); and
- Cash-settled share-based payments (see note 2(q)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 59.

# (c) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Interest income

Interest income for all interest-bearing financial instruments is recognised in the income statement on accrual basis using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts. Cash rebates granted in relation to residential mortgage loans are capitalised and amortised to the income statement over their expected life.

For impaired loans, the accrual of interest income based on the original terms of the loan is discontinued, but any increase in the present value of impaired loans due to the passage of time is reported as interest income.

Net income from financial instruments designated at fair value through profit or loss and net trading income comprises all gains and losses from changes in fair value (net of accrued coupon) of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments.

## (*ii*) Fee and commission income

Fee and commission income is recognised when the corresponding service is provided, except where the fee is charged to cover the costs of a continuing service to, or risk borne for, the customer, or is interest in nature. In these cases, the fee is recognised as income in the accounting period in which the costs or risk is incurred or accounted for as interest income.

Origination or commitment fees received/paid by the Group which result in the creation or acquisition of a financial assets are deferred and recognised as an adjustment to the effective interest rate. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

#### (iii) Finance income from finance lease and hire purchase contract

Finance income implicit in the finance lease and hire purchase payments is recognised as interest income over the period of the leases so as to produce an approximately constant periodic rate of return, on the outstanding net investment in the leases for each accounting period. Commission paid to dealers for acquisition of finance lease loans or hire purchase contracts is included in the carrying value of the assets and amortised to the income statement over the expected life of the lease as an adjustment to interest income.

#### (iv) Rental income from operating lease

Rental income received under operating leases is recognised as other operating income in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable.

- (v) Dividend income is recognised as follows
  - dividend income from listed investments is recognised when the share price of the investment is quoted ex-dividend; and
  - dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

#### (d) Subsidiaries and minority interest

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from their activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meet the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interests in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, its investments in subsidiaries are stated at cost less impairment losses, if any (see note 2(o)).

#### (e) Associates

An associate is an entity in which the Group or the Company has significant influence, but not control or joint control over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill and amortisation of other intangible assets relating to the investment in associates recognised for the year (see notes 2(f), 2(g) and 2(o)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For these purposes, the Group's interest in the associate is the carrying amount of the investment under equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses, if any (see note 2(o)).

# (f) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses (see note 2(o)). Goodwill is allocated to cash-generating units and is tested annually for impairment by comparing the present value of expected cash flows from cash-generating unit with carrying value of its net assets, including attributable goodwill. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in the income statement.

On disposal of a cash-generating unit, or an associate during the year, any attributable amount of purchased goodwill is included in the Group's share of net assets in the calculation of the profit or loss on disposal.

## (g) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(o)). Intangible assets include the value of brand name, core deposits and customer relationships.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

-	Brand name	Indefinite
-	Core deposits	10 years
_	Customer relationships	20 years

Both the period and method of amortisation are reviewed annually.

Intangible assets are not amortised while their useful lives are assessed to be indefinite. Any conclusion that the useful life of an intangible asset is indefinite is reviewed annually to determine whether events and circumstances continue to support the indefinite useful lives assessment for that asset. If they do not, the change in the useful life assessment from indefinite to finite is accounted for prospectively from the date of change and in accordance with the policy for amortisation of intangible assets with finite lives as set out above.

## (h) Financial instruments

## (i) Initial recognition

The Group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale securities and other financial liabilities.

Financial instruments are measured initially at fair value, which normally will be equal to the transaction price plus, in case of a financial asset or financial liability not held at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial assets or issue of financial liabilities. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

The Group recognises financial assets and financial liabilities on the date it becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities at fair value through profit and loss is recognised using trade date accounting. Other financial assets and financial liabilities are recognised using settlement date accounting. From these dates, any gains and losses arising from changes in fair value of the financial assets or financial liabilities at fair value through profit or loss are recorded.

(ii) Categorisation

Fair value through profit or loss

This category comprises financial assets and financial liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but excludes those investments in equity instruments that do not have a quoted market price and whose fair value cannot be reliably measured.

Trading financial instruments are financial assets or financial liabilities which are acquired or incurred principally for the purpose of trading, or are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives that do not qualify for hedge accounting (note 2(j)) are accounted for as trading instruments.

The Group has the option to designate its financial instruments at fair value through profit or loss upon initial recognition when:

- the assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch which would otherwise arises;
- the asset or liability contains an embedded derivatives that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is not prohibited.

Financial assets and financial liabilities under this category are carried at fair value and are not allowed to reclassify into or out of this category while it is held or issued. Changes in the fair value are included in the income statement in the period in which they arise. Upon disposal or repurchase, the difference between the net sale proceeds or the net payment and the carrying value is included in the income statement.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than (a) those that the Group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the Group, upon initial recognition, designates at fair value through profit or loss or as available-for-sale; or (c) those where the Group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with banks, central banks and financial institutions.

Loans and receivables are carried at amortised cost using the effective interest rate method less impairment losses, if any (see note 2(o)).

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity which the Group has the positive intention and ability to hold to maturity, other than (a) those that the Group, upon initial recognition, designates as fair value through profit or loss or as available-for-sale; and (b) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost using the effective interest rate method less impairment losses, if any (see note 2(o)).

#### Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other three categories above. They include financial assets intended to be held for an indefinite period of time, but which may be sold in response to needs for liquidity or changes in the market environment. Available-for-sale securities are carried at fair value. Unrealised gains and losses arising from changes in the fair value are recognised directly in the fair value reserve, except for impairment losses and foreign exchange gains and losses on monetary items such as debt securities which are recognised in the income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, and derivatives that are linked to and must be settled by delivery of such unquoted equity securities are carried at cost less impairment losses, if any (see note 2(o)).

When the available-for-sale securities are sold, gains or losses on disposal include the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments are released from the fair value reserve.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognised and included in shareholders' equity.

If the bond is converted into shares, the carrying value of the liability component at the time of conversion, are transferred to "share capital" based on the numbers of shares issued at par and the differences are recognised as share premium in capital reserve.

## (iii) Fair value measurement principles

The fair value of financial instruments is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

If there is no publicly available latest traded price nor a quoted market price for exchange-traded financial instrument on a recognised stock exchange is not available or a price from a broker/dealer for non-exchange-traded financial instrument is not available, or if the market for a financial instrument is not active, the fair value of the instrument is estimated using valuation techniques that provides a reliable estimate of prices which could be obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

## (iv) Derecognition

A financial asset is derecognised when the contractual rights to receive the cash flows from the financial asset expire, or where the financial asset together with substantially all the risks and rewards of ownership, have been transferred.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

# (v) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet where there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle liability simultaneously.

#### (vi) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with the accounting policies for financial instruments (see note 2(h)(ii)).

## (i) Repurchase and reverse repurchase transactions

Securities sold subject to a simultaneous agreement to repurchase these securities at a certain later date at a fixed price (repurchase agreements) are retained in the financial statements and measured in accordance with their original measurement principles. The proceeds from the sale are reported as liabilities and are carried at amortised cost.

Securities purchased under agreements to resell (reverse repurchase agreements) are reported not as purchases of the securities, but as receivables and are carried in the balance sheet at amortised cost.

Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are recognised as interest income and interest expense respectively, over the life of each agreement using the effective interest rate method.

# (j) Hedging

Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item. The Group assesses and documents whether the financial instruments that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items attributable to the hedged risks both at hedge inception and on an ongoing basis. The Group discontinues prospectively hedge accounting when (a) the hedging instrument expires or is sold, terminated or exercised; (b) the hedge no longer meets the criteria for hedge accounting; or (c) the Group revokes the designation.

## (i) Fair value hedge

A fair value hedge seeks to offset risks of changes in the fair value of recognised asset or liability that will give rise to a gain or loss being recognised in the income statement.

The hedging instrument is measured at fair value, with fair value changes recognised in the income statement. The carrying amount of the hedged item is adjusted by the amount of the changes in fair value of the hedging instrument attributable to the risk being hedged. This adjustment is recognised in the income statement to offset the effect of the gain or loss on the hedging instrument.

When a hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the Group revokes designation of the hedge relationship, any adjustment up to that point, to a hedged item for which the effective interest rate method is used, is amortised to the income statement as part of the recalculated effective interest rate of the item over its remaining life.

#### (ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, or the foreign currency risk of a committed future transaction, the effective part of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in equity. The ineffective portion of any gain or loss is recognised immediately in the income statement.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement. If the hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

For all other cash flow hedges, the associated gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged cash flow affects the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in the income statement.

## (iii) Hedge effectiveness testing

The Group carries out prospective effectiveness testing to demonstrate that the Group expects the hedge to be highly effective (prospective effectiveness) at the inception of the hedge and throughout its life in order to qualify for hedge accounting. Actual effectiveness (retrospective effectiveness) also needs to be demonstrated on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method which the Group adopts for assessing hedge effectiveness will depend on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method as effectiveness testing methodologies. For cash flow hedge relationships, the Group utilises the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness, the changes in fair value or cash flows must offset each other in the range of 80% to 125% for the hedge to be deemed effective.

# (k) Investment property

Investment properties are land and buildings which are owned and/or held under a leasehold interest (see note 2(m)) to earn rental income and/or for capital appreciation. These include land and buildings held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the income statement. Rental income from investment property is accounted for as described in accounting policy note 2(c)(iv).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(m)(ii)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 2(c)(iii).

## (1) Other property and equipment

In preparing these financial statements, advantage has been taken of the transitional provisions set out in paragraph 80A of HKAS 16 "*Property, plant and equipment*", issued by the HKICPA, with effect that other premises which are carried at revalued amounts in financial statements relating to periods ended before 30 September 1995 have not been revalued to fair value at the balance sheet date.

The following items of property and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses, if any (see note 2(o)):

- land held under operating leases and buildings thereon, where the fair value of the leasehold interest in the land and buildings can be measured separately at the inception of the lease. See note 2(m)(iii); and
- other items of equipment.

Depreciation is calculated to write off the cost or valuation of items of property and equipment, less their estimated residual value, if any, using the straight line method over the estimated useful lives as follows:

- freehold land is not depreciated.
- buildings over 30 years or the unexpired terms of the land leases, whichever is shorter.
- furniture, fixtures and equipment 3 to 10 years.

Where parts of an item of property and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gains or losses arising from the retirement or disposal of an item of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the income statement on the date of retirement or disposal. Any related revaluation surplus is transferred from the revaluation reserve to retained profits.

#### (m) Leases and hire purchase contracts

An arrangement, comprising a transaction or a series of the transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

#### (i) Classification of leased assets

Leases which transfer substantially all the risks and rewards of ownership to the lessee are classified as finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the lessee are classified as operating leases.

#### (ii) Finance leases

Where the Group is a lessor under finance leases, an amount representing the net investment in the lease is included in the balance sheet as loans and advances to customers. Hire purchase contracts having the characteristics of finance leases are accounted for in the same manner as finance leases. Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o).

## (iii) Operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and, where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(l). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(o).

Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in note 2(c)(iv).

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal installments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made.

#### (n) Repossessed assets

In the recovery of impaired loans and advances, the Group may take repossession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation of the impaired assets and the Group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets".

Repossessed assets are recognised at the lower of the carrying amount of the related loans and advances and fair value of such amounts less costs to sell at the date of exchange. They are not depreciated or amortised.

Impairment losses on initial classification and on subsequent remeasurement are recognised in the income statement.

#### (o) Impairment of assets

The carrying amount of the Group's assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence that financial assets are impaired includes observable data that comes to the attention of the Group about one or more of the following loss events which has an impact on the future cash flows on the assets that can be estimated reliably:

- significant financial difficulty of the issuer or borrower;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the borrower;
- disappearance of an active market for financial assets because of financial difficulties; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, the carrying amount is reduced to the estimated recoverable amount by means of a charge to the income statement.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of loans and receivables and held-to-maturity investments, which are measured at amortised cost, whose recovery is considered doubtful but not remote. In this case, the impairment losses are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against loans and receivables or held-to-maturity investments directly and any amounts held in the allowance account relating to that borrower/investment are reversed. Subsequent recoveries of amounts previously charged to the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the income statement.

#### *(i)* Loans and receivables

Impairment losses on loans and receivables are measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets). Receivables with a short duration are not discounted if the effect of discounting is immaterial.

The total allowance for credit losses consists of two components: individual impairment allowances and collective impairment allowances.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment. The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favor of the Group. Each impaired asset is assessed on its own merits.

In assessing the need for collective impairment allowances, management considers factors such as credit quality, portfolio size, concentrations, and economic factors. In order to estimate the required allowance, the Group makes assumptions both to define the way the Group models inherent losses and to determine the required input parameters, based on historical experience and current economic conditions.

The accuracy of the impairment allowances the Group makes depends on how well the Group can estimate future cash flows for individually assessed impairment allowances and the model assumptions and parameters used in determining collective impairment allowances. While this necessarily involves judgment, the Group believes that the impairment allowances on loans and advances to customers are reasonable and supportable.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement. A reversal of impairment losses is limited to the loans and receivables' carry amount that would have been determined had no impairment loss been recognised in prior years.

When there is no reasonable prospect of recovery, the loan and the related interest receivables are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remain impaired or past due.

## (ii) Held-to-maturity investments

Impairment on held-to-maturity investments is considered at both an individual and collective level. The individual impairment allowance is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective interest rate, where the effect of discounting is material.

All significant assets found not to be individually impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment by grouping together financial assets with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

#### (iii) Available-for-sale securities

When there is objective evidence that an available-for-sale security is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the income statement. The amount of the cumulative loss that is recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

For unquoted available-for-sale equity securities that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the equity securities and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

Impairment losses recognised in the income statement in respect of available-forsale equity securities are not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in the income statement.

#### (iv) Other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property and equipment (other than properties carried at revalued amounts);
- investments in subsidiaries and associates;
- goodwill; and
- intangible assets.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). Recognition of impairment losses

An impairment loss is recognised in the income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favorable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the income statement in the year in which the reversals are recognised.

(v) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the year (see note 2 (o)(i) to (iv)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sales equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the year to which the interim period relates.

## (p) Cash equivalents

Cash equivalents are short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

## (q) Employee benefits

## (i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) Share-based payments

Employee share option scheme

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the trinomial lattice model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to those share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the income statement for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares.

The amount recognised in share option reserve is retained until either the option is exercised (when it is transferred to share premium) or the option expires (when it is released directly to retained profits).

Employee Equity Linked Deferred Award Scheme ("ELDA") Awards are granted to employees of the Group under ELDA. The fair value of the amount payable to the employee is recognised as an employee cost with a corresponding increase in liabilities. The fair value is initially measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value estimation of the awards granted is measured based on a trinomial lattice model and subject to the maximum payment of HK\$3.00 per share. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

#### (iii) Staff retirement scheme

The Group operates a defined contribution provident fund and a Mandatory Provident Fund scheme. Contributions are charged to the income statement as and when the contributions fall due.

#### (r) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available. Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group or the Company has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group or the Company intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## (s) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated into Hong Kong dollars using the foreign exchange rates ruling at the transactions dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences relating to investments at fair value through profit or loss and derivative financial instruments are included in gains less losses from trading securities or financial instruments designated at fair value through profit or loss. All other exchange differences relating to monetary items are presented as gains less losses from dealing in foreign currencies in the income statement. Differences arising on translation of available-for-sale equity instruments are recognised in reserves.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximately the foreign exchange rates ruling at the dates of the transactions; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in reserves which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

## (t) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

## (u) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group;

- (iv) the party is a member of key management personnel of the Group, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group, the Group's parent or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

# (v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

The Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

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

## 3. CHANGE IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Company and the Group.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, *Financial instruments: Disclosures* and the amendment to HKAS 1, *Presentation of financial statement: Capital disclosures*, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 30, *Disclosure in the financial statements of banks and similar financial institutions*, and HKAS 32, *Financial instruments: Disclosure and presentation*. These disclosures are provided throughout these financial statement, in particular in note 51.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Company and the Group's objectives, policies and processes for managing capital. These new disclosures are set out in note 51(e).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 59).

# 4. INTEREST INCOME

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

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

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

# 5. NET FEE AND COMMISSION INCOME

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

# 6. NET TRADING (LOSS)/INCOME

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

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

# 7. NET EXPENSE FROM FINANCIAL INSTRUMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
(103,020)	(13,319)
11,304	31,106
22,899	10,134
(180,197)	(97,657)
(249,014)	(69,736)
	HK\$'000 (103,020) 11,304 22,899 (180,197)

# 8. NET HEDGING GAIN

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

# 9. OTHER OPERATING INCOME

10.

		<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Divid	end income from available-for-sale securities		
	Inlisted investments	3,860	4,147
	l income from investment properties less ect outgoings of HK\$217,000 (2006: HK\$15,000)	5,201	2,918
Other		52,634	41,442
		61,695	48,507
OPEF	RATING EXPENSES		
		2005	2006
		<b>2007</b> HK\$'000	<b>2006</b> <i>HK\$</i> ′000
		ΠΚΦ 000	11K\$ 000
(a)	Staff costs		
	Salaries and other staff costs	646,596	596,520
	Retirement costs (note 45)	41,576	39,270
	Share-based payment expenses (note 46)	22 (25	. = 0.1
	- Equity-settled share-based payment expenses	22,605	4,581
	- Cash-settled share-based payment expenses	12,828	11,650
		723,605	652,021
(b)	Depreciation		
(0)	Depreciation of property and equipment (note 31)		
	– Assets held for use under operating leases	13,212	10,819
	– Other assets	68,875	99,511
		82,087	110,330
(c)	Other operating expenses		
	Property and equipment expenses, excluding depreciation		
	<ul> <li>Rental of property</li> </ul>	84,565	73 <i>,</i> 589
	– Others	71,317	67,984
	Auditors' remuneration	5,484	5,102
	Advertising	67,279	54,890
	Communication, printing and stationery Legal and professional fee	63,085 16,701	60,003 16,807
	Others	119,541	10,807
		427,972	382,955
	Total operating expenses	1,233,664	1,145,306

Included in other operating expenses are minimum lease payment under operating leases of HK\$2,005,000 (2006: HK\$1,759,000) for hire of equipment and HK\$79,075,000 (2006: HK\$67,943,000) for hire of property and other assets.

# 11. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 161 of the Companies Ordinance is as follows:

			200	07		
	Directors' fee	Salaries, allowances and benefits in kind	Discretionary bonuses	Share-based payments	Retirement scheme contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mrs. Chan Hui Dor Lam Doreen*	300	3,852	1,926	2,156	385	8,619
Mr. Chang Zhenming	300	-	-	1,974	_	2,274
Mr. Chen Xiaoxian	300	-	-	247	-	547
Mr. Dou Jianzhong*	300	2,621	786	1,988	262	5,957
Mr. Ju Weimin	300	-	-	247	-	547
Mr. Kong Dan	500	-	-	2,793	-	3,293
Mr. Lam Kwong Siu	350	-	-	247	-	597
Mr. Liu Jifu	300	-	-	247	-	547
Mr. Lo Wing Yat Kelvin	300	-	-	279	-	579
Mr. Rafael Gil-Tienda	525	-	-	247	-	772
Mr. Roger Clark Spyer*	300	3,000	1,750	565	-	5,615
Mr. Tsang Yiu Keung Paul	450	-	-	247	-	697
Mr. Wang Dongming	300	-	-	247	-	547
Mr. Feng Xiaozeng Mr. Jose Barreiro	300	-	-	247	-	547
(appointed on 1 March 2007) Mr. Manuel Galatas	250	-	-	-	-	250
(appointed on 1 March 2007) Mr. Fan Yifei	250	-	-	-	-	250
(appointed on 16 April 2007)	225	-	_	247	_	472
Mr. Zhao Shengbiao	300	1,633	390	279	78	2,680
	5,850	11,106	4,852	12,257	725	34,790

\* Deferred payment bonus under Medium-term Equity Linked Performance Bonus scheme to certain directors is proposed for Year 2007 and is subject to the approval of the Board of Directors.

	2006					
		Salaries,				
		allowances			Retirement	
		and benefits	Discretionary	Share-based	scheme	
	Directors' fee	in kind	bonuses		contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mrs. Chan Hui Dor Lam Doreen**	300	3,726	3,726	502	373	8,627
Mr. Chang Zhenming	300	-	-	-	-	300
Mr. Chen Xiaoxian	300	-	-	-	-	300
Mr. Dou Jianzhong**	300	2,570	1,260	101	257	4,488
Mr. Ju Weimin	300	-	-	-	-	300
Mr. Kong Dan	500	-	-	254	-	754
Mr. Lam Kwong Siu	350	-	-	-	-	350
Mr. Liu Jifu	300	-	-	-	-	300
Mr. Lo Wing Yat Kelvin	300	2,881	700	202	234	4,317
Mr. Rafael Gil-Tienda	500	-	-	-	-	500
Mr. Roger Clark Spyer**	300	3,760	2,500	104	-	6,664
Mr. Tsang Yiu Keung Paul	450	-	-	-	-	450
Mr. Wang Dongming	300	-	-	-	-	300
Mr. Yang Chao						
(resigned on 16 May 2006)	120	-	-	-	-	120
Mr. Feng Xiaozeng						
(appointed on 10 August 2006)	120	-	-	-	-	120
Mr. Zhao Shengbiao	300	1,595	390	25	78	2,388
	5,040	14,532	8,576	1,188	942	30,278

The above emoluments include the fair value of share options granted to certain directors under The CITIC International Financial Holdings Limited Share Option Scheme of the Company. The details of these benefits in kind are disclosed under the paragraph "Share Option Schemes" in the Report of the Directors and note 46 to the financial statements.

\*\* In May 2007, these directors were offered deferred payment bonus in form of cash benefit which was granted under the Company's Medium-term Equity Linked Performance Bonus ("MEPB") scheme for their achievements in Year 2006. The deferred payment bonus would be payable to the directors from Year 2008 to 2010. The MEPB is divided into Tranche 1 and Tranche 2 with final expiry of 14 February 2009 and 14 February 2010 respectively. The cash benefits are calculated by multiplying the number of MEPB units with the difference between the market price of our Company's listed share at specified date and the MEPB Notional Price of HK\$3. However, the cash benefit per unit is capped at HK\$3 and HK\$4 for Tranche 1 and Tranche 2 respectively. The maximum possible cash benefits to Mrs. Chan Hui Dor Lam Doreen, Mr. Dou Jianzhong and Mr. Roger Clark Spyer upon their exercise of the MEPB would be HK\$3,500,000, HK\$1,050,000 and HK\$1,001,000 respectively. Up to 29 February 2008, none of these directors exercised the right to realize the cash benefits.

# 12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, three of them (2006: four) are directors whose emoluments are disclosed in note 11 above. The aggregate of the emoluments in respect of the other two individuals are as follows:

The emoluments of the remaining two (2006: one) individuals are as follows:

	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Salaries and other emoluments	5,957	2,388
Discretionary bonuses	2,400	1,500
Share-based payments	959	257
Retirement scheme contributions	223	229
	9,539	4,374

The emoluments of the remaining two (2006: one) individuals with the highest emoluments are within the following bands:

	<b>2007</b> Number of individuals	<b>2006</b> Number of individuals
HK\$ 4,000,001 – 4,500,000 5,000,001 – 5,500,000	1 1	1
	2	1

# 13. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Individual assessment charged for		
– Additions (note 25(b))	(158,954)	(155,899)
– Releases	11,037	57,999
– Recoveries (note 25(b))	53,559	31,903
	(94,358)	(65,997)
Collective assessment written back	21,882	30,897
	(72,476)	(35,100)

# 14. NET PROFIT ON DISPOSAL OF AVAILABLE-FOR-SALE SECURITIES

	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Net revaluation gain transferred from reserves ( <i>note 43</i> ) Net (loss)/profit arising in current year	7,356 (451)	79,221 10,978
	6,905	90,199

# 15. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

## (a) Income tax in the consolidated income statement

	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year ( <i>note</i> 37( <i>a</i> ))	9,544	174,406
Under-provision in respect of prior years	3,655	11,596
	13,199	186,002
Current tax – Overseas		
Provision for the year	10,761	6,888
Deferred tax		
(Reversal)/origination of temporary differences		
(note 37(b))	(23,744)	13,236
	216	206,126

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

#### (b) Reconciliation between tax expense and accounting profit at applicable tax rates

2007	2006
HK\$'000	HK\$'000
1,852,677	1,333,644
318,877	231,188
16,010	26,850
(341,208)	(63,094)
5,568	3,467
(2,686)	(3,881)
3,655	11,596
216	206,126
	HK\$'000 1,852,677 318,877 16,010 (341,208) 5,568 (2,686) 3,655

## 16. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK\$13,844,000 (2006: profit of HK\$588,883,000) which has been dealt with in the financial statements of the Company.

# 17. DIVIDENDS

## (a) Dividends payable to equity shareholders of the Company attributable to the year

	<b>2007</b> <i>HK\$'000</i>	<b>2006</b> HK\$'000
Interim dividend declared and paid of HK\$Nil		
(2006: HK\$0.077) per Share	-	246,517
Final dividend proposed after the balance sheet date of HK\$Nil (2006: HK\$0.056) per Share		321,000
date of firshin (2000. firsh0.000) per share		
		567,517

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

# (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.056 (2006: HK\$0.060) per ordinary Share	321,000	191,872
Final dividend in respect of the previous financial year on 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	202
	322,056	192,074

# 18. EARNINGS PER SHARE

#### (a) Basic earnings per Share

The calculation of basic earnings per Share is based on profit attributable to ordinary equity shareholders of the Company of HK\$1,852,461,000 (2006: HK\$1,126,135,000) and the weighted average of 5,636,649,176 ordinary Shares (2006: 3,248,931,032 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007	2006
Issued ordinary shares at 1 January Effect of share options exercised Effect of issuance of new shares	3,554,542	3,197,859,375 2,765,524
Effect of issuance of new shares Effect of convertible bonds exercised	560,721,750 48,950,110	12,776,634 35,529,499
Weighted average number of Shares at 31 December	5,636,649,176	3,248,931,032

# (b) Diluted earnings per Share

The calculation of diluted earnings per Share is based on adjusted profit attributable to ordinary equity shareholders of the Company of HK\$1,853,877,000 (2006: HK\$1,154,284,000) and the weighted average number of Shares of 5,653,802,374 Shares (2006: 3,543,462,848 shares) after adjusting for the effect of all dilutive potential Shares, calculated as follows:

Weighted average number of ordinary Shares (diluted)

	2007	2006
Weighted average number of Shares at 31 December Effect of deemed issue of Shares under the Company's share option scheme for nil	5,636,649,176	3,248,931,032
consideration Effect of deemed conversion of Convertible Bonds	5,483,163 11,670,035	3,160,402 291,371,414
Weighted average number of Shares (diluted) at 31 December	5,653,802,374	3,543,462,848

## **19. SEGMENT REPORTING**

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

# (i) 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.

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

	2006				
	Commercial banking HK\$'000	(Note) Asset management HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	<b>Consolidated</b> <i>HK\$'000</i>
Net interest income Other operating income	1,061,497 1,152,558	37,832 15,335	(29,791) 22,361	-	1,069,538 1,190,254
Operating income Operating expenses	2,214,055 (1,093,600)	53,167 (26,618)	(7,430) (25,088)		2,259,792 (1,145,306)
Operating profit before impairment Impairment losses (charged for)/written back on loans and advances	1,120,455	26,549 18,657	(32,518)	-	1,114,486
Impairment losses charged for on held-to- maturity investments and available-for-sale securities	(3,970)	(17,448)	-	_	(21,418)
Impairment losses (charged for)/written back	(57,727)	1,209			(56,518)
Net profit on disposal of held-to-maturity investments and available-for-sale securities	67,893				67,893
<b>Operating profit/(loss)</b> Profit on disposal of a subsidiary Net (loss)/profit on disposal of property	1,130,621	27,758 1,073	(32,518) -	-	1,125,861 1,073
and equipment Revaluation gain on investment properties Share of profits of associates	(24,368) 3,376 3,437	(436) - 128,013	96,688 - -	- -	71,884 3,376 131,450
Profit before taxation Income tax	1,113,066 (191,380)	156,408 (3,051)	64,170 (11,695)	-	1,333,644 (206,126)
Profit for the year	921,686	153,357	52,475		1,127,518
Attributable to: Equity shareholders of the Company Minority interests	921,686	151,974	52,475		1,126,135
Profit for the year	921,686	153,357	52,475		1,127,518
Depreciation for the year	112,688	392	(2,750)	_	110,330
Segment assets Interest in associates	89,671,917 9,107,342	2,370,168	1,376,088	(383,790)	90,664,215 11,477,510
Total assets	98,779,259	2,370,168	1,376,088	(383,790)	102,141,725
Segment liabilities	82,389,578	_	287,219	(767,143)	81,909,654
Capital expenditure incurred during the year	4,711,470	2,628	15	_	4,714,113

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

# (ii) By geographical segments

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

			20	07		
		Mainland		1	Inter-segment	
	Hong Kong	China	USA	Others	elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating income from						
external customers	1,064,097	108,609	72,994	28,643	(211)	1,274,132
Total assets	111,828,224	24,079,621	1,960,169	1,757,310	(7,240,297)	132,385,027
Capital expenditure						
incurred during the year	53,882	348,474	707	86	-	403,149
			20	06		
		Mainland	20		Inter-segment	
	Hong Kong	Mainland China	20 USA		Inter-segment elimination	Consolidated
	Hong Kong HK\$'000			]	0	<b>Consolidated</b> <i>HK\$'000</i>
Operating income from	0 0	China	USA	Others	elimination	
Operating income from external customers	0 0	China	USA	Others	elimination	
1 0	HK\$'000	<b>China</b> <i>HK\$'000</i>	USA HK\$'000	<b>Others</b> <i>HK\$'000</i>	elimination	HK\$'000 2,259,792
external customers	HK\$'000 2,106,118	<b>China</b> <i>HK\$'000</i> 70,394	USA HK\$'000 70,019	Others HK\$'000 13,261	elimination HK\$'000	HK\$'000 2,259,792
external customers Total assets	HK\$'000 2,106,118	<b>China</b> <i>HK\$'000</i> 70,394	USA HK\$'000 70,019	Others HK\$'000 13,261	elimination HK\$'000	HK\$'000 2,259,792

# 20. CASH AND BALANCES WITH BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group		
	2007	2006	
	HK\$'000	HK\$'000	
Cash in hand	159,201	155,147	
Balances with central banks	76,579	27,694	
Balances with banks	1,251,023	1,061,005	
Balances with other financial institutions	16,073	24,025	
	1,502,876	1,267,871	

# 21. PLACEMENTS WITH AND ADVANCES TO BANKS, CENTRAL BANKS AND OTHER FINANCIAL INSTITUTIONS

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Placements with banks	9,893,443	11,498,258
Advances to banks	2,511,607	353,824
Items in the course of collection from other banks	242,538	540,456
	12,647,588	12,392,538
Maturing:		
– within 1 month	9,552,993	8,971,727
– between 1 month and 1 year	582,988	3,066,987
– after 1 year	2,511,607	353,824
	12,647,588	12,392,538

There were no impaired advances to banks and other financial institutions as at 31 December 2007 and 31 December 2006, nor were there any individually assessed impairment allowances made for them on these two respective dates.

# 22. TRADE BILLS

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Gross trade bills	1,523,242	491,994
Impairment allowances		
– Collectively assessed (note 25(b))	(42)	
	1,523,200	491,994

# 23. TRADING ASSETS

	The G	roup	The Con	npany
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Debt securities	1,335,609	3,211,734	_	_
Equity securities	5,612	-	_	-
Investment funds	1,238,246	2,848,045		60,893
Trading securities Positive fair values of derivatives	2,579,467	6,059,779	-	60,893
(note 53(b))	899,542	355,091		
	3,479,009	6,414,870		60,893
Issued by:				
Sovereigns	898	599	_	_
Public sector entities	2,355	10,395	_	_
Banks and other financial institutions	628,054	583,401	_	_
Corporate entities	1,948,160	5,465,384		60,893
	2,579,467	6,059,779		60,893
Analysed by place of listing:				
Listed in Hong Kong	1,095	3,296	_	_
Listed outside Hong Kong	200,165	1,077,026		_
	201,260	1,080,322	_	_
Unlisted	2,378,207	4,979,457		60,893
	2,579,467	6,059,779		60,893

# 24. SECURITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

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

# 25. LOANS AND ADVANCES TO CUSTOMERS AND OTHER ACCOUNTS

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

	The Group		The Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gross loans and advances to				
customers	65,833,430	50,685,350	-	-
Impairment allowances				
<ul> <li>Individually assessed</li> </ul>				
(note 25(b))	(70,883)	(76,360)	-	-
<ul> <li>Collectively assessed</li> </ul>				
(note 25(b))	(223,540)	(253,166)		
	65,539,007	50,355,824	_	-
Accrued interest and other accounts less				
impairment allowances	2,165,290	1,550,178	29,800	13,860
	67,704,297	51,906,002	29,800	13,860

Other accounts include equity interest of HK\$249,000,000 acquired through recovery of an impaired loan which the Group plans to dispose of in the near future. The equity interest is carried at the original loan amount.

# (b) Movement in impairment allowances on loans and advances to customers and other accounts

	Individually assessed HK\$'000	The Group 2007 Collectively assessed HK\$'000	<b>Total</b> <i>HK\$'000</i>
At 1 January	91,204	253,166	344,370
Impairment losses charged to income statement ( <i>note 13</i> )	158,954	_	158,954
Impairment losses written back to income statement Amounts written off Recoveries of loans and advances written	(64,596) (151,696)	(21,882) (18,654)	(86,478) (170,350)
off in previous years ( <i>note</i> 13) Unwind of discount on loan impairment	53,559	10,871	64,430
losses (note 4) Exchange and other adjustments	(1,820)	81	(1,820)
At 31 December	85,617	223,582	309,199
Deducted from: Loans and advances to customers (note 25(a))	70,883	223,540	294,423
Other accounts	14,734		14,734
Trade bills (note 22)		42	42
	85,617	223,582	309,199
		The Group 2006	
	Individually	The Group 2006 Collectively	
	Individually assessed	2006	Total
	-	2006 Collectively	<b>Total</b> HK\$'000
At 1 January	assessed	2006 Collectively assessed	
Impairment losses charged to income statement ( <i>note</i> 13)	assessed HK\$'000	2006 Collectively assessed HK\$'000	HK\$'000
Impairment losses charged to income statement ( <i>note 13</i> ) Impairment losses written back	assessed HK\$'000 313,868 155,899	2006 Collectively assessed HK\$'000 294,544	HK\$'000 608,412 155,899
Impairment losses charged to income statement ( <i>note</i> 13)	assessed HK\$'000 313,868 155,899 (89,902)	2006 Collectively assessed HK\$'000 294,544 - (30,897)	HK\$'000 608,412 155,899 (120,799)
Impairment losses charged to income statement ( <i>note 13</i> ) Impairment losses written back to income statement Amounts written off Recoveries of loans and advances written	assessed HK\$'000 313,868 155,899 (89,902) (147,255)	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826)	HK\$'000 608,412 155,899 (120,799) (168,081)
Impairment losses charged to income statement ( <i>note 13</i> ) Impairment losses written back to income statement Amounts written off Recoveries of loans and advances written off in previous years ( <i>note 13</i> )	assessed HK\$'000 313,868 155,899 (89,902)	2006 Collectively assessed HK\$'000 294,544 - (30,897)	HK\$'000 608,412 155,899 (120,799)
Impairment losses charged to income statement ( <i>note 13</i> ) Impairment losses written back to income statement Amounts written off Recoveries of loans and advances written	assessed HK\$'000 313,868 155,899 (89,902) (147,255) 31,903	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826)	HK\$'000 608,412 155,899 (120,799) (168,081) 42,169
Impairment losses charged to income statement ( <i>note 13</i> ) Impairment losses written back to income statement Amounts written off Recoveries of loans and advances written off in previous years ( <i>note 13</i> ) Unwind of discount on loan impairment	assessed HK\$'000 313,868 155,899 (89,902) (147,255)	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826)	HK\$'000 608,412 155,899 (120,799) (168,081)
Impairment losses charged to income statement ( <i>note 13</i> ) Impairment losses written back to income statement Amounts written off Recoveries of loans and advances written off in previous years ( <i>note 13</i> ) Unwind of discount on loan impairment losses ( <i>note 4</i> )	assessed HK\$'000 313,868 155,899 (89,902) (147,255) 31,903 (28,766)	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826)	HK\$'000 608,412 155,899 (120,799) (168,081) 42,169 (28,766)
<ul> <li>Impairment losses charged to income statement (<i>note 13</i>)</li> <li>Impairment losses written back to income statement</li> <li>Amounts written off</li> <li>Recoveries of loans and advances written off in previous years (<i>note 13</i>)</li> <li>Unwind of discount on loan impairment losses (<i>note 4</i>)</li> <li>Disposal of a subsidiary</li> </ul>	assessed HK\$'000 313,868 155,899 (89,902) (147,255) 31,903 (28,766) (144,917)	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826) 10,266 - -	HK\$'000 608,412 155,899 (120,799) (168,081) 42,169 (28,766) (144,917)
<ul> <li>Impairment losses charged to income statement (<i>note 13</i>)</li> <li>Impairment losses written back to income statement</li> <li>Amounts written off</li> <li>Recoveries of loans and advances written off in previous years (<i>note 13</i>)</li> <li>Unwind of discount on loan impairment losses (<i>note 4</i>)</li> <li>Disposal of a subsidiary</li> <li>Exchange and other adjustments</li> <li>At 31 December</li> </ul>	assessed HK\$'000 313,868 155,899 (89,902) (147,255) 31,903 (28,766) (144,917) 374	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826) 10,266 - - 79	HK\$'000 608,412 155,899 (120,799) (168,081) 42,169 (28,766) (144,917) 453
<ul> <li>Impairment losses charged to income statement (note 13)</li> <li>Impairment losses written back to income statement</li> <li>Amounts written off</li> <li>Recoveries of loans and advances written off in previous years (note 13)</li> <li>Unwind of discount on loan impairment losses (note 4)</li> <li>Disposal of a subsidiary</li> <li>Exchange and other adjustments</li> <li>At 31 December</li> <li>Deducted from: Loans and advances to customers</li> </ul>	assessed HK\$'000 313,868 155,899 (89,902) (147,255) 31,903 (28,766) (144,917) 374	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826) 10,266 - - 79	HK\$'000 608,412 155,899 (120,799) (168,081) 42,169 (28,766) (144,917) 453
<ul> <li>Impairment losses charged to income statement (note 13)</li> <li>Impairment losses written back to income statement</li> <li>Amounts written off</li> <li>Recoveries of loans and advances written off in previous years (note 13)</li> <li>Unwind of discount on loan impairment losses (note 4)</li> <li>Disposal of a subsidiary</li> <li>Exchange and other adjustments</li> <li>At 31 December</li> <li>Deducted from:</li> </ul>	assessed HK\$'000 313,868 155,899 (89,902) (147,255) 31,903 (28,766) (144,917) 374 91,204	2006 Collectively assessed HK\$'000 294,544 - (30,897) (20,826) 10,266 - - 79 253,166	HK\$'000 608,412 155,899 (120,799) (168,081) 42,169 (28,766) (144,917) 453 344,370

# (c) 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").

	The Group			
	2007		2	006
	Gross loans	Impaired	Gross loans	
	and advances	loans and	and advances	Impaired loans
	to customer	advances	to customer	and advances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Industrial, commercial and financial				
– Property development	207,000		205,155	
– Property investment	7,740,669	21,931	5,370,620	3,060
– Financial concerns				
– Financial concerns – Stockbrokers	5,061,032	323	3,315,125	2,570
	181,000	-	50,000	-
- Wholesale and retail trade	3,383,895	95,552	2,885,044	34,891
– Manufacturing	5,833,965	8,208	3,370,282	11,386
- Transport and transport equipment	3,394,165	2,750	3,467,330	12,254
<ul> <li>Recreational activities</li> </ul>	100,800	-	143,763	-
<ul> <li>Information technology</li> </ul>	1,122	-	52,082	-
– Others	3,332,366	24,483	2,468,601	41,168
Individuals				
- Loans for the purchase of flats				
under the Home Ownership				
Scheme, Private Sector				
Participation Scheme and				
Tenants Purchase Scheme	34,963	-	16,054	-
- Loans for the purchase of other				
residential properties	11,284,553	13,927	11,446,698	20,042
– Credit card advances	506,775	488	535,293	386
– Others	2,401,149	11,781	1,693,327	22,808
		,		,
Gross loans and advances for use in				
Hong Kong	43,463,454	179,443	35,019,374	148,565
Trade finance	4,467,495	44,838	3,508,201	5,207
Gross loans and advances for use				
outside Hong Kong	17,902,481	532,931	12,157,775	692,867
Gross loans and advances to customers	65,833,430	757,212	50,685,350	846,639

# (d) Impaired loans and advances to customers

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	757,212	846,639
Impairment allowance - Individually assessed	(70,883)	(76,360)
	686,329	770,279
Gross impaired loans and advances as a % of		
total loans and advances to customers	1.15%	1.67%

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 advances of HK\$601,359,000 (2006: HK\$788,446,000) for the Group. This collateral mainly comprises mortgage interest over residential or commercial properties and cash with the Group.

# (e) Net investment in finance leases and hire purchase contracts

Loans and advances to customers include net investment in motor vehicles and equipment leased to customers under finance leases and hire purchase contracts having the characteristics of finance leases. These contracts usually run for an initial period of 5 to 20 years, with an option for acquiring the leased asset at nominal value. The total minimum lease payments receivable under finance leases and hire purchase contracts and their present values are as follows:

	The Group			
	2007		2006	
	Present		Present	
	value of the	Total	value of the	Total
	minimum	minimum	minimum	minimum
	lease	lease	lease	lease
	payments	payments	payments	payments
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year	406,634	533,394	478,113	634,486
After 1 year but within 5 years	558,357	938,127	574,747	1,035,704
After 5 years	2,111,777	2,960,387	1,968,813	3,007,568
	3,076,768	4,431,908	3,021,673	4,677,758
Impairment allowances:				
– Individually assessed	(6,318)		(12,465)	
- Collectively assessed	(1,322)		(2,355)	
Net investment in finance leases and				
hire purchase contracts	3,069,128		3,006,853	

## 26. AMOUNTS DUE FROM SUBSIDIARIES

	The Company	
	2007	2006
	HK\$'000	HK\$'000
Cash and balances with banks	223,351	_
Placements with banks and other financial institutions	129,989	543,776
Loans and advances to subsidiaries and other accounts	762,121	939,685
	1,115,461	1,483,461

### 27. AVAILABLE-FOR-SALE SECURITIES

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Certificates of deposit held	150,033	_
Debt securities	21,157,046	4,771,960
Treasury bills (including Exchange Fund Bills)	721,180	149,757
Equity securities	40,212	23,181
Investment funds	56,932	28,552
	22,125,403	4,973,450
Issued by:		
Sovereigns	805,060	149,757
Public sector entities	710,682	, _
Banks and other financial institutions	15,450,543	847,022
Corporate entities	5,159,118	3,976,671
	22,125,403	4,973,450
Analysed by place of listing:		
Listed in Hong Kong	864,142	_
Listed outside Hong Kong	6,473,642	3,913,802
	7,337,784	3,913,802
Unlisted	14,787,619	1,059,648
	22,125,403	4,973,450
Fair value of individually impaired equity securities	18	18
Fair value of individually impaired debt securities	2,895	-
Fair value of individually impaired investment funds	56,932	28,552
	59,845	28,570

As at 31 December 2007, certain of the Group's available-for-sale securities comprising equity or debt securities and investment funds were determined to be individually impaired on the basis of a prolonged decline in the fair value below cost. Impairment losses on these investments were recognised in the income statement in accordance with the accounting policy set out in note 2(h)(ii).

### 28. HELD-TO-MATURITY INVESTMENTS

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Treasury bills (including Exchange Fund Bills)	-	138,593
Certificates of deposit held	-	49,990
Debt securities		10,001,850
	-	10,190,433
Impairment allowances – Individually assessed		(13,940)
		10,176,493
Issued by:		
Sovereigns, central governments and central banks	_	317,316
Public sector entities	_	1,023,223
Banks and other financial institutions	_	7,593,359
Corporate entities		1,242,595
	_	10,176,493
Analysed by place of listing:		
Listed in Hong Kong	_	953,630
Listed outside Hong Kong		3,595,266
	_	4,548,896
Unlisted		5,627,597
	_	10,176,493
Market value of listed securities		4,493,453

Held-to-maturity investments held by the Group with an amortised cost of HK\$7,676,157,000 (2006: Nil) were all transferred to the available-for-sale securities category in 2007. The unrealised loss arising from change in fair value amounted to HK\$112,100,000 (2006: Nil) was recognised directly in the available-for-sale revaluation reserve. Such transfer of all held-to-maturity investments into available-for-sale securities (2006: Nil), were approved by the Board of Directors, and were generally made in response to other isolated events which were not anticipated by the Group.

The movement of the individually assessed impairment allowances account during the year is as follows:

	The Group	
	2007	2006
	HK\$'000	HK\$'000
At 1 January	(13,940)	(9,983)
Impairment losses charged to income statement	-	(4,163)
Impairment losses written back to income statement	242	49
Effect of discounting and others	136	157
Reclassification to available-for-sale securities	13,562	
At 31 December		(13,940)

### 29. INVESTMENTS IN SUBSIDIARIES

	The Co	The Company	
	2007	2006	
	HK\$'000	HK\$'000	
Unlisted shares, at cost	7,500,518	4,987,561	

The following list contains the particulars of principal subsidiaries which materially affect the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation/ operation	% of shares held	Principal activities	Issued and paid up capital
California Investment LLC**	USA	100%	Property holding	US\$5,415,000
Carford International Limited*	Hong Kong	100%	Property holding	HK\$2
China International Finance Company Limited (Shenzhen) ("CIFC")***	People's Republic of China ("PRC")	100%	Financial services	RMB500,000,000
CIFH (CB-I) Limited	Cayman Islands/ Hong Kong	100%	Issue of convertible bonds	US\$1
CKWB	Hong Kong	100%	Banking	HK\$5,583,341,176
CKWH-UT2 Limited*	Cayman Islands/ Hong Kong	100%	Issue of subordinated notes	US\$1
CKWB-SN Limited*	Cayman Islands/ Hong Kong	100%	Issue of structured notes and investments	US\$1
CITIC Insurance Brokers Limited*	Hong Kong	100%	Insurance broker	HK\$5,000,000
Dramatic Year Limited	British Virgin Islands/ Hong Kong	100%	Investment holding	US\$1
HKCB Finance Limited*	Hong Kong	100%	Consumer financing	HK\$200,000,000
HKCB Insurance Agency Limited*	Hong Kong	100%	Insurance agency	HK\$2
KWB Investment Limited*	Hong Kong	100%	Investment holding	HK\$5,000,000
Ka Wah International Merchant Finance Limited*	Hong Kong	100%	Financial services	HK\$32,500,000
The Hongkong Chinese Bank (Nominees) Limited*	Hong Kong	100%	Nominees services	HK\$5,000
The Ka Wah Bank (Trustee) Limited*	Hong Kong	100%	Trustee services	HK\$3,000,000
True Worth Investments Limited	British Virgin Islands/ Hong Kong	100%	Investment holding	US\$1
Viewcon Hong Kong Limited*	Hong Kong	100%	Mortgage financing	HK\$2

All of the above subsidiaries are held directly by the Company except for those indicated below:

- \* Subsidiaries held indirectly by the Company.
- \*\* 99% of the shares of this subsidiary is held directly by the Company and the remaining 1% is held indirectly through another subsidiary of the Company.
- \*\*\* Subsidiary held indirectly by the Company. This subsidiary is incorporated in the PRC and is a "Foreign Investment Enterprise" under the PRC Law.

### 30. INTEREST IN ASSOCIATES

	The Group		The Co	mpany	
	2007 2006		2007	2006	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Listed shares, at cost	_	_	15,836,665	-	
Unlisted shares, at cost	_	-	887,039	9,990,944	
Share of net assets	15,754,176	6,884,190	_	_	
Goodwill	4,374,546	4,029,114	_	_	
Intangible assets	632,700	658,314	_	_	
Deferred tax on intangible assets	(158,175)	(217,244)	_	_	
Amount due from associates	32,392	123,136	32,392	123,136	
	20,635,639	11,477,510	16,756,096	10,114,080	

(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
CNCB	Incorporated	PRC	15%	15% (Note 1)	-	Banking services	RMB39,033,000,000
CITIC Capital Holdings Limited ("CCHL")	Incorporated	Hong Kong	50%	-	50%	Investment holding	HK\$28,000,000
CITIC International Assets Management Limited ("CIAM")	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 of CNCB and is in a position to exercise significant influence over CNCB.

## (b) Summary of aggregate financial information on principal associates

The Group's effective share of associates' financials:

	The C	The Group		
	2007	2007 2006		
	HK\$'000	HK\$'000		
Assets	166,546,704	109,859,893		
Liabilities	150,460,821	102,999,721		
Revenue	5,103,813	431,197		
Net profit	1,600,954	131,450		

## (c) Movement of the intangible assets

The Group Core deposits and customers		
Brand name	relationships	Total
HK\$'000	HK\$'000	HK\$'000
405,426	252,888	658,314
(4,463)	(2,620)	(7,083)
400,963	250,268	651,231
-	-	-
	18,531	18,531
	18,531	18,531
400,963	231,737	632,700
405,426	252,888	658,314
	HK\$'000 405,426 (4,463) 	Core deposits and customers           Brand name HK\$'000         relationships HK\$'000           405,426         252,888           (4,463)         (2,620)           400,963         250,268           -         -           -         18,531           -         -           400,963         231,737

There is no impairment charged for the year ended 31 December 2007 (2006: Nil) on the intangible assets.

### (d) Acquisition of an equity interest in CNCB

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Purchase consideration:		
Issue of new shares	_	5,300,812
Surplus in fair value of shares issued	-	3,761,867
Cash	6,657,505	
Fair value of consideration	6 657 505	0.062.670
	6,657,505 75,255	9,062,679 41,226
Direct costs relating to the acquisition settled in cash		
Acquisition costs incurred in 2007	6,732,760	-
Acquisition costs incurred in 2006	9,103,905	9,103,905
Total acquisition costs	15,836,665	9,103,905
Fair value of acquired net assets and intangible assets	(11,651,456)	(5,264,128)
Goodwill	4,185,209	3,839,777

The Company's equity interest in CNCB was diluted after the expansion of CNCB's share capital following initial public offer of CNCB on 27 April 2007. Subsequently, the Company executed the Top Up Agreement and purchased additional 1,136,000,000 CNCB H Shares for top up equity interest to 15% in CNCB. The consideration for the purchase of additional number of CNCB Shares was settled by HK\$6,657,505,000 in cash plus direct cost of HK\$75,255,000.

On the other hand, a dilution gain with HK\$202,000,000 was occurred without disposing directly any of its CNCB Share.

The excess of CNCB's total additional investment cost (HK\$6,732,760,000) over the Company's interest in the fair value of net tangible assets and intangible assets (HK\$6,387,328,000) was recognised as additional goodwill (HK\$345,432,000).

The fair value of the Company's interest in CNCB was HK\$28,221,111,000 at 31 December 2007.

## 31. PROPERTY AND EQUIPMENT

## (a) The Group

	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	<b>Total</b> <i>HK\$'000</i>
Cost or valuation:				
At 1 January 2006	64,994	1,037,017	616,531	1,718,542
Additions	106,064	18,782	88,533	213,379
Reclassification	(40,458)	38,705	-	(1,753)
Disposals	(9,200)	(140,155)	(41,757)	(191,112)
Disposal of a subsidiary	-	-	(3,808)	(3,808)
Surplus on revaluation before reclassification	_	9,952	_	9,952
Surplus on revaluation	3,376		_	3,376
Exchange adjustments	_	111	94	205
At 31 December 2006	124,776	964,412	659,593	1,748,781
The analysis of cost or valuation of the above assets is as follows:				
Cost Valuation	-	930,718	659,593	1,590,311
- 1985	_	33,694	_	33,694
- 2006	124,776	, _	_	124,776
	124,776	964,412	659,593	1,748,781
At 1 January 2007	124,776	964,412	659,593	1,748,781
Additions	-	-	59 <i>,</i> 595	59,595
Reclassification	62,100	(79,607)	-	(17,507)
Disposals Surplus on revaluation	(8,600)	(2,657)	(10,568)	(21,825)
before reclassification	_	48,098	_	48,098
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

	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	<b>Total</b> HK\$'000
Accumulated depreciation:				
At 1 January 2006	_	293,088	423,986	717,074
Charged for the year ( <i>note</i> 10( <i>b</i> ))	_	20,798	89,532	110,330
Written back on disposals	_	(39,275)	(36,736)	(76,011)
Disposal of a subsidiary	_	_	(679)	(679)
Reclassification	_	(1,753)	_	(1,753)
Exchange adjustments		17	38	55
At 31 December 2006		272,875	476,141	749,016
At 1 January 2007	_	272,875	476,141	749,016
Charged for the year (note 10(b))	_	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
Net book value:				
At 31 December 2007	238,380	657,168	179,071	1,074,619
At 31 December 2006	124,776	691,537	183,452	999,765

## (b) The Company

	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	<b>Total</b> HK\$'000
Cost or valuation:				
At 1 January 2006	-	62,759	2,710	65,469
Additions Disposals		(7,370)	8 (30)	(7,400)
At 31 December 2006		55,389	2,688	58,077
The analysis of cost or valuation of the above assets is as follows:				
Cost	_	55,389	2,688	58,077
At 1 January 2007	_	55,389	2,688	58,077
Additions Reclassification	57,700	(63,806)	4,891	4,891 (6,106)
Disposals	-	(00,000)	(1,365)	(1,365)
Surplus on revaluation	18,000	_	_	18,000
Surplus on revaluation before reclassification		8,417		8,417
At 31 December 2007	75,700	_	6,214	81,914
The analysis of cost or valuation of the above assets is as follows:				
Cost	-	-	6,214	6,214
Valuation – 2007	75,700			75,700
	75,700		6,214	81,914
Accumulated depreciation:				
At 1 January 2006	-	8,606	1,298	9,904
Charged for the year	-	1,689 (5,002)	449	2,138
Written back on disposals		(5,002)	(12)	(5,014)
At 31 December 2006		5,293	1,735	7,028
At 1 January 2007	_	5,293	1,735	7,028
Charged for the year	-	814	561	1,375
Written back on disposals	-	_	(675)	(675)
Reclassification		(6,107)		(6,107)
At 31 December 2007			1,621	1,621
Net book value:				
At 31 December 2007	75,700		4,593	80,293
At 31 December 2006		50,096	953	51,049

(c) All investment properties of the Group and the Company were revalued at 31 December 2007 by an independent firm of surveyors, Vigers Appraisal & Consulting Limited on an open market value basis. The revaluation surpluses amounting to HK\$60,104,000 and HK\$18,000,000 (2006: HK\$3,376,000 and HK\$Nil) in the Group and the Company respectively have been credited to the income statement. Vigers Appraisal & Consulting Limited have among their staff Fellows of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued.

The gross rental income arising from investment properties is HK\$5,418,000 (2006: HK\$2,931,000).

During the year, loss on disposal of investment properties amounted to HK\$570,000 (2006: profit on disposal amounted to HK\$760,000).

(d) The analysis of net book value of investment properties and other premises is as follows:

	The Group		The Group The Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Freehold				
Held outside Hong Kong	33,688	34,315	-	-
Leasehold				
Held in Hong Kong				
– Long-term leases	234,937	208,394	-	_
– Medium-term leases	606,699	555,753	75,700	50,096
Held outside Hong Kong				
– Medium-term leases	20,224	17,851		
	895,548	816,313	75,700	50,096

Some of the other premises of the Group and the Company have been revalued in previous years. The net book value of other premises of the Group and the Company at 31 December 2007 would have been HK\$8,612,000 (2006: HK\$9,151,000) and HK\$Nil (2006: HK\$Nil) respectively had they been carried at cost less accumulated depreciation.

### (e) Property and equipment leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of two to three years, with an option to renew the leases after that date at which time all terms are renegotiated.

The Group's total future minimum lease payments under non-cancellable operating leases for investment and sub-letting properties are receivable as follows:

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Within 1 year	9,933	8,651
After 1 year but within 5 years	6,699	8,123
	16,632	16,774

### 32. GOODWILL

34.

	<b>The Group</b> <i>HK\$'000</i>
<b>Cost:</b> At 31 December 2006 and 31 December 2007	1,007,749
<b>Carrying amount:</b> At 31 December 2006 and 31 December 2007	1,007,749

#### Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units (CGU) identified according to business segment as follows:

	<b>2007</b> HK\$'000	<b>2006</b> <i>HK\$</i> ′000
Commercial banking business	1,007,749	1,007,749

The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a maximum of five-year period. Cash flow in subsequent years are estimated at 8% (2006: 0%) growth rate which does not exceed the long-term average growth rate for the business in which the CGU operates.

Management determined the budgeted gross margin based on past performance and its expectation for market development. The pre-tax discount rate used is 16.82% (2006: 12.34%) which reflects specific risks relating to the relevant segments.

#### 33. DEPOSITS AND BALANCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

	The G	Group
	2007	2006
	HK\$'000	HK\$'000
Deposits and balances from banks	6,649,030	831,973
DEPOSITS FROM CUSTOMERS		
	The G	Group
	2007	2006
	HK\$'000	HK\$'000
Demand deposits and current deposits	6,872,059	6,411,967
Savings deposits	11,687,849	11,073,425
Time, call and notice deposits	65,235,053	47,936,439
	83,794,961	65,421,831

### 35. TRADING LIABILITIES

36.

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Negative fair value of derivatives (note 53(b))	879,690	428,648
CERTIFICATES OF DEPOSIT ISSUED		
	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Designated at fair value through profit or loss	4,763,836	3,726,854
Non-trading	2,099,288	3,530,865

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 31 December 2007 was HK\$31,135,000 (2006: HK\$86,212,000) lower than the contractual amount at maturity, which was mainly due to changes in benchmark interest rate.

## 37. INCOME TAX IN THE BALANCE SHEET

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

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Provision for Hong Kong Profits Tax for the year (note 15(a))	9,544	174,406
Provisional Profits Tax paid	(136,292)	(120,365)
	(126,748)	54,041
Balance of Profits Tax provision relating to prior years	55,779	54,164
	(70,969)	108,205
Provision for overseas taxation	6,481	4,476
-	(64,488)	112,681
Of which:		
Tax recoverable	(71,248)	_
Current taxation	6,760	112,681
-	(64,488)	112,681

## (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 year are as follows:

Deferred tax arising from:	Depreciation allowances in excess of related depreciation	1	Fair value adjustments for revaluation of properties and other assets	The Group 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
At 1 January 2006 (Credited)/charged to consolidated income	26,609	(46,622)	(43,842)	67,788	-	(668)	3,265
statement	(9,048)	7,363	15,175	-	-	(254)	13,236
Charged/(credited) to reserve	s –	-	2,013	(20,398)	-	-	(18,385)
Released on disposal of subsidiary				(5,434)			(5,434)
At 31 December 2006	17,561	(39,259)	(26,654)	41,956		(922)	(7,318)
At 1 January 2007 (Credited)/charged to consolidated income	17,561	(39,259)	(26,654)	41,956	-	(922)	(7,318)
statement	(132)	234	10,824	-	(34,670)	-	(23,744)
Charged/(credited) to reserve	s –	-	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)
						The Group 2007	2006

		<u>r</u>
	2007	2006
	HK\$'000	HK\$'000
Net deferred tax assets recognised on the balance sheet	(82,374)	(29,904)
Net deferred tax liabilities recognised on the balance sheet		22,586
	(82,374)	(7,318)

#### (c) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of HK\$106,868,000 (2006: HK\$87,105,000) 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 were as follows:

	The G	The Group	
	2007	2006	
	HK\$'000	HK\$'000	
Expiring within 5 years	_	13,164	
No expiry date	106,868	73,941	
	106,868	87,105	

#### 38. AMOUNTS DUE TO SUBSIDIARIES

	The Cor	npany
	2007	2006
	HK\$'000	HK\$'000
Other liabilities	76,644	42
Placement from a subsidiary	7,799	260,508
	84,443	260,550

### **39. DEBT SECURITIES ISSUED**

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Non-trading debt securities issued	2,314,394	2,256,746
Designated at fair value through profit or loss		44,143
	2,314,394	2,300,889

The non-trading debt securities issued represent 4.25% per annum notes with face value of US\$300,000,000 (HK\$ equivalent 2,339,600,000) issued at a discount on 17 November 2004. The notes were issued by CKWB and constitute direct, unconditional and unsecured obligations of CKWB. The notes will mature on 17 November 2009.

As at 31 December 2006, the debt securities designated at fair value through profit or loss represented the Structured Notes ("the Notes") with nominal value of US\$5,300,000 (HK\$ equivalent 41,200,000) issued by a subsidiary, and were unsecured obligations guaranteed by CKWB. The Notes were redeemed on 17 May 2007. Returns on the Notes were directly linked to the performance of the investment funds which include in securities designated at fair value through profit or loss.

### 40. CONVERTIBLE BONDS ISSUED

CIFH (CB-I) Limited, a single purpose wholly-owned subsidiary of the Company, issued 0.25% per annum Guaranteed Convertible Bonds with face value of US\$180,000,000 (HK\$ equivalent 1,399,700,000) on 8 December 2003. The Company unconditionally and irrevocably guarantees all amounts payable under the Bonds.

The Convertible Bonds bear interest from 8 December 2003 payable at the rate of 0.25% per annum, payable semi-annually in arrear on 8 June and 8 December in each year, commencing on 8 June 2004.

Each Convertible Bond, at the option of the holder, is convertible on or after 18 January 2004 up to and including 8 November 2008 into fully paid Shares with a par value of HK\$1.00 of the Company at an initial conversion price of HK\$4.269 per Share. The Convertible Bonds can be redeemed at their principal amount together with accrued interest on 8 December 2008. The net proceeds from the issue of the Convertible Bonds have been used for general corporate purposes of the Group.

The fair values of the liability component and the equity conversion component were determined at the date of waiver of the cash settlement option on 23 December 2004.

The fair values of the liability component, included in long-term borrowings, were calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in Convertible Bond-equity component reserve (note 43).

The Convertible Bonds recognised in the balance sheet are calculated as follows:

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Face value of Convertible Bonds	1,399,384	1,399,384
Equity component	(133,027)	(133,027)
Retained earnings	(7,658)	(7,658)
Liability component on initial recognition at 1 January 2005	1,258,699	1,258,699
Interest	67,285	65,887
Amounts converted to the Shares	(1,314,726)	(1,074,521)
Exchange difference	(3,610)	(2,874)
Liability component at 31 December	7,648	247,191

The carrying amount of the liability component of the Convertible Bonds is carried at amortised cost. Interest expense on the Convertible Bonds is calculated using the effective interest rate method by applying the effective interest rate of 2.98% to the liability component and for the year end 31 December 2007 amounted to HK\$1,418,000 (2006: HK\$34,121,000). The actual interest paid in 2007 was HK\$20,000 (2006: HK\$2,467,000).

The Convertible Bonds are embedded with an early redemption option by the Group and an early redemption option by the bondholders. The values of the embedded call and put feature are interdependent and have not been accounted for separately from the host debt.

### 41. LOAN CAPITAL

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Subordinated notes with US\$250 million 9.125%*	1,976,738	1,958,353
Subordinated notes with US\$250 million 1.68%+LIBOR rate**	-	1,942,973
Subordinated notes with US\$250 million 1.75%+LIBOR rate***	1,949,652	
	3,926,390	3,901,326

- \* 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 CKWB and qualifying as tier 2 capital. CKWB 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.
- \*\* Subordinated notes with a coupon of 1.68% per annum above the London Interbank Offered Rate ("LIBOR") for three-month US dollar deposits with face value of US\$250 million (HK\$ equivalent 1,944.1 million) issued on 11 December 2006 by CKWB, were early redeemed on 12 December 2007.
- \*\*\* On 30 November 2007, CKWB launched a US\$2 billion Medium Term Note Programme ("the Programme"). Under the Programme, CKWB, subject to compliance with all relevant laws, regulations and directives, may from time to time issue notes ("the Notes") denominated in any currency agreed between CKWB and the relevant dealers as defined. Approval-in-principle has been received from the Singapore Exchange Securities Trading Limited ("the SGX-ST") for dealing in and quotation for any Notes that may be issued and so listed on the SGX-ST. The offering circular was issued by CKWB on 28 November 2007 for the detail terms of the Programme.

On 11 December 2007, CKWB, under the 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.

### 42. SHARE CAPITAL

#### (a) Authorized and issued share capital

	<b>2007</b> HK\$'000	<b>2006</b> HK\$'000
Authorized:		
8,000,000,000 (2006: 6,000,000,000) Shares	8,000,000	6,000,000
Issued and fully paid:		
At 1 January:		
5,023,422,774 (2006: 3,197,859,375) Shares	5,023,422	3,197,859
Share issued under the share option scheme ( <i>note</i> $42(c)(i)$ )	6,300	5,012
Issuance of new Shares (note $42(c)(ii)$ )	668,575	1,554,490
Conversion of Convertible Bonds into		
Shares (note 42(c)(iii))	59,024	266,061
At 31 December:		
5,757,320,916 (2006: 5,023,422,774) Shares	5,757,321	5,023,422

#### (b) Increase in authorized share capital

By an ordinary resolution passed at the Extraordinary General Meeting held on 9 February 2007, the Company's authorized share capital was increased to HK\$8,000,000,000 by the creation of an additional 2,000,000,000 Shares, ranking pari passu with the existing Shares of the Company in all respects.

#### (c) Shares issued during the year 2007

- (i) On 16 May 2003, the Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "Share Option Scheme"). During 2007, options were exercised to subscribe for 6,300,000 Shares in the Company at a consideration of HK\$20,467,780 of which HK\$6,300,000 were credited to share capital, HK\$14,167,780 was credited to share premium accounts.
- On 1 March 2007, the Company issued and allotted 668,574,374 Shares to BBVA pursuant to the Subscription Agreement dated 22 November 2006.
- (iii) During the year, Convertible Bonds of HK\$251,972,500 were converted into 59,023,768 Shares. HK\$59,023,768 was credited to share capital and the remaining balance of HK\$192,948,732 was credited to share premium accounts.

#### (d) Terms of unexpired and unexercised share options at balance sheet date

As at 31 December 2007, the details of the outstanding share options granted under the Share Option Scheme are as follows:

Date of grant	Exercise price (HK\$)	Number of option granted	Vesting period	Exercisable period	Number of shares exercised during the year ended 31 December 2007	Number of options lapsed for the year ended 31 December 2007	Number of options outstanding as at 31 December 2007	Number of options outstanding as at 31 December 2006
17/11/2003	3.540	6,758,000	17/11/2003 - 16/11/2005	17/11/2005 - 16/11/2013	1,272,000	8,000	1,112,000	2,392,000
06/04/2004	3.775	7,412,000	06/04/2004 - 05/04/2006	06/04/2006 - 05/04/2014	1,480,000	8,000	1,352,000	2,840,000
13/06/2005	2.925	6,800,000	13/06/2005 - 12/06/2007	13/06/2007 - 12/06/2015	3,548,000	132,000	1,792,000	5,472,000
18/05/2006	4.275	8,152,000	18/05/2006 - 17/05/2008	18/05/2008 - 17/05/2016	-	924,000	6,540,000	7,464,000
06/07/2007	6.570	13,455,000	06/07/2007 - 05/07/2009	06/07/2009 - 05/07/2017	-	254,000	13,201,000	-
06/07/2007	6.570	13,455,000	06/07/2007 - 05/07/2010	06/07/2010 - 05/07/2017	-	254,000	13,201,000	-
		56,032,000			6,300,000	1,580,000	37,198,000	18,168,000

Each option entitles the holder to subscribe for one Share in the Company. Further details of these options are set out in note 46 to the financial statements.

## 43. **RESERVES**

## (i) The Group

	Attributable to equity shareholders of the Company Other Convertible									
	Share premium HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange differences reserve HK\$'000	property	Fair value		Share option reserve HK\$'000	Retained profits HK\$'000	<b>Total</b> <i>HK\$</i> '000
At 1 January 2006	1,840,212	2,818	100,000	3,684	6,550	322,467	132,698	16,604	3,832,425	6,257,458
Share premium on shares issued during the year	4,634,018	-	-	-	-	-	-	-	-	4,634,018
Change in share price on issue of shares for investment in CNCB Revaluation surplus, net of	-	-	3,761,867	-	-	-	-	-	-	3,761,867
deferred tax Share of share option reserve	-	-	-	-	9,488	-	-	-	(1,549)	7,939
of associates Share of fair value reserve	-	-	-	-	-	-	-	9,644	-	9,644
of associates	-	-	-	-	-	(423)	-	-	-	(423)
Exchange difference on translation	-	-	-	7,056	-	-	363	-	-	7,419
Release on disposal of subsidiaries, net of deferred tax	_	_	_	(199)	_	(28,513)		_	29,530	818
Equity-settled share-based transaction	-	-	-	(199)	-	(20,010)	-	4,581	29,550	4,581
Available-for-sale securities	15 -	-	-	-	-	-	-	4,001	-	4,001
– changes in fair value – transfer to income statement on	-	-	-	-	-	(37,338)	-	-	-	(37,338)
disposal (note 14)	-	-	-	-	-	(79,221)	-	-	-	(79,221)
- transfer to deferred tax	-	-	-	-	-	20,398	-	-	-	20,398
Conversion of Convertible Bonds into										
Shares	-	-	-	-	-	-	(61,294)	-	-	(61,294)
Exercise of share options during										
the year	-	-	-	-	-	-	-	(4,761)	-	(4,761)
Dividends paid in respect of the previous year (note 17(b))									(192,074)	(192,074)
Profit for the year	-	-	-	-	-	-	-	-	1,126,135	1,126,135
Dividends declared and paid in respect of the current year	-	-	-	-	-	-	-	-	1,120,133	1,120,133
(note 17(a))									(246,517)	(246,517)
At 31 December 2006	6,474,230	2,818	3,861,867	10,541	16,038	197,370	71,767	26,068	4,547,950	15,208,649

	Attributable to equity shareholders of the Company Other Convertible										
	Share premium HK\$'000	Capital reserve HK\$'000	General reserve HK\$'000	Exchange differences reserve HK\$'000	revaluation reserve		bond – equity component HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	<b>Total</b> 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	3,441,559									2 441 550	
during the year Revaluation surplus, net of	5,441,009	-	-	-	-	-	-	-	-	3,441,559	
deferred tax	-	-	_	-	33,670	_	_	-	_	33,670	
Release of revaluation reserve					00,010					00,070	
on disposal of properties	-	-	-	-	-	-	-	-	6,011	6,011	
Share of share option reserve											
of associates	-	-	-	-	-	-	-	8,167	-	8,167	
Share of fair value reserve						(10.010)				(10.010)	
of associates	-	-	-	-	-	(10,910)		-	-	(10,910)	
Exchange difference on translation	-	-	-	787,384	-	-	200	-	-	787,584	
Equity-settled share-based transaction	s –	-	-	-	-	-	-	22,605	-	22,605	
Available-for-sale securities – changes in fair value						(227.476)				(227 176)	
- transfer to income statement	-	-	-	-	-	(337,476)	-	-	-	(337,476)	
on disposal (note 14)						(7,356)				(7,356)	
- transfer to deferred tax			_	_		60,346	_		_	60,346	
Conversion of Convertible Bonds into						00,040				00,040	
Shares	-	-	-	-	_	_	(11,768)	-	_	(11,768)	
Exercise of share options during							(11,700)			(11,700)	
the year	-	-	-	-	-	-	-	(5,228)	-	(5,228)	
Dividends paid in respect of								(-,,		(,,,,,,)	
the previous year (note 17(b))	-	-	-	-	-	-	-	-	(322,056)	(322,056)	
Profit for the year	-	-	-	-	-	-	-	-	1,852,461	1,852,461	
Dividends declared and paid in											
respect of the current year											
(note 17(a))											
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	

## (ii) The Company

		Attributable to e	npany			
				Other property		
	Share	Share option	General	revaluation	Retained	
	premium	reserve	reserve	reserve	profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2006	1,840,212	10,104	-	-	987,723	2,838,039
Share premium on shares issued						
during the year	4,634,018	-	-	-	-	4,634,018
Change in share price on issue of shares for investment						
in CNCB	-	-	3,761,867	-	-	3,761,867
Equity-settled share-based						
transactions	-	4,581	-	-	-	4,581
Exercise of share options						
during the year	-	(4,761)	-	-	-	(4,761)
Dividends paid in respect						
of the previous year (note 17(b))	-	-	-	-	(192,074)	(192,074)
Profit for the year	-	-	-	-	588,883	588,883
Dividends declared and paid						
in respect of the current year (note 17(a))					(246 517)	(246 517)
(note 17(0))					(246,517)	(246,517)
At 31 December 2006	6,474,230	9,924	3,761,867		1,138,015	11,384,036
At 1 January 2007	6,474,230	9,924	3,761,867	-	1,138,015	11,384,036
Share premium on Shares issued						
during the year	3,422,162	-	-	-	-	3,422,162
Revaluation surplus, net of						
deferred tax	-	-	-	6,945	-	6,945
Equity-settled share-based						
transactions	-	22,605	-	-	-	22,605
Exercise of share options						
during the year	19,396	(5,228)	-	-	-	14,168
Dividends paid in respect					(222.05()	(000.05()
of the previous year ( <i>note</i> 17( <i>b</i> ))	-	-	-	-	(322,056)	(322,056)
Loss for the year Dividende declared and paid	-	-	-	-	(13,844)	(13,844)
Dividends declared and paid in respect of the current year						
(note 17(a))	_	_	_	_	_	_
At 31 December 2007	9,915,788	27,301	3,761,867	6,945	802,115	14,514,016
=						

#### (iii) Nature and purpose of reserves

#### (a) Share premium

The application of the share premium account is governed by section 48B of the Companies Ordinance.

#### (b) Exchange differences reserve

The exchange differences reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(s).

#### (c) Other property revaluation reserve

The other property revaluation reserve is not available for distribution to shareholders because it does not constitute realised profits within the meaning of section 79B(2) of the Companies Ordinance.

#### (d) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the balance sheet date and is dealt with in accordance with the accounting policies in note 2(h)(ii).

#### (e) Convertible Bond – equity component

The Convertible Bond – equity component comprises the fair value of the equity conversion component of the Convertible Bond issued that were determined at the date of waiver of the cash settlement option on 23 December 2004.

#### (f) Share option reserve

The share option reserve comprises the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payment in note 46.

Included in the share option reserve is an amount of HK\$8,167,000 (2006: HK\$9,644,000) being the share option reserve attributable to its associates under its own "Share Option Scheme".

(g) Retained profits

The Group complies with the Hong Kong Monetary Authority's requirement to maintain minimum impairment allowances in excess of those required under Hong Kong Accounting Standards. As at 31 December 2007, an amount of HK\$957,055,000 (2006: HK\$376,300,000) was included in the retained profits as regulatory reserve in this respect which was distributable to equity shareholders of CKWB subject to consultation with the Hong Kong Monetary Authority.

Included in the retained profits is an amount of HK\$2,178,358,000 (2006: HK\$577,404,000) being the retained profits attributable to associates.

#### (iv) Distributability of reserve

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK\$4,563,982,000 (2006: HK\$4,899,882,000). After the balance sheet date the directors proposed no payment of a final dividend for the year ended 31 December 2007 (2006: HK\$0.056).

### 44. MINORITY INTERESTS

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
At 1 January	-	536
Associates acquired during the year	_	_
Profit for the year	_	1,383
Disposal of subsidiary during the year	_	(1,938)
Others		19
As 31 December		_

### 45. STAFF RETIREMENT SCHEME

The Group has a defined contribution provident fund scheme ("the Retirement Scheme") under which it contributes 10% of the employees' basic salaries. The Retirement Scheme is an MPF exempted scheme and covers all permanent full-time employees of the Group. No employee contributions are required. Contributions forfeited by leavers prior to vesting fully may not be used by the Group to reduce the existing level of contribution but are transferred to a separate welfare fund which shall be applied for the welfare of the Retirement Scheme's members.

Besides the Retirement Scheme, the Group also participated in an approved MPF scheme effective on 1 December 2000 to provide scheme choice to both existing and new employees. Mandatory benefits are being provided under the MPF Scheme.

During the year, the Group contributed approximately HK\$41,576,000 (2006: HK\$39,270,000) (note 10(a)) to these schemes.

### 46. SHARE-BASED PAYMENTS

#### Equity-settled share-based transactions

The Company adopted The CITIC International Financial Holdings Limited Share Option Scheme (the "Share Option Scheme") on 16 May 2003. The options granted under the Share Option Scheme have a vesting period of two years or three years starting from the date of grant and will then remain exercisable until the tenth anniversary day from the date of grant. Each option gives the holder the right to subscribe for one Share in the Company.

(*a*) The terms and conditions of the options, which will be settled by physical delivery of shares, granted under the Share Option Scheme are as follows:

Date of grant/Number of employees entitled	Number of options	Vesting conditions	Contractual life of options
Options granted to 273 eligible persons on 17 November 2003	6,758,000	2 years from the date of grant	10 years from the date of grant
Options granted to 293 eligible persons on 6 April 2004	7,412,000	2 years from the date of grant	10 years from the date of grant
Options granted to 275 eligible persons on 13 June 2005	6,800,000	2 years from the date of grant	10 years from the date of grant
Options granted to 321 eligible persons on 18 May 2006	8,152,000	2 years from the date of grant	10 years from the date of grant
Options granted to 369 eligible persons on 6 July 2007	13,455,000	2 years from the date of grant	10 years from the date of grant
Options granted to 369 eligible persons on 6 July 2007	13,455,000	3 years from the date of grant	10 years from the date of grant

(b) The number and weighted average exercise prices of share options are as follows:

	Share options granted in 2007 Exercise Number of		granted in 2007 granted in 2006 Exercise Number of Exercise Number of		Share options granted in 2005 Exercise Number of		Share options granted in 2004 Exercise Number of		Share options granted in 2003 Exercise Number of	
	price HK\$	options	price HK\$	options	price HK\$	options	price HK\$	options	price HK\$	options
Outstanding at the beginning of the year	-	_	4.275	7,464,000	2.925	5,472,000	3.775	2,840,000	3.540	2,392,000
Granted during the year	6.570	26,910,000	-	-	-	-	-	-	-	-
Forfeited during the year	-	(508,000)	-	(924,000)	-	(132,000)	-	(8,000)	-	(8,000)
Exercised during the year						(3,548,000)		(1,480,000)		(1,272,000)
Outstanding at the end										
of the year	6.570	26,402,000	4.275	6,540,000	2.925	1,792,000	3.775	1,352,000	3.540	1,112,000
Exercisable at the end of the year						1,792,000		1,352,000		1,112,000
Weighted average share price at the date of share options										
exercised during the year	-		-		6.345		6.492		6.455	

The weighted average share price at the date of share options exercised during the year was HK\$6.402 (2006: HK\$4.805).

The options outstanding at 31 December 2007 have exercise prices which fall within the range of HK\$2.925 to HK\$6.570 (2006: HK\$2.925 to HK\$4.275) and have a weighted average contractual life of 10 years (2006: 10 years).

#### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of the share options granted. The estimate of the fair value of the share options granted is measured based on a trinomial lattice model. The 10 years contractual life of the share option is used as an input into this model.

	For options granted on 6 July 2007	For options granted on 18 May 2006	For options granted on 13 June 2005	For options granted on 6 April 2004	For options granted on 17 November 2003
Fair value at measurement date	HK\$3.702	HK\$1.301	HK\$0.653	HK\$1.248	HK\$0.835
Share price	HK\$6.570	HK\$4.275	HK\$2.925	HK\$3.775	HK\$3.475
Exercise price	HK\$6.570	HK\$4.275	HK\$2.925	HK\$3.775	HK\$3.540
Expected volatility (expressed as volatility used in the trinomial lattice model)	53.94%	31.00%	24.30%	34.00%	24.00%
Option life	10 Years	10 Years	10 Years	10 Years	10 Years
Expected dividends (continuous Yield)	2.10%	4.14%	3.84%	3.71%	3.71%
Risk-free interest rate (based on HKD government bond Yield)	4.62%	4.84%	3.22%	4.07%	4.34%

The expected volatility is based on the historic volatility and adjusted for any expected changes to future volatility according to publicly available information. Expected dividends are based on historical dividend yields. Changes in the subject input assumptions could materially affect the fair value estimates.

Share options are granted under a service condition and, for grants to personnel, a nonmarket performance condition.

#### **Cash-settled Share-based transactions**

CKWB, a wholly owned subsidiary of the Company, has offered Equity Linked Deferred Award ("the ELDA") to its eligible employees and certain directors of the Company (the "Eligible Persons") whereby the Eligible Persons will receive cash benefit on the specified maturity date, being the earlier of the second calendar anniversary of the offer date and the date of retirement. The amount of cash benefit to be received by the Eligible Persons on the maturity date shall be calculated by multiplying the number of Shares of the Company notionally subject to ELDA by the lower of:

- 1. the result obtained by subtracting the ELDA price per share from the closing price of the Share of the Company as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the maturity date; and
- 2. HK\$3.00.

The Eligible Persons are not entitled to receive any payment pursuant to the ELDA if the closing price of the Share of the Company as stated in the daily quotations sheet of the Hong Kong Stock Exchange on the maturity date falls below the ELDA price. No Shares of the Company will be allotted or transferred to the Eligible Persons upon the maturity of the ELDA.

The detailed terms of the ELDA offered to the Eligible Persons are as follows:

		Number of Shares
		of the Company
	ELDA price per Share	notionally subject to ELDA
Offer date	(HK\$)	as at 31 December 2007
28 April 2006	2.00	6,093,837

The fair value of the ELDA is measured based on a trinomial lattice model and limited to HK\$3.00, which is the maximum cash benefit to be received by the Eligible Persons on the maturity date.

### **Employee expenses**

	2007	2006
	HK\$'000	HK\$'000
Equity-settled share-based transactions		
Share options granted in 2004	_	1,066
Share options granted in 2005	1,095	1,465
Share options granted in 2006	3,470	2,050
Share options granted in 2007	18,040	
Total expense recognised as employee costs (note 10(a))	22,605	4,581
	2007	2006
	HK\$'000	HK\$'000
Cash-settled share-based transactions		
ELDA granted in 2004	-	(210)
ELDA granted in 2005	3,667	6,560
ELDA granted in 2006	9,161	5,300
Total carrying amount of cash-settled transaction		
liabilities (note 10(a))	12,828	11,650
	<ul> <li>Share options granted in 2005</li> <li>Share options granted in 2006</li> <li>Share options granted in 2007</li> <li>Total expense recognised as employee costs (<i>note 10(a)</i>)</li> <li>Cash-settled share-based transactions</li> <li>ELDA granted in 2004</li> <li>ELDA granted in 2005</li> <li>ELDA granted in 2006</li> <li>Total carrying amount of cash-settled transaction</li> </ul>	HK\$'000         Equity-settled share-based transactions         Share options granted in 2004       -         Share options granted in 2005       1,095         Share options granted in 2006       3,470         Share options granted in 2007       18,040         Total expense recognised as employee costs (note 10(a))       22,605         2007       HK\$'000         Cash-settled share-based transactions       -         ELDA granted in 2004       -         ELDA granted in 2005       3,667         ELDA granted in 2006       9,161         Total carrying amount of cash-settled transaction       -

## 47. CASH AND CASH EQUIVALENTS

		The C	Group
		2007	2006
		HK\$'000	HK\$'000
(i)	Components of cash and cash equivalents in the consolidated cash flow statement		
	Cash and balances with banks, central banks and		
	other financial institutions	924,450	1,267,871
	Placements with and advances to banks, central banks and other financial institutions (original maturity		
	within three months)	9,193,263	10,475,775
	Treasury bills (original maturity within three months):		
	- Held-to-maturity investments	-	138,593
	- Available-for-sale securities	221,571	149,757
		10,339,284	12,031,996

		The G	roup
		2007	2006
		HK\$'000	HK\$'000
(ii)	Reconciliation with the consolidated balance sheet		
	Cash and balances with banks, central banks and		
	other financial institutions	1,502,876	1,267,871
	Placements with and advances to banks, central		
	banks and other financial institutions	12,647,588	12,392,538
	Treasury bills and certificate of deposit held:		
	– Held-to-maturity investments	-	188,583
	- Available-for-sale securities	871,213	149,757
	Amount shown in the consolidated balance sheet	15,021,677	13,998,749
	Less: Amounts with an original maturity of over		
	three months	(4,682,393)	(1,966,753)
	Cash and cash equivalents in the consolidated		
	cash flow statement	10,339,284	12,031,996

#### 48. ASSETS SUBJECT TO SALE AND REPURCHASE TRANSACTIONS

No assets and liabilities are subject to sale and repurchase transactions for the year 2007 and 2006.

#### 49. ASSETS PLEDGED AS SECURITY

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Assets pledged:		
Cash and balances with banks, central banks and other		
financial institutions	3,552	1,163
Held-to-maturity investments	-	77,746
Available-for-sale securities	77,743	
	81,295	78,909

The assets pledged represented statutory deposits pledged to the Office of the Comptroller of Currency in the USA at the balance sheet date.

### 50. 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 year, the Group entered into a number of transactions with related parties, in the normal course of its banking business including, inter alia, lending, the 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 year and outstanding balances at the end of the year are set out below:

				The G	roup			
	Ultim				-		Rela	ted
	controllin	g party	Fellow sub	osidiaries	Associates	s (note 1)	company	(note 2)
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income	-	-	3,478	7,386	19,766	9,373	-	-
Interest expense	-	-	(118,681)	(103,133)	(129,880)	(22,196)	(2,508)	-
Other operating income	-	-	-	-	55,687	22,717	-	-
Operating expenses	(1,000)	(1,010)	(10,215)	-	(52,985)	(2,390)	-	-
Guarantees and letter								
of credit					15,539	7,116		
Lending activities:								
At 1 January	_	-	475,381	369,418	221,798	200,000	-	_
At 31 December	_	-	18,786	475,381	802,106	221,798	-	_
Average for the year	_	-	18,902	378,778	463,692	241,617	-	_
interage for the year			10,702	010,110	100,072	211,017		
Other Receivables:								
At 1 January	-	-	2,462	4,805	124,728	10,810	-	-
At 31 December	-	-	83	2,462	32,682	124,728	-	-
Average for the year	-	-	3,919	2,463	13,973	36,302	-	-
Acceptance of deposits:								
At 1 January	-	-	1,067,643	2,292,055	1,349,019	876,868	-	-
At 31 December	-	-	3,329,591	1,067,643	3,545,123	1,349,019	-	-
Average for the year	-	-	2,997,448	1,978,865	2,670,054	895,996	-	-
Other Payables:								
At 1 January	-	-	1,744	1,383	369	2,452	-	-
At 31 December	-	-	6,958	1,744	7,126	369	2,508	-
Average for the year	-	-	4,924	2,582	4,433	1,950	627	-
Loan Capital:								
At 1 January	-	-	-	-	-	-	-	-
At 31 December	-	-	803,257	-	389,930	-	623,889	-
Average for the year	-	-	200,814	-	97,483	-	155,972	-

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

Note:

- (1) Associates included associates of the Company and ultimate controlling party respectively.
- (2) The related company referred to a shareholder of the Company, which exercises significant influence on the Company.

	The Cor Ultim	ate
	controllir	ig party
	2007	2006
	HK\$'000	HK\$'000
Operating expenses	(1,000)	(1,010)

#### (b) Transactions with key management personnel

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 11 and certain of the highest paid employee as disclosed in note 12, is as follows:

	The Group	
	2007	2006
	HK\$'000	HK\$'000
Short-term employee benefits	44,976	51,373
Post-employment benefits	2,293	2,389
Share-based payments	13,175	2,839
	60,444	56,601

Total remuneration is included in "staff costs" (note 10(a)).

During the year, 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.

	The Group	
	2007	2006
	HK\$'000	HK\$'000
At 1 January	13,462	18,100
At 31 December	13,855	13,462
Maximum amount during the year	17,170	28,292

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

#### (c) Loans to officers

Loans to officers of the Group disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows:

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Aggregate amount of relevant loans made by the Group		
outstanding at 31 December	1,972	1,930
Maximum aggregate amount of relevant loans made		
by the Group outstanding during the year	2,625	2,976

There was no provision made against these loans as at 31 December 2007.

### 51. FINANCIAL RISK MANAGEMENT

This note presents information about the Group's exposure to each of the following risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

- Credit risk: loss resulting from customer or counterparty default and arises on credit exposure in all forms, including settlement risk.
- Market risk: risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices and market risk comprises currency risk, interest rate risk and other price risk.
- Liquidity and funding risk: risk that the Group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
- Operational risk: risk arising from matters such as non-adherence to systems and procedures or from frauds resulting in financial or reputation loss.

The Group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date management and information systems. The Group continually modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. The internal auditors also perform regular audits to ensure compliance with the policies and procedures.

#### (a) Credit risk management

The Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for the Group by failing to discharge an obligation. Credit exposures arise principally in loans and advances, debt securities and treasury bills into the Group's asset portfolio. There is also credit risk in off-balance sheet financial arrangements such as loan commitments. The credit risk management and control are centralised in Risk Management Group ("RMG") under the oversight of Credit Committee and reported to the Credit & Risk Management Committee ("CRMC") on quarterly basis.

Credit risk management is effected by monitoring implementation of adopted credit policies that determine the borrower's creditworthiness, credit risks classification, loan application process 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 mitigated by obtaining collateral in the form of pledged assets and guarantees from borrowers and third parties.

CRMC at the board level plus Credit Committee at CKWB level are the two bodies that oversee risk management, set the strategy and policy, and designate RMG as the means for implementing the strategy and policy so approved in relation to credit risk.

Credit risk imbedded in products is identified and measured within product programs. Credit risk pertaining to individual customers is identified and measured by credit officers utilising internal risk rating models or on judgmental basis.

Approval of credit application is governed by credit officers under delegated authorities or by credit committee, as the case may be.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect groups of counterparties whose aggregate credit exposure is material in relation to the Group's total exposures. The Group's portfolio of financial instruments is diversified along geographic, industry and product sectors. Analysis of credit risk concentration of the Group's respective financial assets is disclosed in note 23 to 25 and note 27 to 28.

### (i) Maximum exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancements is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	The G	roup	The Com	pany
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and balances with				
banks, central banks and				
other financial institutions	1,502,876	1,267,871	-	-
Placements with and				
advances to banks, central				
banks and other financial				
institutions	12,647,588	12,392,538	-	-
Trade bills	1,523,200	491,994	-	-
Trading assets	1,335,609	3,211,734	-	-
Securities designated at fair				
value through profit of loss	531,025	959,436	-	-
Loans and advances to				
customers and other				
accounts	67,628,071	51,844,662	6,375	12,717
Available-for-sale securities	22,028,259	4,921,717	-	-
Held-to-maturity investments	-	10,176,493	-	-
Financial guarantees and				
other credit related				
contingent liabilities	6,714,297	3,456,292	-	-
Loans commitments and				
other credit related				
commitments	22,960,628	18,409,921	-	-
	136,871,553	107,132,658	6,375	12,717

#### (ii) Credit quality of loans and advances

Loans and advances to banks are only made to international banks with good credit standing. At 31 December 2007 and 31 December 2006, all loans and advances to banks are not impaired. The credit quality of loans and advances to customers can be analysed as follows:

	The C	Group
	2007	2006
	HK\$'000	HK\$'000
Gross loans and advances to customers		
<ul> <li>neither past due nor impaired</li> </ul>	63,654,103	46,570,840
– past due but not impaired	1,422,115	3,267,871
– impaired	757,212	846,639
	65,833,430	50,685,350
	The G	Group
	The G 2007	Group 2006
Of which:		*
Of which: Gross loans and advances to customers that are neither past due nor impaired	2007	2006
Gross loans and advances to customers that are	2007	2006
Gross loans and advances to customers that are neither past due nor impaired	<b>2007</b> HK\$'000	<b>2006</b> <i>HK\$</i> '000

There is no loans and advances to banks or other customers by the Company as at 31 December 2007 and 31 December 2006.

The credit risk rating system of CKWB is designed to assess the default risk of borrowers in the commercial and corporate banking portfolios. The credit quality of unimpaired loans made to the borrowers is assessed by reference to CKWB's risk rating system.

Loans made to borrowers under the classification of "pass" designate these loans are current in meeting commitments and the full repayment of interest and principal for them is not in doubt. They include borrowers of Grades 1 to 10 representing the ability to meet financial obligations in various degrees.

Loans made to borrowers under the classification of "special mention" designate borrowers are experiencing difficulties and it may threaten CKWB's financial position. They include borrowers of Grade 11 representing the loans made to them require special and close attention. The ageing analysis of loans and advances to customers that are past due but not impaired is as follows:

	The Group		
	2007	2006	
	HK\$'000	HK\$'000	
Gross loans and advances to customers that are past due but not impaired			
– Overdue 3 months or less	1,329,359	3,226,974	
– 6 months or less but over 3 months	51,034	_	
– 1 year or less but over 6 months	_	40,897	
– Over 1 year	41,722		
	1,422,115	3,267,871	

Loans and advances that would be past due or impaired had the terms not been rescheduled amounted to HK\$1,776,000 as at 31 December 2007 (2006: HK\$1,831,000).

#### (iii) Credit quality of financial assets other than loans and advances

Credit risk of treasury transactions is managed in the same way as the Group manages its corporate lending risk. Risk grading is applied to the debt issuers with individual credit limits set. It is the Group's credit policy not to invest in unlisted debt securities that are below the rating of Baa3. At 31 December 2007 and 2006, there were no objective evidence that should call for impairment assessment on individual, listed debt securities.

The following table presents the credit quality of investment in debt securities analysed by designation of external credit assessment agency, Moody's Investors Service ratings (or their equivalent) at the balance sheet date. Credit ratings for those debt securities are represented by either the issue or the issuer ratings, ratings designated for the issuers are reported in case there are no issue ratings.

	The Group		
	2007	2006	
	HK\$'000	HK\$'000	
Aaa	704,326	533,129	
Aa3 to Aa1	12,106,526	5,480,111	
A3 to A1	8,097,100	8,129,776	
Lower than A3	1,904,784	2,529,817	
	22,812,736	16,672,833	
Unrated	353,687	1,709,669	
Total	23,166,423	18,382,502	

### (iv) Collateral and other credit enhancements

The Group holds collateral against loans and advances to customers in the form of mortgage interests over properties, other registered securities over assets, cash deposits and guarantees. Collateral is generally not held against loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activities. Collateral is usually not held against listed debt securities, and no such collateral was held at 31 December 2007 or 2006. Debt securities, treasury and other eligible bills are generally unsecured with the exception of asset-based securities and similar instruments, which are secured by pools of financial assets. The Group's preferred agreement for documenting derivatives activity is the ISDA Master Agreement which covers the contractual framework within which dealing activity across a full range of over-the-counter products is conducted and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement, if either party defaults or following other pre-agreed termination events. The Group may also execute a Credit Support Annex in conjunction with the ISDA Master Agreement with the counterparty under which collateral is passed between the parties to mitigate the market contingent counterparty risk inherent in the outstanding positions.

The lower of gross loans and advances and the estimate of the fair value of collateral and other credit enhancements held against financial assets is as follows:

	The Group		
	2007	2006	
	HK\$'000	HK\$'000	
Lower of gross loans and advances and the fair			
value of collateral and other credit enhancements			
held against financial assets that are:			
<ul> <li>neither past due nor impaired</li> </ul>	39,146,426	33,733,085	
– past due but not impaired	1,251,351	2,669,985	
	40,397,777	36,403,070	

#### (b) 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 banking-book securities of CKWB generate market risk exposure. Banking-book securities include available-for-sale securities and investments designated at fair value through profit or loss. Other subsidiaries of the Group have also engaged in investments prone to market risk but in relatively smaller scales.

CKWB controls its market risk within a hierarchy of limits approved by CKWB's 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. Any excesses in limits will alert the attention of senior management and trigger appropriate actions when necessary.

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

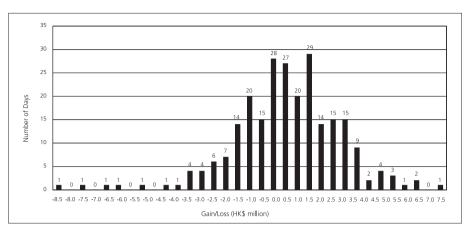
Operating as an unit under the Risk Management Group, Market Risk Management is responsible for the measuring, monitoring and reporting functions to ensure that CKWB's market risk exposure measures are within the prescribed limits. Methods adopted to measure market risk exposure against corresponding limits include profit and loss, positions, sensitivities such as Greeks and PV01 (present value impact of 1 basis point change) and Value-at-Risk (VaR). CKWB measures the overall market risk of its trading portfolio in terms of VaR. VaR is a statistical tool to estimate the maximum 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. The VaR figure is monitored against the respective limit on a daily basis. CKWB's VaRs for the trading portfolio during the years ended 31 December 2006 and 31 December 2007 are shown in the table below.

	Maximum HK\$'000	<b>2007</b> Minimum HK\$'000	<b>Mean</b> HK\$'000	<b>Maximum</b> HK\$'000	<b>2006</b> Minimum HK\$'000	<b>Mean</b> HK\$'000
Foreign exchange risk	1,169	17	361	1,359	15	423
Interest rate risk	1,894	85	609	5,546	90	1,788
Total VaR	1,889	151	727	5,427	92	1,888

CKWB also implemented stress testing for its trading and overall portfolios to assess the potential adverse effects under extreme 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 and overall portfolios. Examples of hypothetical scenarios are a parallel yield curve shift by 200 basis points, steepening and flattening of yield curve, HK\$ strengthening against US\$ by 10% and G7 Currencies appreciating against US\$ by 10%.

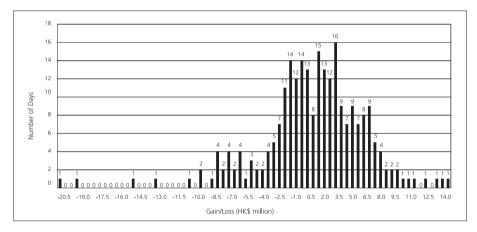
CKWB's approval process for new products is controlled by the "New Product Evaluation and Approval Policy" approved by its Management Committee. According to the Policy, new products are subject to risk clearances by various functional units, including Financial Management, Operations & Technology Management, Risk Management Group and Legal & Compliance. After obtaining the functional clearances, the sponsoring Business Head shall submit the Product Evaluation Proposal for the joint approval of Director of Risk and Chief Executive Officer (CEO)/Alternate Chief Executive Officer (ACEO).

For the year ended 31 December 2007, 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\$791,000 (2006: HK\$1,736,000). The standard deviation of the daily revenue was HK\$2,258,000 (2006: HK\$4,691,000). The graph below shows a histogram of the Group's daily mark-to-market revenue for the year ended 31 December 2007.



Daily distribution of mark-to-market revenues for the year ended 31 December 2007

Daily distribution of mark-to-market revenues for the year ended 31 December 2006



From the graph above, the maximum daily mark-to-market gain was HK\$7,053,000 (2006: HK\$13,992,000) and the maximum daily mark-to-market loss was HK\$8,559,000 (2006: HK\$20,855,000). Out of the 247 trading days for the period, there were 170 days with mark-to-market gains and 77 days with mark-to-market losses. The most frequent range of daily mark-to-market revenue was between HK\$1,500,000 (2006: HK\$3,500,000) and HK\$2,000,000 (2006: HK\$4,000,000), with the highest occurrence of 29 days.

CKWB uses the Standardised (Market Risk) (STM) approach to calculate its market risk. As at 31 December 2007, CKWB's positions covered by the approach amounted to HK\$411,607,000 and the market risk capital charges for CKWB's interest rate, equity, foreign exchange and commodity expenses were HK\$36,982,000, HK\$898,000 and HK\$32,121,000 respectively.

#### Currency risk

The Group's foreign exchange risk stems from taking foreign exchange positions, commercial dealings, investments in foreign currency securities and operations of CKWB and its overseas branches and subsidiaries. Foreign exchange positions of CKWB are subject to exposure limits approved by ALCO. Methods adopted to measure foreign currency risk exposure against corresponding limits include individual currency positions, overall foreign exchange positions and sensitivities such as Greeks (for foreign exchange options). For the year ended 31 December 2007, the Group's average daily trading profit and loss from foreign exchange positions was a profit of HK\$25,000 (2006: HK\$4,000) with a standard deviation of HK\$196,000 (2006: HK\$241,000).

	The Group 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 options position							
Net long position	594,004	502,796	11,470	1,108,270			
Net structural position		213,555	48,559	262,114			
		2000	5				
Equivalent in HK\$'000	USD	Renminbi	Others	Total			
Spot assets	29,281,696	755,622	3,166,650	33,203,968			
Spot liabilities	(27,368,864)	(443,806)	(4,589,986)	(32,402,656)			
Forward purchases	18,010,065	996	7,523,379	25,534,440			
Forward sales	(19,944,897)	-	(6,086,158)	(26,031,055)			
Net options position	869		(869)				
Net (short)/long position	(21,131)	312,812	13,016	304,697			
Net structural position	_	199,226	48,565	247,791			
		The Com	ipany				
		2007					
Equivalent in HK\$'000	USD	Renminbi	Others	Total			
Spot assets	167,173	128,755	_	295,928			
Spot liabilities	(158,987)	(121,923)	(45)	(280,955)			
	0.10/		(45)	14.052			
Net long/(short) position	8,186	6,832	(45)	14,973			
		2006	5				
Equivalent in HK\$'000	USD	Renminbi	Others	Total			
Spot assets	161,525	_	20	161,545			
Spot liabilities	(260,549)	(2,004)		(262,553)			
Net (short)/long position	(99,024)	(2,004)	20	(101,008)			
~ .							

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

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

Sensitivity analysis on foreign currency exposures

(i) At 31 December 2007, if Hong Kong Dollar had weakened by 10% against other currencies (other than USD currency) with all other variables held constant, the profit before tax for the year of the Group and the Company would have been higher by HK\$51.4 million and HK\$0.7 million respectively (2006: higher by HK\$32.6 million and lower by HK\$0.2 million respectively for the Group and the Company), mainly as a result of foreign exchange gains on translation of non-HKD denominated financial assets compensated by foreign exchange losses on translation of non-HKD denominated financial liabilities.

Conversely, if HKD had strengthened by 10% against other currencies (other than USD currency) with all other variables held constant, the profit before tax for the year of the Group and the Company would have been lower by HK\$51.4 million and HK\$0.7 million respectively (2006: lower by HK\$32.6 million and higher by HK\$0.2 million respectively for the Group and the Company).

(ii) The Group or the Company exposed to currency risks primarily arising from financial instruments that are denominated in United States dollars ("USD"), excluding structured foreign exchange positions of 200 million Renminbi and 50 million MOP. As the USD is pegged to the HKD, the Group or the Company considers the risk of movements in exchange rates between the HKD and the USD to be insignificant.

#### Interest rate risk

CKWB's ALCO oversees all interest rate risks arising from the interest rate profile of CKWB's assets and liabilities. CKWB has interest rate risk exposure from both of its banking and trading books. The interest rate risk in the banking book is caused by maturity gaps, basis risks among different interest rate benchmarks, yield curve movements, interest rate re-pricing risks and risks from embedded options, if any. CKWB's management of the interest rate risk in the banking book is governed by the Interest Rate Risk Management Policy for Banking Book. Treasury and Markets Department manages the interest rate risk in the Banking Book according to the guidance of the Policy.

To mitigate interest rate risks, CKWB has used 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 has also adopted 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. CKWB's management of the interest rate risk in the trading book is guided by Interest Rate Risk Management Policy for Trading Book. CKWB mainly uses PV01 to measure its interest rate risk. For the year ended 31 December 2007, the Group's average daily trading profit and loss from interest rate positions was a loss of HK\$20,000 (2006: a profit of HK\$28,000) with a standard deviation HK\$377,000 (2006: HK\$860,000).

The following table indicates the average effective interest rates for the year ended 31 December for monetary financial instruments:

	The Grou	ıp
	2007	2006
	%	%
A 1-		
Assets		
Cash and balances with banks, central banks and other		
financial institutions and placements with and advances		
to banks, central banks and other financial institutions	4.5	4.4
Trade bills, loans and advances to customers and		
other accounts	5.9	6.1
Held-to-maturity investments	-	3.9
Available-for-sale securities	4.9	7.4
Liabilities		
Deposits and balances of banks and other financial		
institutions	3.9	4.9
Deposits from customers	3.8	3.9
Certificates of deposit issued, debt securities issued		
and loan capital	6.2	5.9

Trading assets, trading liabilities and financial instruments designated at fair value through profit and loss are not included in the above table because the net income from these financial instruments comprise all gains and losses from changes in fair value (net of accrued coupon) together with interest income and expense and dividend income.

Sensitivity analysis on interest rate exposures

CKWB measures the interest rate risk of the banking book by conducting sensitivity analysis on interest rate exposure on a quarterly basis. In the sensitivity analysis, the potential impacts of movements in interest rates on CKWB earning are assessed under assumptions that the interest rates of two major currencies (HKD and USD) will rise or drop by 200 basis points in the repricing dates (mid-point of the corresponding time bands) of all assets and liabilities. The impacts on both on– and off-balance sheet items are included in the assessment.

		The Gr	oup	
	2002	7	200	6
Equivalent in HK\$'000	HKD	USD	HKD	USD
Impact on earnings over the next 12 months if interest				
rates rise by 200 basis points Impact on economic value if interest rates rise by	(50,379)	(133,524)	89,153	(140,473)
200 basis points	126,647	205,435	99,371	278,175
		The Com	pany	
	2002	7	200	6
Equivalent in HK\$'000	HKD	USD	HKD	USD
Impact on earnings over the next 12 months if interest rates rise by 200 basis points	(96,886)	_	_	_
Impact on economic value if				
interest rates rise by				
200 basis points	(5,110)	_		_

This sensitivity analysis, which is based on the interest rate risk profile of assets and liabilities, is used for risk management purposes only. The analysis is based on the following assumptions:

- (i) there is a paralled shift in the yield curve and in interest rate;
- (ii) there are no other changes to the portfolio;
- (iii) no loan prepayment is assumed as the majority of loans is on floating rate base; and
- (iv) deposits without fixed maturity date are assumed to be repriced on next day.

Actual changes in CKWB's net interest income and the economic value resulting from the increase in interest rates may differ from the results of this sensitivity analysis.

The following tables indicate the mismatches of expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities at the balance sheet date.

			The C 20	1		
	<b>Total</b> <i>HK\$'000</i>	3 months or less (including overdue) HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	<b>Over</b> <b>5 years</b> <i>HK\$'000</i>	Non- interest bearing HK\$'000
Assets						
Cash and balances with banks, central banks and other financial institutions	1,502,876	679,630	_	_	_	823,246
Placements with and advances to banks, central banks and						
other financial institutions	12,647,588	11,623,071	1,024,517	-	-	-
Trade bills	1,523,200	1,275,882	238,387	-	-	8,931
Trading assets	3,479,009	-	948	2,203	102	3,475,756
Securities designated at fair value						
through profit or loss	531,025	-	-	531,025	-	-
Loans and advances to customers						
and other accounts	67,704,297	60,145,416	4,351,504	178,566	12,935	3,015,876
Available-for-sale securities	22,125,403	4,961,560	5,903,812	9,623,835	978,973	657,223
Held-to-maturity investments	-	-	-	-	-	-
Non-interest bearing assets	22,871,629					22,871,629
Total assets	132,385,027	78,685,559	11,519,168	10,335,629	992,010	30,852,661

			The C 20	-		
	<b>Total</b> <i>HK\$'000</i>	3 months or less (including overdue) HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000
Liabilities						
Deposits and balances of banks						
and other financial institutions	6,649,030	6,366,885	-	-	-	282,145
Deposits from customers	83,794,961	78,973,675	2,292,332	561,185	-	1,967,769
Trading liabilities	879,690	-	-	-	-	879,690
Certificates of deposit issued	6,863,124	2,271,534	3,019,270	1,572,320	-	-
Debt securities issued	2,314,394	-	-	2,314,394	-	-
Convertible bond issued	7,648	-	7,648	-	-	-
Loan capital	3,926,390	1,949,652	-	1,976,738	-	-
Non-interest bearing liabilities	1,466,211					1,466,211
Total liabilities	105,901,448	89,561,746	5,319,250	6,424,637	_	4,595,815
Interest rate sensitivity gap		(10,876,187)	6,199,918	3,910,992	992,010	
			The G	Group		
			20	06		
				00		
		3 months	_0			
		or less	Over 3	Over		Non-
		or less (including			Over	interest
	<b>Total</b> <i>HK\$'000</i>	or less	Over 3	Over	Over 5 years HK\$'000	
Assets		or less (including overdue)	Over 3 months to 1 year	Over 1 year to 5 years	5 years	interest bearing
Cash and balances with banks,		or less (including overdue)	Over 3 months to 1 year	Over 1 year to 5 years	5 years	interest bearing
Cash and balances with banks, central banks and other financial	HK\$'000	or less (including overdue) HK\$'000	Over 3 months to 1 year	Over 1 year to 5 years	5 years	interest bearing HK\$'000
Cash and balances with banks, central banks and other financial institutions		or less (including overdue)	Over 3 months to 1 year	Over 1 year to 5 years	5 years	interest bearing
Cash and balances with banks, central banks and other financial institutions Placements with and advances to	HK\$'000	or less (including overdue) HK\$'000	Over 3 months to 1 year	Over 1 year to 5 years	5 years	interest bearing HK\$'000
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other	<i>HK\$</i> ′000 1,267,871	or less (including overdue) HK\$'000 25,857	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years	5 years	interest bearing HK\$'000
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions	HK\$'000 1,267,871 12,392,538	or less (including overdue) <i>HK\$'000</i> 25,857 11,869,060	Over 3 months to 1 year HK\$'000 – 523,478	Over 1 year to 5 years	5 years	interest bearing HK\$'000 1,242,014
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills	HK\$'000 1,267,871 12,392,538 491,994	or less (including overdue) HK\$'000 25,857 11,869,060 486,213	Over 3 months to 1 year HK\$'000 – 523,478 2,739	Over 1 year to 5 years HK\$'000	5 years	interest bearing HK\$'000 1,242,014 3,042
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets	HK\$'000 1,267,871 12,392,538	or less (including overdue) <i>HK\$'000</i> 25,857 11,869,060	Over 3 months to 1 year HK\$'000 – 523,478	Over 1 year to 5 years	5 years	interest bearing HK\$'000 1,242,014
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets Securities designated at fair	HK\$'000 1,267,871 12,392,538 491,994 6,414,870	or less (including overdue) HK\$'000 25,857 11,869,060 486,213 2,614,212	Over 3 months to 1 year HK\$'000 - 523,478 2,739 798	Over 1 year to 5 years HK\$'000 - - 9,445	5 years HK\$'000 - - - -	interest bearing HK\$'000 1,242,014 3,042 3,790,415
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets Securities designated at fair value through profit or loss	HK\$'000 1,267,871 12,392,538 491,994	or less (including overdue) HK\$'000 25,857 11,869,060 486,213	Over 3 months to 1 year HK\$'000 – 523,478 2,739	Over 1 year to 5 years HK\$'000	5 years	interest bearing HK\$'000 1,242,014 3,042
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets Securities designated at fair value through profit or loss Loans and advances to customers	HK\$'000 1,267,871 12,392,538 491,994 6,414,870 1,003,579	or less (including overdue) HK\$'000 25,857 11,869,060 486,213 2,614,212 23,420	Over 3 months to 1 year HK\$'000 - 523,478 2,739 798 116,166	Over 1 year to 5 years HK\$'000 - - 9,445 738,344	5 years HK\$'000 - - 81,506	interest bearing HK\$'000 1,242,014 3,042 3,790,415 44,143
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets Securities designated at fair value through profit or loss Loans and advances to customers and other accounts	HK\$'000 1,267,871 12,392,538 491,994 6,414,870 1,003,579 51,906,002	or less (including overdue) HK\$'000 25,857 11,869,060 486,213 2,614,212 23,420 46,664,364	Over 3 months to 1 year HK\$'000 - 523,478 2,739 798 116,166 2,755,694	Over 1 year to 5 years <i>HK\$'000</i> - - 9,445 738,344 218,676	5 years HK\$'000 - - - - - - - - - - - - - - - - - -	interest bearing HK\$'000 1,242,014 
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets Securities designated at fair value through profit or loss Loans and advances to customers and other accounts Available-for-sale securities	HK\$'000 1,267,871 12,392,538 491,994 6,414,870 1,003,579 51,906,002 4,973,450	or less (including overdue) HK\$'000 25,857 11,869,060 486,213 2,614,212 23,420 46,664,364 399,566	Over 3 months to 1 year HK\$'000 - 523,478 2,739 798 116,166 2,755,694 78,385	Over 1 year to 5 years HK\$'000 - - 9,445 738,344 218,676 4,113,431	5 years HK\$'000 - - - - - - - - - - - - - - - - - -	interest bearing HK\$'000 1,242,014 3,042 3,790,415 44,143 2,239,557 55,732
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial institutions Trade bills Trading assets Securities designated at fair value through profit or loss Loans and advances to customers and other accounts	HK\$'000 1,267,871 12,392,538 491,994 6,414,870 1,003,579 51,906,002	or less (including overdue) HK\$'000 25,857 11,869,060 486,213 2,614,212 23,420 46,664,364	Over 3 months to 1 year HK\$'000 - 523,478 2,739 798 116,166 2,755,694	Over 1 year to 5 years <i>HK\$'000</i> - - 9,445 738,344 218,676	5 years HK\$'000 - - - - - - - - - - - - - - - - - -	interest bearing HK\$'000 1,242,014 

5,161,502 11,042,175

1,485,484 20,891,961

102,141,725 63,560,603

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Total assets

	The Group 2006							
	<b>Total</b> <i>HK\$'000</i>	3 months or less (including overdue) HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	Over 5 years HK\$'000	Non- interest bearing HK\$'000		
Liabilities								
Deposits and balances of banks and								
other financial institutions	831,973	591,410	-	-	-	240,563		
Deposits from customers	65,421,831	62,196,366	1,516,173	981	-	1,708,311		
Trading liabilities	428,648	-	-	-	-	428,648		
Certificates of deposit issued	7,257,719	3,792,793	1,606,300	1,858,626	-	-		
Debt securities issued	2,300,889	-	-	2,300,889	-	-		
Convertible bond issued	247,191	-	-	247,191	-	-		
Loan capital	3,901,326	1,942,973	-	-	1,958,353	-		
Non-interest bearing liabilities	1,520,077					1,520,077		
Total liabilities	81,909,654	68,523,542	3,122,473	4,407,687	1,958,353	3,897,599		
Interest rate sensitivity gap		(4,962,939)	2,039,029	6,634,488	(472,869)			

The following tables indicate the mismatches of expected next repricing dates (or maturity dates whichever are earlier) for the interest bearing assets and liabilities at the balance sheet date.

	The Company 2007						
	<b>Total</b> <i>HK\$'000</i>	3 months or less (including overdue) HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	<b>Over</b> 5 years HK\$'000	Non- interest bearing HK\$'000	
Assets Loans and advances to customers							
and other accounts	29,800	-	-	-	-	29,800	
Amounts due from subsidiaries	1,115,461	290,741	65,491	-	-	759,229	
Non-interest bearing assets	24,336,907					24,336,907	
Total assets	25,482,168	290,741	65,491		_	25,125,936	
Liabilities							
Other liabilities	14,915	6,557	-	-	-	8,358	
Balances of banks and other							
financial institutions	5,110,000	5,110,000	-	-	-	-	
Amounts due to subsidiaries	84,443	-	7,800	-	-	76,643	
Non-interest bearing liabilities	1,473					1,473	
Total liabilities	5,210,831	5,116,557	7,800			86,474	
Interest rate sensitivity gap		(4,825,816)	57,691		_		

	The Company 2006						
	<b>Total</b> <i>HK\$</i> ′000	3 months or less (including overdue) HK\$'000	Over 3 months to 1 year HK\$'000	Over 1 year to 5 years HK\$'000	<b>Over</b> <b>5 years</b> <i>HK\$'000</i>	Non- interest bearing HK\$'000	
Assets							
Loans and advances to customers							
and other accounts	13,860	-	-	-	-	13,860	
Amounts due from subsidiaries	1,483,461	544,143	-	-	-	939,318	
Non-interest bearing assets	15,213,583					15,213,583	
Total assets	16,710,904	544,143	_		_	16,166,761	
Liabilities							
Other liabilities	42,896	-	-	-	-	42,896	
Amounts due to subsidiaries	260,550		260,550				
Total liabilities	303,446	_	260,550			42,896	
Interest rate sensitivity gap		544,143	(260,550)		_		

#### (c) Liquidity risk management

The Group always maintains high liquidity ratio in order to meet unexpected increase of customer demand on cash. Apart from compliance with statutory ratio requirement, stress tests are being performed regularly. The Group invests its surplus fund in a portfolio of mainly high-grade securities, which can generate liquidity if necessary either through repurchase arrangement or out-right selling in the secondary market. The Group is also active in wholesale funding by issuing long-term certificate of deposit so as to secure stable source of funding.

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(i)
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#### Analysis of assets and liabilities by remaining maturity

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

As the trading portfolios 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.

	The Group 2007								
	<b>Total</b> <i>HK\$'000</i>	Repayable on demand HK\$'000	Within 1 month HK\$'000	3 months or less but over 1 month HK\$'000	1 year or less but over 3	5 years or less but over 1 year HK\$'000	Over 5 years HK\$'000	Undated HK\$'000	
Assets									
Cash and balances with									
banks, central banks and	1 500 05/	000.04/	101 004	<b>FR</b> 007	500 110				
other financial institutions Placements with and advances to banks, central		823,246	101,204	77,986	500,440	-	-	-	
banks and other financial	10 (17 500		0 550 000		FF (01	1 (0) 000	1 007 504		
institutions Trade bills	12,647,588	-	9,552,993	525,567 826 011	57,421	1,424,023	1,087,584	-	
Trading assets	1,523,200 3,479,009	- 899,542	445,835	836,911	240,454 948	- 1,086,007	248,653	- 1,243,859	
Securities designated at fair value through profit	5,177,007	077,042	-	-	240	1,000,007	240,000	1,245,057	
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		-	-	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	-	-	1 450 451	
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		

	<b>Total</b> <i>HK\$'000</i>	Repayable on demand HK\$'000	Within 1 month HK\$'000	200 3 months or less but over 1 month HK\$'000	17 1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	Over 5 years HK\$'000	Undated HK\$'000
Of which: Certificate of deposits held – included in available-for-								
sale financial assets	150,033				150,033			
	150,033				150,033			
Debt securities – included in trading assets – included in financial assets designated at fair value through	1,335,609	-	-	-	948	1,086,007	248,654	_
profit or loss	531,025	-	-	-	-	531,025	-	-
<ul> <li>included in available-for- sale financial assets</li> </ul>	21,157,046		929,894	2,817,429	5,913,039	9,785,773	1,708,875	2,036
	23,023,680		929,894	2,817,429	5,913,987	11,402,805	1,957,529	2,036
Certificate of deposits issued – included in non-trading debt securities issued – included in financial liabilities designated	2,099,288	-	-	385,665	1,179,924	533,699	-	-
at fair value through profit or loss	4,763,836			210,136	3,019,271	1,534,429		
	6,863,124			595,801	4,199,195	2,068,128	_	_

				The Con 200				
				3 months or less but	1 year or less but	5 years or		
		Repayable	Within 1	over	over 3	less but	Over 5	
	Total	on demand	month	1 month	months	over 1 year	years	Undated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets								
Amount due from								
subsidiaries	1,115,461	9,997	213,991	66,753	65,491	-	-	759,229
Undated assets	24,366,707							24,366,707
	25,482,168	9,997	213,991	66,753	65,491			25,125,936
Liabilities								
Balances of banks and other								
financial institutions	5,110,000	-	-	-	5,110,000	-	-	-
Amount due to subsidiaries	84,443	-	-	-	7,800	-	-	76,643
Undated liabilities	16,388							16,388
	5,210,831	-	-	-	5,117,800	_	-	93,031

				The G 200	•			
	<b>Total</b> <i>HK\$'000</i>	Repayable on demand HK\$'000	Within 1 month HK\$'000	3 months or less but over 1 month HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	Over 5 years HK\$'000	Undated HK\$'000
Assets								
Cash and balances with banks, central banks and other financial institutions Placements with and advances to banks, central banks and other financial		1,267,871	-	-	-	-	-	-
institutions	12,392,538	-	8,971,727	2,543,509	523,478	353,824	-	-
Trade bills	491,994	-	137,412	265,123	89,459	-	-	-
Trading assets Securities designated at fair value through profit	6,414,870	355,091	-	751	798	2,396,475	798,158	2,863,597
or loss	1,003,579	-	-	23,420	116,166	738,344	81,506	44,143
Loans and advances to customers and other								
accounts	51,906,002	1,898,202	1,680,160	3,104,927	5,558,399	21,293,707	16,153,976	2,216,631
Available-for-sale securities	4,973,450	-	149,757	249,809	78,385	4,117,430	326,336	51,733
Held-to-maturity investments	10,176,493	_	549,215	317,645	1,736,803	6,234,100	1,336,601	2,129
Undated assets	13,514,928					-	-	13,514,928
Total assets	102,141,725	3,521,164	11,488,271	6,505,184	8,103,488	35,133,880	18,696,577	18,693,161
Liabilities								
Deposits and balances of banks and other financial								
institutions	831,973	203,416	520,866	107,691	-	-	-	-
Deposits from customers	65,421,831	17,485,392	39,612,916	5,895,137	1,858,045	570,341	-	-
Trading liabilities	428,648	428,648	-	-	-	-	-	-
Certificates of deposit issued	7,257,719	_	_	_	4,494,424	2,763,295	_	_
Debt securities issued	2,300,889	-	-	_	44,142	2,256,747	_	_
Convertible bond issued	247,191	-	-	-		247,191	-	-
Loan capital	3,901,326	-	-	-	-	1,942,973	1,958,353	-
Current taxation	112,681	-	-	-	112,681	-	-	-
Undated liabilities	1,407,396							1,407,396
Total liabilities	81,909,654	18,117,456	40,133,782	6,002,828	6,509,292	7,780,547	1,958,353	1,407,396

				200	16			
				3 months	1 year or			
				or less but	less but	5 years or		
		Repayable	Within 1	over	over 3	less but	Over 5	
	Total	on demand	month	1 month	months	over 1 year	years	Undated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Of which: Certificate of deposits held – included in held-to-								
maturity investments	49,990					49,990		
	49,990				_	49,990		
Debt securities								
- included in trading assets	3,211,734	-	-	750	798	2,396,475	798,158	15,553
<ul> <li>included in financial assets designated at fair value through</li> </ul>								
profit or loss – included in available-for-	959,436	-	-	23,420	116,166	738,344	81,506	-
- included in available-for- sale financial assets - included in held-to-	4,771,960	-	-	249,809	78,385	4,117,430	326,336	-
maturity investments	9,987,910		410,622	317,644	1,736,803	6,184,111	1,336,601	2,129
	18,931,040	_	410,622	591,623	1,932,152	13,436,360	2,542,601	17,682
Certificate of deposits issued	l							
<ul> <li>included in non-trading debt securities issued</li> <li>included in financial</li> </ul>	3,530,865	-	-	-	3,065,009	465,856	-	-
liabilities designated at fair value through profit or loss	3,726,854				1,429,415	2,297,439		
	7,257,719				4,494,424	2,763,295		

				The Con 200				
	<b>Total</b> HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	3 months or less but over 1 month HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	Over 5 years HK\$'000	Undated HK\$'000
Assets								
Amount due from subsidiaries	1,483,461	99,582	444,561					939,318
Undated assets	15,227,443	99,J02 -	-	-	_	-	_	15,227,443
	16,710,904	99,582	444,561	_		_		16,166,761
Liabilities								
Amount due to								
subsidiaries	260,550	-	-	-	42	260,508	-	-
Undated liabilities	42,896							42,896
	303,446	_		_	42	260,508		42,896

### (ii) Analysis of the residual contractual maturities of financial liabilities

The following maturity profile show the undiscounted cash flows on the Group's financial liabilities on the basis of their earliest possible contractual maturity.

	Gross cash flows HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	The Group 2007 3 months or less but over 1 month HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000
Deposits and balances of							
banks and other financial							
institutions	6,652,241	282,145	5,994,766	172,200	203,130	-	-
Deposits from customers	84,209,145	18,559,908	51,531,252	11,182,089	2,374,695	561,201	-
Certificates of deposit issued	7,110,635	-	8,733	658,111	4,288,582	2,155,209	-
Debt securities issued	2,540,657	-	-	-	100,537	2,440,120	-
Convertible bonds issued	7,668	-	-	-	7,668	-	-
Loan capital	5,386,524	-	-	78,809	236,426	5,071,289	-
Derivative financial							
instruments	(481,768)		(2,660)	(16,461)	(129,410)	(332,430)	(807)
	105,425,102	18,842,053	57,532,091	12,074,748	7,081,628	9,895,389	(807)

	Gross cash flows HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	The Group 2006 3 months or less but over 1 month HK\$'000	1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	After 5 years HK\$'000
Deposits and balances of							
banks and other financial							
institutions	834,521	203,416	522,395	108,710	-	-	-
Deposits from customers	65,683,309	17,485,392	39,757,374	5,961,624	1,908,531	570,388	-
Certificates of deposit issued	7,670,560	-	19,908	48,703	4,648,005	2,953,944	-
Debt securities issued	2,670,885	-	-	-	138,581	2,532,304	-
Convertible bonds issued	260,528	-	-	-	260,528	-	-
Loan capital	5,002,115	-	-	78,912	2,180,824	709,592	2,032,787
Derivative financial							
instruments	(267,196)		(1,253)	(17,548)	(71,201)	(171,644)	(5,550)
	81,854,722	17,688,808	40,298,424	6,180,401	9,065,268	6,594,584	2,027,237

#### (d) Operational risk management

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

The Group's Board of Directors through the establishment of 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.

The Group'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.

The RMG has established the Operational Risk Management Section:

 to coordinate operational risk management activities across the Bank 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 set 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.

The Group currently manages its operational risks through a number of ways:

- The Operational Risk Management Policy is enhanced and the operational risk management framework is refined to ensure that operational risks are consistently and comprehensively identified, assessed, monitored and controlled.
- Material operational risk exposures are managed through a framework of policies, procedures and processes.
- Various operational risk management programs, such as self-assessment exercises and key risk indicators, for assisting the Bank in identifying, assessing, mitigating and reporting operational risk are developed. The programmes 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 sudden and massive customer withdrawal due to market rumours or other reasons.
  - 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.

#### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Apart from the above, the HKMA sets and monitors capital requirements for CKWB as a whole. In implementing current capital requirements the HKMA requires CKWB to maintain a prescribed ratio of total capital to total risk-weighted assets. CKWB adopts standardised approach to calculate market risk in its trading portfolios and risk weightings

for credit risk. Banking operations are categorized as either trading or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

In addition to meeting the regulatory requirements, the CKWB's primary objectives when managing capital are to safeguard the CKWB's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other shareholders.

CKWB actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might otherwise be possible with greater gearing and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the CKWB monitors its capital structure on the basis of the capital adequacy ratio and there have been no material changes in the CKWB's policy on the management of capital during the year, except for a change in the calculation methodology in the capital adequacy ratios.

The capital adequacy ratios as at 31 December 2007 are computed on the consolidated basis of CKWB and certain of its subsidiaries as specified by the HKMA for its regulatory purposes, and are in accordance with the Banking (Capital) Rules of the Hong Kong Banking Ordinance which became effective on 1 January 2007. The capital adequacy ratios as at 31 December 2006 were computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance and adjusted in accordance with the guideline on "Maintenance of Adequate Capital Against Market Risks" issued by the HKMA. Accordingly, the capital adequacy ratios of the two years are not directly comparable.

The CKWB and its individually regulated operations have complied with all externally imposed capital requirements throughout the year ended 31 December 2007 and 2006 and is well above the minimum required ratio set by the HKMA.

Except CKWB, CIFC and HKCB Finance Ltd, neither the Company nor any of its other subsidiaries are subject to externally imposed capital requirements.

#### (f) 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 remain under constant review. Continuous training of our people in the areas of the Group's policies and procedures as well as applicable laws, rules and regulations remained key to the management of the Group's legal risks in 2007, as in previous years, and will continue to be vital in 2008.

Our Legal and Compliance Department ("LCD") has been a key partner in the business, providing legal and compliance advice and support to all parts of CKWB. In 2007, LCD was actively involved in launching new products and new business, strategically important transactions and commercial agreements, outsourcing arrangement as well as day-to-day matters arising from the business that is diverse both geographically and in scope.

#### (g) Strategic and reputational risks management

In order to keep pace with the ever-evolving operating and regulatory environment of the Group, senior management places a high priority on ensuring that our business and operational strategies are appropriately defined and executed in a professional and timerelevant manner. Great care is taken to protect our reputation and maximise our brand equity. The CRMC of CKWB meets regularly to monitor and oversee the Group's strategic and reputational risks.

#### 52. FAIR VALUE INFORMATION

#### (a) Estimation of fair values

Where available, the most suitable measure for fair value is the quoted and observable market prices. In the absence of such quoted and observable market prices for most financial instruments, and in particular for loans, deposits and unlisted derivatives, the fair values are estimated based on a range of valuation, current market parameters methodologies and assumptions regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors. In particular, the fair value is a theoretical value applicable at a given reporting date, and hence can only be used as an indicator of the value realisable in a future sale. Changes in the uncertainties and assumptions could materially affect these estimates and the resulting fair value estimates.

#### (b) Fair value

All financial instruments are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 unless otherwise stated.

(i) Financial assets

The Group's financial assets mainly include cash, placements with banks, central banks and other financial institutions, loans and advances to customers, investments and financial derivative instruments.

The fair values of placements with banks, central banks and other financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

The fair values of loans and advances to customers, taking into account the relevant market interest rates and being mostly priced at floating rates close to the market interest rate which are mainly repriced within 3 months, equal their carrying amounts.

Trading assets, securities designated at fair value through profit or loss and available-for-sale securities are stated at fair value in the financial statements. The fair value of held-to-maturity investments approximate their carrying amounts as at 31 December 2006.

#### (ii) Financial liabilities

All financial liabilities are stated at fair value or carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 except as follows:

	20	07	2006		
The Group	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000	
Convertible bonds Loan capital	7,648 3,926,390	9,243 4,155,545	247,191 3,901,326	408,627 4,185,641	
	3,934,038	4,164,788	4,148,517	4,594,268	

#### 53. DERIVATIVES

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the Group's business activities. These instruments are also used to manage the Group's own exposures to market risk as part of its asset and liability management process. The principal derivatives instruments used by the Group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives. The Group also participates in exchange traded derivatives. Most of the Group's derivatives positions have been entered into to meet customer demand and to hedge these and other trading positions. For accounting purposes, derivatives are classified as either held for trading or held for hedging.

#### (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 notional amounts of these investments indicate the value of outstanding transactions and do not represent amounts at risk.

The following is a summary of the notional amounts of each significant type of derivatives entered into by the Group:

				Th	ne Group			
		200	7			200	)6	
		Managed in				Managed in		
		conjunction				conjunction		
		with				with		
		financial				financial		
		instruments				instruments		
		designated				designated		
		at fair value	Others			at fair value	Others	
		through	(including			through	(including	
	Held for	profit	held for		Held for	profit	held for	
	hedging	or loss	trading)	Total	hedging	or loss	trading)	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Currency derivatives								
Forwards	-	-	21,114,508	21,114,508	-	-	29,142,597	29,142,597
Swaps	-	78,000	32,681,133	32,759,133	-	78,000	8,571,601	8,649,601
Options purchased	-	-	624,865	624,865	-	-	182,800	182,800
Options written	-	-	624,865	624,865	-	-	179,579	179,579
Interest rate derivatives								
Swaps	3,674,725	5,337,675	22,504,576	31,516,976	6,238,456	4,862,553	7,462,727	18,563,736
Options purchased	-	-	-	-	-	-	933,162	933,162
Options written							933,162	933,162
	3,674,725	5,415,675	77,549,947	86,640,347	6,238,456	4,940,553	47,405,628	58,584,637

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.

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

			The G	roup		
		2007			2006	
		(	Credit risk-		(	Credit risk-
	Fair value	Fair value	weighted	Fair value	Fair value	weighted
	assets	liabilities	amount	assets	liabilities	amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	319,870	394,222	231,334	104,010	307,380	44,213
Currency derivatives	579,672	485,468	685,435	251,081	121,268	158,912
	899,542	879,690	916,769	355,091	428,648	203,125
	(note 23)	(note 35)		(note 23)	(note 35)	

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. In the year of 2006, credit risk-weighted amount referred to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance. The risk weights used range from 0% to 150% (2006: 0% to 100%) for contingent liabilities and commitments, and from 0% to 150% (2006: 0% to 50%) for exchange rate, interest rate and other derivatives contracts.

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

#### (c) Fair values 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:

	20	2006		
	Fair value	Fair value		
	assets	liabilities	assets	liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate contracts	26,628	127,597	25,679	137,507

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.

	The Group 2007 Notional amounts with remaining life of					
	11011	onur uniounts w	Over 1 year			
	Total	1 year or less	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		
			Group 106			
	Noti	20 onal amounts w		v life of		
			Over 1 year	···· ·		
	Total	1 year or less	to 5 years	Over 5 years		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Interest rate derivatives	20,430,060	5,593,283	12,348,344	2,488,433		
Currency derivatives	38,154,577	37,612,963	463,614	78,000		
	58,584,637	43,206,246	12,811,958	2,566,433		

#### 54. CONTINGENT ASSETS, LIABILITIES AND COMMITMENTS

#### (a) Contingent assets, liabilities and commitments to extend credit

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

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

Contingent liabilities and commitments are credit-related instruments which include deposit 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 contract amounts do not represent expected future cash flows.

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

#### (b) Capital commitments

Capital commitments for purchase of properties and equipment outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Authorized and contracted for:	3,484	8,593
Authorized but not contracted for:	58,100	6,983
	61,584	15,576

#### (c) Lease commitments

At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The G	roup
	2007	2006
	HK\$'000	HK\$'000
Properties leases expiring		
Within 1 year	95,848	80,017
After 1 year but within 5 years	254,269	251,901
After 5 years	259,567	305,386
	609,684	637,304
Equipment leases expiring		
Within 1 year	4,598	4,397
After 1 year but within 5 years	5,032	8,591
	9,630	12,988

The Group leases a number of properties and items of equipment under operating leases. The leases typically run for an initial period of one to nine years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

#### (d) Contingent liability in respect of legal claim

The Group and its subsidiaries are not involved in any legal actions that would be material to the financial position of the Group.

#### 55. POST BALANCE SHEET EVENTS

Other than disclosed elsewhere in these financial statements, the Group has the following post balance sheet events:

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

#### 56. TRUST ACTIVITIES

The Group commonly acts as trustees and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the Group.

#### 57. IMMEDIATE PARENT AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the directors consider the immediate parent of the Group to be Offeror, which is incorporated in British Virgin Islands, and ultimate controlling party to be CITIC Group, which is incorporated in the PRC.

#### 58. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these financial statements and the reported amounts of revenues and expenses for the years presented. Changes in assumptions may have a significant impact on the financial statements in the periods where the assumptions are changed. The application of assumptions and estimates means that any selection of different assumptions would cause the Group's reporting to differ. The Group believes that the assumptions that have been made are appropriate and that the financial statements therefore present the financial position and results fairly, in all material respects.

Management discussed with the Audit Committee the development, selection and disclosure of the Group's significant accounting policies and estimates and the application of these policies and estimates.

#### (a) Key sources of estimation uncertainty

Notes 31(c), 32 and 46 contain information about the assumptions and their risk factors relating to valuation of investment property, goodwill impairment and fair value of share options granted. Other key sources of estimation uncertainty are as follows:

(i) Impairment losses

Loans and advances

Loans portfolios are reviewed periodically to access whether impairment losses exist. The Group makes judgments as to whether there is any objective evidence that a loan portfolio is impaired, i.e. whether there is a decrease in estimated future cash flows. Objective evidence for impairment is described in the accounting policy 2(o)(i). If management has determined, based on their judgment, that objective evidence of impairment exists, expected future cash flows are estimated based on historical loss experience for assets with credit risk characteristics similar to those of the Group. Historical loss experience is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

Available-for-sale securities

The Group determines that available-for-sale securities are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of when a decline in fair value below cost is not recoverable within a reasonable time period is judgmental by nature, so profit and loss could be affected by differences in this judgment.

#### (ii) Fair value of financial instruments

Fair value estimates are generally subjective in nature, and are made as of a specific point in time based on the characteristics of the financial instruments and relevant market information. Where available, quoted market prices are used. If a quoted price is not available on a recognised stock exchange or from a broker or dealer for non-exchange traded financial instruments or from a readily available latest trading price, the fair value is estimated using present value or other valuation techniques using current market parameters. The fair value of structured investment vehicles (SIVs) is based on their net assets value provided by investment managers and has taken into consideration of other risk factors.

All valuation models are validated before they are used as a basis for financial reporting. Wherever possible, the Group compares valuations derived from models with quoted prices of similar financial instruments, and with actual values when realised, in order to further validate and calibrate the models.

These techniques involve uncertainties and are materially affected by the assumptions used and judgments made regarding risk characteristics of various financial instruments, discount rate, estimates of future cash flows, future expected loss experience and other factors. Changes in assumptions could materially affect these estimates and the resulting fair values. Derived fair value estimates cannot necessarily be substantiated by comparison to independent markets and, in many cases, could be realised in an immediate sale of the instruments.

#### (b) Critical accounting judgments in applying the Group's accounting policies

Certain critical accounting judgments in applying the Group's accounting policies are described below:

#### Held-to-maturity investments

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity and where the Group has a positive intention and ability to hold to maturity as held-to-maturity investments. In making this judgment, the Group evaluates its intention and ability to hold such investments till maturity. If the Group fails to hold these investments to maturity other than for certain specific circumstances, the Group will have to reclassify the entire portfolio of held-to-maturity investments as availablefor-sale, as such class is deemed to have been tainted.

This would result in held-to-maturity investments being measured at fair value instead of at amortised cost.

#### 59. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of the financial statements, the HKICPA has issued a number of amendments, new standards and interpretations, which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards, new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

In addition, the following developments may result in new or amended disclosures in the accounts:

	Effective for accounting periods beginning on or after
- HK(IFRIC) 13 - Customer Loyalty Programmes	1 July 2008
<ul> <li>Amendments to HKFRS 2 – Share-based Payment</li> <li>Vesting Conditions and Cancellations</li> </ul>	1 January 2009
- HKFRS 8 - Operating Segments	1 January 2009
<ul> <li>Revised HKAS 1</li> <li>Presentation of Financial Statements:</li> </ul>	1 January 2009
- HKAS 23 (Revised) - Borrowing Costs	1 January 2009

#### 60. COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, and complying with the Banking (Disclosure) Rules, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007.

The comparative figures of segment reporting as disclosed in note 19 have been restated to conform with current year's presentation. The comparative figures of other accounts have been restated to conform with current year's presentation due to reclassification of amounts due from an associate to interest in associates. Further details of these changes are disclosed in note 25 and note 30.

#### 61. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the Board of Directors on 27 March 2008.

### 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following information has been extracted from the unaudited consolidated results of the Group for the six months ended 30 June 2008 extracted from its announcement dated 21 August 2008, except that the definitions used in this document have been adopted in the extract below.

The interim financial report has been 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, whose unmodified review report is included in the interim report to be sent to the shareholders.

### **Consolidated Income Statement**

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

(Expressed in Hong Kong dollars)			
		Six months e	
	Note	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000
Interest income	3	2,063,077	2,346,553
Interest expense	0	(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)
<b>Net fee and commission income</b> Net loss and write-down on structured	4	435,936	384,924
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
		(25 000	
Operating income	0	635,909	1,311,658
Operating expenses	9	(689,885)	(614,464)
<b>Operating (loss)/profit before impairment</b> Impairment losses written back/(charged f		(53,976)	697,194
on loans and advances	10	9,525	(42,541)
Impairment losses written back on	10	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	(1-)011)
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)
		(7.440)	
<b>Operating (loss)/profit</b> Gain on dilution of investment in associate		(7,442)	654,700
Net (loss)/profit on disposal of		_	201,689
property and equipment		(982)	10 534
Revaluation gain on investment properties		28,112	19,534 5,497
Share of profits of associates	12	1,442,915	736,777
Share of profiles of associates	12		
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 peri	i <b>od</b> 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
Assats			
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,	10	1)2>0,011	1,002,070
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	175 740	220 200
- Investment property		175,742	238,380
<ul> <li>Other property and equipment</li> <li>Goodwill</li> </ul>		909,862 1,007,749	836,239 1,007,749
Tax recoverable	29	165,812	71,248
Deferred tax assets	29	88,810	82,374
Deterred tax assets	25		
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	22		
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)

(Expressed in Hong Kong dollars)		Six months ended 30 June 2008 2007			07
	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 – related borrowings	34 34 _	946,856 7	-	271,248	
			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 – transferred from equity to income	34	(45,103)		(26,468)	
statement on disposal – transferred from equity to deferred tax	34 34	(36,539) 13,472	_	182 4,600	
			(68,170)		(21,686)
Share of associates – fair value reserve – share option reserve – share of revaluation reserve	34 34 34	(52,758) 8,019 337	-	(24,434) 5,727	
			(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		<del>-</del>		(322,056)

		Six months ended 30 June 2008 2007			07
	Note	20 HK\$'000	HK\$'000	HK\$'000	HK\$'000
Movements in equity arising from capital transactions:					
Shares 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 the 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	
	<b>2008</b> HK\$'000	<b>2007</b> 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	2007	2008	2007
	Profit before	Profit before	Operating	Operating
	taxation	taxation	income	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 <i>,</i> 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

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

		Six month	is ended 30 June	1
	2008	2007	2008	2007
	Profit before	Profit before	Operating	Operating
	taxation	taxation	income/(loss)	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	
	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

Gains less losses from trading securities

Interest income on trading assets

– Listed

- Unlisted

Gains less losses from other dealing activities

Dividend income from unlisted trading securities

(5)

	Six months ended 30 J 2008	
	HK\$'000	HK\$'000
F.,		
Fee and commission income Bills commission	20 (48	20.949
Cards related income	39,648 15,606	29,848 17,473
	28,183	24,605
General banking services Insurance	64,802	24,803 55,825
Investment and structured investment products	113,508	111,537
Loans, overdrafts and facilities fee	183,733	151,960
Others	516	432
Others		432
	445,996	391,680
Fee and commission expense	(10,060)	(6,756)
	435,936	384,924
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 – Fee and commission expense	199,339 (3,692)	169,433 (2,106)
	195,647	167,327
NET TRADING (LOSS)/INCOME		
	Six months e	nded 30 June
	2008	2007
	HK\$'000	HK\$'000
Net loss and write-down on structured investment vehicles	(717,885)	<del>.</del>
Other net trading income		
Gains less losses from dealing in foreign currencies	98,902	66,357
	(25,000)	15( 500

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.

(25,099)

90,261

30

6,477

170,571

(547,314)

156,500

22,913

12,746

73,545

15,701

347,762

347,762

# (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**

	<b>Six months</b> <b>2008</b> <i>HK\$</i> ′000	ended 30 June 2007 HK\$'000
(a) Staff costs		
Salaries and other staff costs	362,978	349,241
Retirement costs	22,546	20,147
Share-based payment expenses		
<ul> <li>Equity-settled share-based payment expenses</li> </ul>	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		
<ul> <li>Rental of property</li> </ul>	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	
	<b>2008</b> HK\$'000	<b>2007</b> 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	
	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000
Share of profits of associates Less: Intangible asset amortisation, net of deferred tax Add: Deferred tax on intangible asset written-back	1,449,803 (6,888)	691,051 (6,567) 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	
	<b>2008</b> HK\$'000	<b>2007</b> 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 ( <i>note</i> 29( <i>b</i> )) Effect of decrease in tax rate on deferred tax balance at 1 January ( <i>note</i> 29( <i>b</i> ))	3,343	(3,116)
	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 whollyowned subsidiary, 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 Jun	
	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 Share)	-	321,000
Final dividend in respect of the previous financial year		
on 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 the 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 the 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 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 Advances to banks Items in the course of collection from other banks	1,769,917 5,276,587 	9,893,443 2,511,607 242,538
	7,065,223	12,647,588
Maturing – within one month – between one month and one year – after one year	1,859,273 1,796,921 3,409,029 7,065,223	9,552,993 582,988 2,511,607 12,647,588
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

(18)

### (19) TRADING ASSETS

	As at 30 June 2008 HK\$'000	As at 31 December 2007 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 HK\$'000	As at 31 December 2007 <i>HK\$</i> ′000
Debt securities	405,850	531,025
Issued by:		
Banks and other financial institutions Corporate entities	142,522 263,328 405,850	134,422 396,603 531,025
Analysed by place of listing:		
Listed outside Hong Kong Unlisted	82,147 323,703	82,844 448,181
	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 HK\$'000	As at 31 December 2007 HK\$'000
Gross loans and advances to customers Impairment allowances	75,424,484	65,833,430
– individually assessed	(127,657)	(70,883)
– collectively assessed	(177,347)	(223,540)
Accrued interest and other accounts less	75,119,480	65,539,007
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		As at	
	30 Jun	e 2008	31 Decembe	er 2007
		% of loans		% of loans
	Gross loans	and advances	Gross loans	and advances
	and advances	covered	and advances	covered
	to customers	by collateral	to customers	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
<ul> <li>Information technology</li> </ul>	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
		00		
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	As at 31 December
	2008	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:

	Individual impairment allowances HK\$'000	As at 30 June 2 Collective impairment allowances HK\$'000	2008 Impaired loans and advances 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	Collective	
	impairment	impairment	Impaired loans
	allowances	allowances	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

(23)

	As at 30 June 2008 HK\$'000	As at 31 December 2007 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
INTEREST IN ASSOCIATES		
	As at	As at
	30 June	31 December
	2008	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 trom accodiates	286 220	20,200
Amount due from associates	386,320	32,392

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\$2,020,092,136

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

*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 HK\$'000	Core deposits and customers relationships HK\$'000	<b>Total</b> <i>HK\$</i> ′000
Cost			
At 1 January 2008 and 30 June 2008	400,963	250,268	651,231
Accumulated amortisation			
At 1 January 2008 Amortisation of the intangible assets		18,531 9,184	18,531 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 HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	<b>Total</b> <i>HK\$'000</i>
Cost or valuation:				
At 1 January 2007 Additions Reclassification	124,776 _ 62,100	964,412 (79,607)	659,593 59,595	1,748,781 59,595 (17,507)
Surplus on revaluation before reclassification		48,098	_	(17,507) 48,098
Disposals Surplus on revaluation	(8,600) 60,104	(2,657)	(10,568)	(21,825) 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 Valuation	-	899,326	708,665	1,607,991
- 1985 - 2007	238,380	31,037		31,037 238,380
	238,380	930,363	708,665	1,877,408
At 1 January 2008 Additions	238,380	930,363 _	708,665 22,997	1,877,408 22,997
Reclassification Disposals Surplus on revaluation	(88,900) (1,850) 28,112	88,900 –	_ (12,175)	- (14,025) 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 Valuation	_	899,331	719,478	1,618,809
- 1985 - 2008	175,742	31,037 88,900		31,037 264,642
	175,742	1,019,268	719,478	1,914,488

	Investment properties HK\$'000	Other premises HK\$'000	Furniture, fixtures and equipment HK\$'000	<b>Total</b> <i>HK\$'000</i>
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 ( <i>note</i> 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	As at
	30 June	31 December
	2008	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 HK\$'000	As at 31 December 2007 HK\$'000
Designated at fair value through profit or loss Non-trading	500,780 4,285,261	4,763,836 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 June	As at 31 December	
	2008	2007	
НК	\$'000	HK\$'000	
Non-trading debt securities issued 2,34	2,413	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 HK\$'000	As at 31 December 2007 HK\$'000
Provision for Hong Kong Profits Tax for the period/year Provisional Profits Tax paid	2,934 (163,773)	9,544 (136,292)
Balance of Profits Tax provision relating to prior years	(160,839) (4,077)	(126,748) 55,779
Provision for overseas taxation	(164,916) 11,621	(70,969) 6,481
	(153,295)	(64,488)
Of which: Tax recoverable Current taxation	(165,812) 12,517	(71,248) 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 <i>HK\$</i> '000	Impairment allowances for loans HK\$'000	Fair value adjustments for revaluation of properties and other assets <i>HK\$</i> '000	Fair value adjustments for available- for-sale securities HK\$'000	<b>Tax losses</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	Total HK\$'000
Deferred tax arising from: At 1 January 2007 (Credited)/charged to consolidated Income	17,561	(39,259)	(26,654)	41,956	-	(922)	(7,318)
statement	(132)	234	10,824	-	(34,670)	-	(23,744)
Charged/(credited) to reserves Exchange and other	-	-	8,417	(60,347)	-	-	(51,930)
adjustments					618		618
At 31 December 2007	17,429	(39,025)	(7,413)	(18,391)	(34,052)	(922)	(82,374)
At 1 January 2008 Charged/(credited) to consolidated income	17,429	(39,025)	(7,413)	(18,391)	(34,052)	(922)	(82,374)
statement (note 13) Charged/(credited) to	2,200	7,593	(2,809)	-	(3,895)	254	3,343
reserves Effect of decrease in tax rate (credited)/charged to consolidated	-	-	4	(13,472)	-	-	(13,468)
income statement ( <i>note 13</i> ) Effect of decrease in tax rate	(996)	2,231	1,247	-	1,946	-	4,428
(credited)/charged to reserves ( <i>note</i> 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 HK\$'000		As at ecember 2007 HK\$'000
Net deferred tax a	assets recog	nised on					

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 HK\$'000	As at 31 December 2007 HK\$'000
No expiry date	114,600	106,868

#### (30) OTHER LIABILITIES

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

### (31) LOAN CAPITAL

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Subordinated notes with US\$250 million 9.125% * Subordinated notes with US\$250 million 1.75%+LIBOR rate **	1,974,633 1,949,880	1,976,738 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 threemonth 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 J	une 2008			
		Repayable		3 months or less	1 year or less	5 years or less		
	<b>Total</b> HK\$'000	on demand HK\$′000	Within 1 month HK\$'000	but over 1 month HK\$'000	but over 3 months HK\$'000	but over 1 year HK\$'000	Over 5 years HK\$'000	Undated 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 Loans and advances to customers and	405,850	-	-	-	-	405,850	-	-
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 Current taxation	3,924,513 12,517	-	-	-	- 12,517	3,924,513	-	-
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	

	<b>Total</b> HK\$'000	Repayable on demand HK\$'000	Within 1 month HK\$'000	As at 31 Dec 3 months or less but over 1 month HK\$'000	ember 2007 1 year or less but over 3 months HK\$'000	5 years or less but over 1 year HK\$'000	Over 5 years HK\$'000	Undated HK\$'000
Assets Cash and balances with banks,								
central banks and other								
financial institutions Placements with and advances to banks, central banks and	1,502,876	823,246	101,204	77,986	500,440	-	-	-
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 HK\$'000	As at 31 December 2007 HK\$'000
Authorised:		
8,000,000,000 Shares	8,000,000	8,000,000
Issued and fully paid: At 1 January:		
5,757,320,916 (2007: 5,023,422,774) Shares	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 the Shares		59,024
At 30 June:		
5,758,960,916 (31 December 2007: 5,757,320,916) Shares	5,758,961	5,757,321

\* The Company issued 668,574,374 Shares to BBVA for the year ended 31 December 2007.

### (34) RESERVES

	Attributable to equity shareholders of the Company									
				Exchange	Other property		Convertible bond –	Share		
	Share	Capital	General	0	revaluation	Fair value	equity	option	Retained	
	premium	reserve	reserve	reserve	reserve	reserve	component	reserve	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 associate	-s –	-	-	-	-	(10,910)	-	-	-	(10,910)
Exchange difference on translation	-	-	-	787,384	-	-	200	-	-	787,584
Equity-settled share-based transaction	s –	-	-	-	-	-	-	22,605	-	22,605
Available-for-sale securities										
<ul> <li>– change in fair value</li> </ul>	-	-	-	-	-	(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										
the 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

	Attributable to equity shareholders of the Company Other Convertible									
				Exchange	property		bond –	Share		
	Share premium	Capital reserve	General reserve	differences reserve	revaluation reserve	Fair value	equity component	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 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					(02	(4.0=4)				(110)
(note 29(b))	-	-	-	-	602	(1,051)	-	-	-	(449)
Share of share option reserve of								0.010		0.010
associates Share of fair value reserve of associates	-	-	-	-	-	(E2 750)	-	8,019	-	8,019
	-	-	-	-	-	(52,758)	- 7	-	-	(52,758)
Exchange difference on translation	-	-	-	946,856	-	-	7	-	-	946,863
Equity-settled share-based transactions Available-for-sale securities	-	-	-	-	-	-	-	20,355	-	20,355
– change in fair value						(45,103)				(45,103)
<ul> <li>– change in fail value</li> <li>– transferred to income statement on</li> </ul>	-	-	-	-	-	(43,103)	-	-	-	(43,103)
disposal (note 11)	_	_	_	_	_	(36,539)	_	_	_	(36,539)
- transferred to deferred tax	_	_	_	_	_	13,472	_	_	_	13,472
Exercise of share options during						10,172				10,172
the period	-	_	-	-	-	-	-	(1,981)	-	(1,981)
Profit for the period	-	-	-	-	-	-	-	-	1,440,199	1,440,199
1									, .,,	, .,
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:

	Ultin controllir		Fellow su	osidiaries Six months er	Related company (note 2)			
	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000
Interest income Interest expense Other operating income	-	-	8,703 (81,206)	2,088 (39,952)	6,446 (41,242) 21,280	8,102 (52,694) 19,543	(18,223)	-
Operating expenses	(500)	(511)	(5,458)	(5,108)		(118)		
	(500)	(511)	(77,961)	(42,972)	(13,516)	(25,167)	(18,223)	
	Ultin controllir		Fellow su		Associates 1 December 2		Related co (note	
	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000	<b>2008</b> HK\$'000	2007 2007 HK\$'000	2008 HK\$'000	<b>2007</b> HK\$'000	<b>2008</b> HK\$'000	<b>2007</b> HK\$'000
<b>Lending activities:</b> 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		_
<b>Other receivables:</b> 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		
<b>Other payables:</b> 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
<b>Loan Capital:</b> 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.

	<b>2008</b> HK\$'000	<b>2007</b> 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 J	une 2008		As at 31 December 2007					
		Managed in conjunction with financial instruments				Managed in conjunction with financial instruments				
		designated at fair value	Other (including			designated at fair value	Other (including			
	Held for	through	held for		Held for	through	held for			
	hedging	profit or loss	trading)	Total	hedging	profit or loss	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 200	18	As at	2007			
			Credit risk-			Credit risk-		
	Fair value assets	Fair value liabilities	weighted amount	Fair value assets	Fair value liabilities	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 J	As at 30 June 2008		ember 2007
	Fair value	Fair value	Fair value	Fair value
	assets	liabilities	assets	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				
		1 year	Over 1 year		
	Total	or less	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 31 December 2007 Notional amounts with remaining life of				
		1 year	Over 1 year		
	Total	or less	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 HK\$'000	As at 31 December 2007 <i>HK\$</i> ′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 – with an original maturity of not more than 1 year – with an original maturity of more than 1 year	17,462,212 4,596,063 4,151,391	15,921,154 3,551,324 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 HK\$'000	As at 31 December 2007 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 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 HK\$'000	As at 31 December 2007 <i>HK</i> \$'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
<b>Financial ratios</b> 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 Return on average total equity attributable to equity shareholders of the Company	12.61%	7.40%
(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 CKWB and certain of its subsidiaries as required by 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	As at 30 June 2008			t 31 December	2007
			Contingent			Contingent
	Total	Total	liabilities and	Total	Total	liabilities and
	assets	liabilities	commitments	assets	liabilities	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	Overdue	Impaired	Individual	Collective
	advances to	loans and	loans and	impairment	impairment
	customers	advances	advances	allowances	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	Overdue	Impaired	Individual	Collective
	advances to	loans and	loans and	impairment	impairment
	customers	advances	advances	allowances	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 % on total loans and advances to customers	As at 31 De	cember 2007 % 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 allowers				
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 type of "Eligible Collateral" is "Eligible Physical Collateral" mainly comprises real estates.

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 <i>HK</i> \$'000
Available-for-sale securities which has been overdue for: – over 1 year	15,599	15,597

## (e) Rescheduled loans

	As at 30 J	% on total loans and advances to	As at 31 De	cember 2007 % on total loans and advances to
	HK\$'000	customers	HK\$'000	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 <i>HK\$</i> '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 HK\$'000	Public sector entities HK\$'000	<b>Others</b> HK\$'000	<b>Total</b> <i>HK\$'000</i>
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 CKWB to the HKMA pursuant to section 63 of the Hong Kong Banking Ordinance.

	As at 30 June 2008			
	On-balance	Off-balance		Individual
	sheet	sheet		impairment
	exposure	exposure	Total	allowances
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China entities Companies and individuals outside Mainland China where the credit is granted for use in	16,813,585	6,995,598	23,809,183	38,266
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 D	ecember 2002	7
	On-balance	As at 31 D Off-balance	ecember 2002	7 Individual
	On-balance sheet		ecember 2007	
		Off-balance	ecember 2007 Total	Individual
	sheet	Off-balance sheet		Individual impairment
Mainland China entities Companies and individuals outside Mainland China where the credit is granted for use in	sheet exposure	Off-balance sheet exposure	Total	Individual impairment allowances
Companies and individuals outside	sheet exposure HK\$'000	Off-balance sheet exposure HK\$'000	<b>Total</b> <i>HK\$</i> ′000	Individual impairment allowances HK\$'000

## (i) Risk management

The Group manages various types of risks mainly through CKWB under the delegation and close supervision of the board of directors of the Company. The Risk Management Group of CKWB is entrusted with the responsibilities of group credit risk, financial institution credit risk, market risk, operating risk, risk asset management and policy and portfolio risk management functions. The Group continuously 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 of 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 HKMA. The structure of this Policy conforms to the "LM-1 Liquidity Risk Management" issued by 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. CKWB is also active in wholesale funding through the issuances of Hong Kong dollar certificates of deposit 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 issuances of such certificates of deposit.

#### (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 three 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.

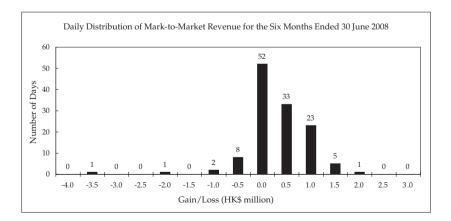
CKWB's Treasury is the central point to take and manage market risk exposure within the prescribed limit hierarchy.

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 used to estimate the potential loss of an investment portfolio over a selected time horizon and a given 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 financial crisis in 1997, the LTCM event in 1998 and the terrorists' 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, HK\$ strengthening against US\$ by 10% and G7 currencies appreciating against US\$ 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.



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 by 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 against 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 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 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 programmes, such as selfassessment 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 programmes 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 factors 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, support of Legal and Compliance as a critical mission-important function of the Group will continue.

# (vi) Strategic and reputational risk management

In order to keep pace with the ever-evolving operating and regulatory environment of the Group, the board of directors of the Company 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 the Group's reputation and maximise its 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 writedown 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 cashflows.

As at 30 June 2008, the underlying investment portfolio of Farmington continued to meet projected cashflows. 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 realize 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.

# 4. INDEBTEDNESS

As at the close of business on 30 June 2008, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this document, the Group had the following indebtedness:

- (a) Perpetual subordinated notes of HK\$1,975 million, subordinated floating rate notes of HK\$1,950 million, non-trading debt securities issued of HK\$2,342 million and outstanding convertible bonds issued of HK\$8 million. In addition, borrowings from banks and money market takings from banks and other financial institutions, deposits from customers and certificates of deposits that arose from the normal course of the Group's banking and deposit taking businesses.
- (b) Direct credit substitutes, transaction-related contingencies, trade-related contingencies and other commitments that mainly arose from the normal course of banking business.
- (c) Included in the borrowings from banks, there are Bridge Loans totaling 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.

Except as set out above, the Group did not have, as at 30 June 2008, any outstanding mortgages, charges, debentures or other loan capital (issued or agreed to be issued), bank overdrafts, loans, liabilities under acceptance or other similar indebtedness, hire purchase and finance lease commitments or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30 June 2008. The Directors have confirmed that there had been no material change in the Group's indebtedness and contingent liability position since 30 June 2008.

# 5. MATERIAL CHANGES

The Directors confirm that save for the following matters, there were no material changes in the financial or trading position or outlook of the Group from 31 December 2007, being the date to which the last published audited consolidated financial statements of the Company were made up, to the Latest Practicable Date:

- (a) the matters disclosed in the interim results announcement of the Group for the six months ended 30 June 2008, which was released by the Company on 21 August 2008;
- (b) the Proposal which, if implemented, will result in the Company being privatized and delisted from the Hong Kong Stock Exchange and, therefore, may have a material impact on the outlook of the Group;
- (c) CITIC Group's intention that after the Company is privatized:
  - subject to all necessary third party and regulatory approvals, all of the 15% shareholding of the CNCB H Shares held by the Company be sold to the Offeror and BBVA in proportion to their respective shareholdings in the Company immediately after the transfer of 50% of the New Shares by the Offeror to BBVA;
  - (ii) HK\$5.1 billion and HK\$3 billion of the proceeds from the sale referred to in (i) above be applied for the repayment of the Bridge Loans and to support the short to medium term expansion requirements of CKWB respectively; and
  - (iii) subject to all necessary third party and regulatory approvals, the Offeror's majority interest in the Company be injected into CNCB;

(d) in the event that the Minority Shareholders vote against the Scheme of Arrangement, the alternative methods for paying off the Bridge Loans and providing funding to CKWB may also have a material impact on the outlook of the Group for the following reasons:

As mentioned in the "Explanatory Statement" to the Scheme Document, such methods may include sale of assets or new equity or debt issue or refinancing by the Company. Given the credit and liquidity crisis in the global financial market, the cost of refinancing the Bridge Loans would be expensive with an estimated increase in interest rate of 250 to 300 basis points over the current interest rates of the Bridge Loans. The alternative of an equity issue by the Company to repay the Bridge Loans and fund CKWB might result in a significant dilution of the proportionate interests of all of its members in the Company and undesirable pricing conditions given the current environment in the equity markets. The Company therefore considers that equity issue and debt capital market issue will not be feasible under the current market conditions. The other alternative is to consider selling some or all of the Company's CNCB H Shares. In that case, the results and net assets of CNCB would no longer be equity accounted for in the books of the Company.

If the Scheme of Arrangement is voted down, subject to all necessary third party and regulatory approvals, CITIC Group intends to continue with its plan to inject its majority interest in the Company into CNCB.

# 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of CITIC Group for each of the three financial years ended 31 December 2007 extracted from its 2005, 2006 and 2007 annual reports, except that the definitions used in this document have been adopted in the summary below.

# Summary Consolidated Income Statement

(Expressed in thousands of RMB)

	2007	2006	2005
	RMB'000	RMB'000	RMB'000
Operating income	109,352,266	80,634,563	65,261,984
Operating costs	80,723,091	57,294,987	47,440,901
Operating expenses	15,327,715	12,529,890	9,651,001
Investment income	23,688,278	5,160,890	2,309,498
Business taxes and surcharges	3,309,665	2,076,931	1,446,204
Operating Profit	33,680,073	13,893,645	9,033,376
Add: non-operating income	715,456	430,432	868,182
Less: non-operating expenses	917,414	153,376	130,689
Profit before provision for impairment losses	33,478,115	14,170,701	9,770,869
Less: provision for impairment losses	6,929,174	4,198,588	2,101,076
Profit after provision for impairment losses	26,548,941	9,972,113	7,669,793
Less: income tax	7,204,353	2,547,333	1,998,444
Less: minority interests	3,474,378	975,791	816,087
Add: unrealised investment losses	98,234	15,197	(7,839)
Net Profit	15,968,444	6,464,186	4,847,423

*Note:* The auditors' report issued for each of the three financial years ended 31 December 2005, 2006 and 2007 was not qualified.

# 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CITIC GROUP FOR THE YEAR ENDED 31 DECEMBER 2007

The following information has been extracted from the audited consolidated financial statements of CITIC Group for the year ended 31 December 2007, except that the definitions used in this document have been adopted in the extract below.

# **Consolidated Balance Sheet**

As at 31 December 2007 (Expressed in thousands of RMB)

		2007	2006
	Note	RMB'000	RMB'000
ASSETS			
Current Assets:			
Cash and deposits	5, (1)	168,496,012	109,825,275
Short-term loans	5, (2)	367,914,025	293,427,276
Receivables	5, (3)	27,805,539	18,069,534
Short-term investments	5, (4)	221,904,492	78,291,126
Other current assets	5, (5)	24,685,438	13,784,944
Total Current Assets		810,805,506	513,398,155
Long-term Assets:			
Medium and long-term loans	5, (2)	276,110,566	217,491,976
Long-term investments	5, (4)	163,047,355	147,994,748
Fixed assets	5, (6)	61,537,077	39,219,341
Other long-term assets	5, (7)	10,228,694	9,068,821
Total Long-term Assets		510,923,692	413,774,886
Total Assets		1,321,729,198	927,173,041
LIABILITIES AND INVESTOR'S EQUITY			
Current Liabilities:			
Short-term deposits from customers	5, (8)	632,979,181	414,273,544
Short-term financing	5, (9)	36,013,320	20,202,325
Payables	5, (10)	64,149,701	33,016,822
Other current liabilities	5, (11)	3,519,856	3,230,276
Total Current Liabilities		736,662,058	470,722,967

		2007	2006
	Note	RMB'000	RMB'000
Long-term Liabilities:			
Long-term deposits from customers	5, (12)	322,184,633	299,694,017
Medium and long-term borrowings		47,112,860	43,481,491
Long-term bond payables	5, (13)	54,671,861	47,394,183
Other long-term liabilities	5, (14)	16,582,296	4,571,297
Total Long-term Liabilities		440,551,650	395,140,988
Total Liabilities		1,177,213,708	865,863,955
Minority Interests		42,311,511	15,713,771
Investor's Equity			
Capital	5, (15)	33,758,652	32,335,295
Reserves	5, (16)	52,476,883	6,795,834
Profit for the year		15,968,444	6,464,186
Total Investor's Equity		102,203,979	45,595,315
Total Liabilities and Investor's Equity		1,321,729,198	927,173,041

# **Consolidated Income Statement**

For the year ended 31 December 2007 (Expressed in thousands of RMB)

		2007	2006
	Note	RMB'000	RMB'000
Operating income	5, (17)	109,352,266	80,634,563
Operating costs	5, (18)	80,723,091	57,294,987
Operating expenses	5, (19)	15,327,715	12,529,890
Investment income		23,688,278	5,160,890
Business taxes and surcharges		3,309,665	2,076,931
Operating Profit		33,680,073	13,893,645
Add: non-operating income		715,456	430,432
Less: non-operating expenses		917,414	153,376
Profit before provision for impairment losses		33,478,115	14,170,701
Less: provision for impairment losses	5, (20)	6,929,174	4,198,588
Profit after provision for impairment losses		26,548,941	9,972,113
Less: income tax		7,204,353	2,547,333
Less: minority interests		3,474,378	975,791
Add: unrealised investment losses		98,234	15,197
Net Profit		15,968,444	6,464,186

# **Consolidated Cash Flow Statement**

For the year ended 31 December 2007 (Expressed in thousands of RMB)

		2007
		RMB'000
1.	Cash Flows from Operating Activities:	
	Cash received from rendering of financial services	359,247,626
	Cash received from sales of goods or rendering of other services	42,094,356
	Refund of taxes	452,500
	Other cash received relating to operating activities	53,876,433
	Sub-total of cash inflows	455,670,915
	Cash paid for financial services	317,603,750
	Cash paid for goods and services	33,298,331
	Cash paid to and on behalf of employees	5,520,226
	Cash paid for all types of taxes	6,400,464
	Other cash paid relating to operating activities	65,409,194
	Sub-total of cash outflows	428,231,965
	Net cash flows from operating activities	27,438,950
2.	Cash flows from investing activities:	
	Cash received from disposal of equity investments	267,421,418
	Cash received from return on equity investments	1,764,595
	Cash received from return on debt investments	11,750,875
	Interests received	575,870
	Net cash received from disposal of fixed assets,	
	intangible assets and other long-term assets	234,058
	Other cash received relating to investing activities	894,214
	Sub-total of cash inflows	282,641,030
	Cash paid to acquire fixed assets, intangible assets and	
	other long-term assets	7,389,986
	Cash paid on equity investments	16,644,049
	Cash paid on debt investments	295,744,795
	Cash paid on other investing activities	2,406,141
	Sub-total of cash outflows	322,184,971
	Net cash flows from investing activities	(39,543,941)

	<b>2007</b> <i>RMB</i> ′000
3. Cash flows from financing activities:	
Proceeds from equity investments	58,112,652
Inc: cash received from equity investments from	
subsidiaries' minority interests	67,826
Proceeds from bonds issued	1,263,220
Proceeds from borrowings	40,824,671
Proceeds from other financing activities	1,082,314
Sub-total of cash inflows	101,282,857
Cash payments of registered capital's withdrawal	_
Cash repayments of borrowings	32,610,180
Cash payments of financing expenses	83,706
Cash payments for distribution of dividends or profits	3,318,085
Inc: cash payments of dividends owned by	
subsidiaries' minority interests	100,113
Cash payments for interests	4,498,227
Cash payments on other financing activities	2,412,782
Sub-total of cash outflows	42,922,980
Net cash flows from financing activities	58,359,877
4. Effect of foreign exchange rate fluctuation on cash	(1,144,697)
5. Net increase in cash and cash equivalents	45,110,189

# **Balance Sheet**

As at 31 December 2007 (Expressed in thousands of RMB)

	Note	<b>2007</b> <i>RMB</i> ′000	<b>2006</b> <i>RMB</i> ′000
ASSETS	IVOIC	NIVID 000	INID 000
Current Assets:			
Cash and deposits	6, (1)	10,099,278	5,416,735
Short-term loans	6, (3)	858,850	892,183
Receivables	6, (2)	7,347,160	6,409,074
Short-term investments	6, (4)	23,255,552	2,290,331
Other current assets			
Total Current Assets		41,560,840	15,008,323
Long-term Assets:			
Medium and long-term loans	6, (3)	209,528	1,699,319
Long-term investments	6, (4)	137,409,792	93,176,908
Fixed assets	6, (5)	300,363	524,178
Other long-term assets	6, (6)	642,819	697,769
Total Long-term Assets		138,562,502	96,098,174
Total Assets		180,123,342	111,106,497
LIABILITIES AND INVESTOR'S EQUITY			
Current Liabilities:			
Short-term deposits from customers		_	_
Short-term financing	6, (7)	4,531,371	4,704,504
Payables	6, (8)	9,100,791	3,612,518
Other current liabilities	6, (9)	105,000	3,102,381
Total Current Liabilities		13,737,162	11,419,403
Long-term Liabilities:			
Long-term deposits from customers		_	45,252
Medium and long-term borrowings		35,333,569	24,472,132
Long-term bond payables	6, (10)	27,748,166	27,766,469
Other long-term liabilities		1,724,000	2,072,659
Total Long-term Liabilities		64,805,735	54,356,512
Total Liabilities		78,542,897	65,775,915
Investor's Equity			
Capital	6, (11)	33,758,652	32,335,295
Reserves	6, (12)	51,915,278	6,534,429
Profit for the year	-, (,	15,906,515	6,460,858
Total Investor's Equity		101,580,445	45,330,582
Total Liabilities and Investor's Equity		180,123,342	111,106,497

# **Income Statement**

For the year ended 31 December 2007 (Expressed in thousands of RMB)

		2007	2006
	Note	RMB'000	RMB'000
Operating income	6, (13)	409,875	1,059,398
Operating costs	6, (14)	7,557,076	2,237,672
Operating expenses		580,153	425,789
Investment income	6, (15)	27,691,784	9,971,451
Business taxes and surcharges		16,698	12,820
Operating Profit		19,947,732	8,354,568
Add: non-operating income		13,083	6,078
Less: non-operating expenses		19,390	16,624
Profit before provision for impairment losses		19,941,425	8,344,022
Less: provision for impairment losses	6, (16)	2,440,817	1,814,246
Profit after provision for impairment losses		17,500,608	6,529,776
Less: income tax		1,594,093	68,918
Net Profit		15,906,515	6,460,858

# **Cash Flow Statement**

For the year ended 31 December 2007 (Expressed in thousands of RMB)

	<b>2007</b> <i>RMB</i> ′000
1. Cash Flows from Operating Activities:	
Cash received from rendering of financial s	ervices 11,073,051
Cash received from sales of goods or rende	ring of other services –
Refund of taxes	-
Other cash received relating to operating ac	tivities <u>1,476,502</u>
Sub-total of cash inflows	12,549,553
Cash paid for financial services	15,228
Cash paid for goods and services	-
Cash paid to and on behalf of employees	179,389
Cash paid for all types of taxes	60,300
Other cash paid relating to operating activi	ties656,662
Sub-total of cash outflows	911,579
Net cash flows from operating activities	11,637,974
2. Cash flows from investing activities:	
Cash received from disposal of equity invest	stments 4,143,989
Cash received from return on equity invest	ments –
Cash received from return on debt investme	ents –
Interests received	-
Net cash received from disposal of fixed as	sets,
intangible assets and other long-term ass	ets –
Other cash received relating to investing ac	tivities
Sub-total of cash inflows	4,143,989
Cash paid to acquire fixed assets, intangible	e assets and
other long-term assets	5,810
Cash paid on equity investments	12,255,715
Cash paid on debt investments	6,577,706
Cash paid on other investing activities	
Sub-total of cash outflows	18,839,231
Net cash flows from investing activities	(14,695,242)

<b>2007</b> <i>RMB</i> ′000		
	Cash flows from financing activities:	3.
-	Proceeds from equity investments	
	Inc: cash received from equity investments from	
-	subsidiaries' minority interests	
-	Proceeds from bonds issued	
13,835,028	Proceeds from borrowings	
	Proceeds from other financing activities	
13,835,028	Sub-total of cash inflows	
-	Cash payments of registered capital's withdrawal	
2,791,402	Cash repayments of borrowings	
-	Cash payments of financing expenses	
-	Cash payments for distribution of dividends or profits	
	Inc: cash payments of dividends owned by	
-	subsidiaries' minority interests	
2,966,156	Cash payments for interests	
	Cash payments on other financing activities	
5,757,558	Sub-total of cash outflows	
8,077,470	Net cash flows from financing activities	
(337,659)	Effect of foreign exchange rate fluctuation on cash	4.
4,682,543	Net increase in cash and cash equivalents	5.

# Notes To Financial Statements

For the Year Ended 31 December 2007 (Expressed in thousands of RMB)

# 1. COMPANY STATUS

CITIC Group, established originally in 1979 in the PRC upon approval of State Council of PRC, is a multi-business group company. As at 31 December 2007, the registered capital of CITIC Group is RMB 30 billion. The legal representative of CITIC Group is Mr. Kong Dan. The registered address of CITIC Group is 6 Xinyuannanlu, Chaoyang District, Beijing. Principal activities of CITIC Group and its subsidiaries (referred to as "the group") is comprised of financial services, investment holding, real estate and civil infrastructure, manufacturing, resources development, trading and services, information industry and project contracting business etc.

### 2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The principal accounting policies adopted in the preparation of the financial statements are in conformity with the Accounting Standards for Business Enterprises, the Accounting Regulations for Financial Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the PRC (MOF).

# 3. PRINCIPAL ACCOUNTING POLICIES AND ESTIMATES

#### (a) Accounting Year

The accounting year of the group is the calendar year from 1 January to 31 December.

### (b) Basis of Preparation and Measurement

The financial statements have been prepared on an accrual basis. Unless otherwise stated, the measurement basis used is historical cost.

### (c) Reporting Currency

The reporting currency of the group, CITIC Group and its subsidiaries in mainland of PRC is RMB. The reporting currency of CITIC Group's subsidiaries out of mainland of PRC is adopted in accordance with the local accounting standards.

### (d) Translation of Foreign Currency Transactions and Financial Statements

Non-financial institution entities record foreign currency transactions in a unified ledger. Foreign currency transactions during the year are translated into RMB at the exchange rates ruling at the transaction dates. At year end, monetary assets and liabilities in foreign currencies are translated into RMB at the exchange rates, quoted by the People's Bank of China (the "PBOC"), ruling at the balance sheet date. Financial institutions record foreign currencies are translated into US\$ at the exchange rates quoted in the London market, which is announced by the PBOC, ruling on the last day of the accounting year, and then translated from US\$ to RMB at the exchange rate quoted by the PBOC ruling on the same day.

Except for the exchange gains or losses relating directly to the construction of fixed assets (see note 3(l)), exchange differences arising from foreign currency transactions and exchanges are dealt with as foreign exchange gains or losses for the current period.

The financial statements of overseas subsidiaries are translated into RMB by current exchange rate method in accordance with the *Provisional Regulations on Consolidated Financial Statements*. Financial statements of foreign currencies are translated into RMB at year end exchange rates. Year end exchange rates are the exchange rates quoted in the London market, which is announced by the PBOC, ruling on the last day of the accounting year, and the exchange rate quoted by the PBOC ruling on the same day for the translation from US\$ to RMB. The exchange differences are recorded as differences from translation of financial statements denominated in foreign currencies.

### (e) Cash and Cash Equivalents

Cash and cash equivalents include: cash, deposits, short-term inter-bank placements and highly liquid investments that are capable of being converted into known amounts of cash and are subject to an insignificant risk of change in value.

### (f) Provision for Bad Debts

Provision for bad debts is estimated by management based on the general consideration of aging analysis, recoverability of receivables (including accounts receivable and other receivables), and individual measurements.

# (g) Loans, Provision for Loan Losses and Writing Off of Loans

# (1) Loan classification

- Short-term, medium and long-term loans: loans are classified according to their original maturity terms. Loans originally maturing within one year (including one year) are classified as short-term loans, and loans originally maturing over one year are classified as medium and long-term loans.
- Overdue loans: loans not repaid on maturity or rescheduled maturity dates; advances arising from discounted bills or bill acceptances with insufficient collateralized deposits and not yet repaid until the due dates; overdue trade finance for inward and outward bills, and advances arising from off balance sheet credit facilities such as letters of credit and guarantees.
- Discounted bills: not-yet-matured bills discounted by the Group for customers or other financial institutions; rediscounted received from the central bank, other inter-banks or financial institutions.
- (2) Loans are initially recognized at the amounts actually drawn. Discounted bills are initially recognized at the par value. Interest income from discounted bills is recognized on an accrual basis on amounts provided and at an applicable interest rate over the terms of the bills. As at the balance sheet date, the par value of the discounted bills and the relevant unrealized interest income are separately shown in the balance sheet.

### (3) Provision for loan losses and writing off of loans

Loans are classified into five categories: normal, special-mention, substandard, doubtful and loss.

When there is objective evidence that a loan is impaired, provision for loan losses is made based on the estimated loss covering specific losses, non-individually identified potential losses, and potential losses arising from sovereignty risk, geographic risk, industry risk, or particular types of loans. At the end of each year, the group assesses the recoverability of each type of loans and estimates potential losses. The provision for loan losses is measured as the difference between the carrying amounts of the loan and its estimated recoverable amount. Provision for loan losses is made based on risk grading, while other factors such as the borrowers' solvency, willingness to repay and past repayment records, market value of the collateral and support from the guarantors are also taken into account when assessing the overall risk and recoverability, and to determine whether a loan is impaired and provision is properly made.

When a borrower or guarantor fails to repay his loan principal or interest, and uses the collateral to settle the debt, the respective loan principal together with the recognized interest, is transferred to repossessed assets with the corresponding provision for loan losses transferred to provision for impairment on repossessed assets at the same time.

When a loan is considered uncollectable after the group has completed all the necessary legal procedures, upon approval from managements, the loan is written off against the provision for loan losses. If in a subsequent period the loan previously written off is recovered, the provision for the loan losses against the loan in the amount of the recovery will be reversed.

#### (h) Entrusted Loans and Investments

Entrusted loans are funded by the customers who entrust the group to grant loans to designated borrowers for specific purposes at terms (such as maturity period and interest rate) specified by the customers. The group is responsible for granting and monitoring the usage and repayment of entrusted loans.

Entrusted investments are also funded by the customers who entrust the group to invest in accordance with the defined scopes. Balances of entrusted loans and entrusted investments are represented at the amounts granted or invested.

#### (i) Derivative Financial Instruments

The group's derivatives include spot foreign exchange, forward foreign exchange, currency swaps, interest rate swaps and options, which are undertaken in response to customers' needs or for the group's risk management purposes. In order to hedge potential risks associated with derivative transactions with customers, the group entered into similar derivative contracts with other banks and financial institutions, under the approval of the PBOC. The group earns commissions on such transactions.

### (j) Inventories

Inventories include assets held for sale in the ordinary course of business (goods or finished goods), assets in the production process for sale in the ordinary course of business (work in process), and materials and supplies that are consumed in production (raw materials).

Inventories of the Group mainly consist of raw material, work-in progress, finished goods, goods, and self-developed products. They are stated at actual cost and managed by perpetual inventory system.

### (k) Investments

#### (1) Short-term investments

The initial cost of a short-term investment is the total consideration paid on acquisition of the investment, excluding cash dividends which have been declared but unpaid or unpaid interests on debentures which were due at the time of acquisition.

Except for cash dividends which have been declared but unpaid at the time of acquisition and interest on debentures which is due but not yet paid at the time of acquisition, cash dividends and interest are set off against the carrying amount of short-term investments when actually received by the group. Upon the disposal or recovery of a short-term investment, the difference between the carrying amount and the actual amount received is recognized as profit or loss for the current period.

Short-term investments are carried at the lower of their cost and market value, and a provision for diminution in value is made for any excess of the cost over the market value at the year end.

#### (2) Long-term equity investments

Where the CITIC Group controls, jointly controls or exercise significant influence over an investee enterprise, the long-term equity investment is accounted for under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for any post- acquisition change in CITIC Group's share of the shareholders' equity in the investee enterprise.

The difference between the initial investment cost and the group's share of shareholders' equity in the investee enterprise is accounted for as the difference in equity investment. Positive differences are amortised in stages. For investments with contractual terms, it will be amortised according to the contractual terms of the investments. For investments without contractual terms, it will normally be amortised within a period of 10 years. Negative differences are directly taken into the capital surplus of the group.

Where the group does not control, jointly control or exercise significant influence over an investee enterprise, the long-term equity investment is accounted for under the cost method by stating it at the initial investment cost. Investment income is recognized when the investee enterprise declares a cash dividend or distributes its earnings.

Upon the disposal of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognized as profit or loss for the period.

#### (3) Long-term debt investments

The initial investment cost of a long-term debt investment is the total consideration amount paid for acquisition of the investment, but excludes any unpaid interest that was due at the time of acquisition. Such interest receivable is separately accounted for under receivables. Where the total consideration paid includes accrued interest that is not yet due at the time of acquisition, such interest is separately accounted for under long-term debt investments.

The premium or discount on debentures represents the difference between the nominal value and the initial investment cost of the debenture after the deduction of relevant taxes and accrued interests which are not yet due for payments.

The premium (discount) on investments in long-term debentures is amortized on a straight-line basis over the holding period, and is treated as an adjustment to the interest income.

#### (1) Fixed Assets and Construction in Progress

Fixes assets are assets with comparatively high unit values held by the group for producing products or rendering service. They are expected to be used for more than one year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and provision for impairment. Construction in progress is stated in the balance sheet at cost less provision for impairment.

All direct and indirect costs that are related to the construction of fixed assets and incurred before the assets are ready for their intended uses are capitalized as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interests) of specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when it is ready for its intended use.

Fixed assets are depreciated by using the straight-line method over their estimated useful lives. The estimated useful lives and the estimated rates of net residual value on cost adopted for the group's fixed assets are as follows:

Classification	Estimated useful Life	<b>Residual Value</b> (% of cost)
Land Use Rights	Terms of the land lease	-
Plant and Buildings	15–40 years	3%-5%
Transportation Equipment	6–8 years	3%-5%
Machinery and Equipment	5–15 years	3%-5%
Others	3–10 years	3%-5%

#### (m) Intangible Assets

Intangible assets are long-lived assets that do not have physical appearance, held by the group for producing products, rendering services, leasing, or operation management. Intangible assets are stated in the balance sheet at the actual cost incurred at the time of acquisition and are amortized on a straight-line basis over the beneficial periods.

#### (n) Long-term Deferred Expenses

Long-term deferred expenses represents expenses already paid but are amortized over a period of more than one year. Long-term deferred expenses are stated at the actual payments and subsequently amortized as follows:

- (1) Operating lease payments are amortized on a straight-line basis over the actual terms of the respective leases.
- (2) Other expenses paid are amortized on a straight-line basis over their respective beneficial periods.

When the long-term deferred expenses which are unlikely to be able to bring economic benefit to the group in the subsequent periods, the balances will be charged to the income statement upon recognition.

## (o) **Pre-operating Expenses**

Except for the expenditure incurred for acquiring or constructing the fixed assets, other expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

#### (p) Provision for Impairment of Assets

The carrying amounts of assets (including entrusted loans, inventories, long-term investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts except loans (see note 3(g)) and receivables (see note 3(f)). The group will perform an impairment test to determine whether there are signs indicating that the carrying amount of an asset is concerned to be difficult to recover. When impairment has occurred, the carrying amount is reduced to the recoverable amount. The amount of deduction is recognized to be the impairment loss of the asset.

The recoverable amount is the value of an asset treated as the greater of its net realizable value and the present value of the estimated future cash flows obtainable from the asset's continuous use including the disposal at the end of its useful life.

Provision for impairment loss is measured on an item by item basis and recognized in the income statement for the current period. If a negative difference between the initial investment cost and the group's share of the shareholders' equity of the investee enterprise has been credited to the capital surplus, any impairment losses for the long-term equity investment should firstly set off against the difference initially recognized in the capital surplus relating to the investment and any excessive impairment losses are then recognized in the income statement for the current period.

If there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognized in prior years is reversed. Reversals of impairment losses are recognized in the income statement for the current period. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognized in the income statement and then the impairment losses that had been charged to the capital surplus.

#### (q) Repossessed Assets

- (1) Repossessed assets are the assets repossessed by the group through debt restructuring or effective control and the group can legally realize through auction, transfer or any other procedures.
- (2) Repossessed assets are recorded at the value of the collateralized portion of the loan principal and the recognized interest income. At the same time, all the corresponding loan provisions are transferred to provisions for impairment on repossessed assets.
- (3) Provision for impairment on repossessed assets

Repossessed assets are stated at the lower of their carrying amounts and recoverable amounts at the end of each accounting period. Provision for impairment is measured as the difference between the recoverable amounts and the carrying amounts of repossessed assets.

(4) Disposal of repossessed assets

If the proceeds from the disposal of repossessed assets exceed their carrying amounts, the difference will be recognized as non-operating revenue. If the amount is less than the carrying amount, the difference will be recognized as non-operating expenses.

#### (r) Issued Bonds

Issued bonds are recognized as liabilities at the total amount received upon issuance. The difference between the total amount of issuance and the total par value is treated as the bonds discount or premium, and is amortized on a straight-line basis throughout the terms of the bonds.

Interest expenses are accrued based on the coupons. Interest expenses plus amortization of discount or premium and the issuance costs together, are charged to income statement as financial costs in the period incurred.

#### (s) Income Tax

Income tax is recognized by using the tax-effect accounting method. Income tax for the year consists of current tax paid and payable, and the movement of deferred tax assets and liabilities.

Current tax is calculated by applicable tax rate on the taxable income.

Deferred tax is measured for the differences between the accounting income and the taxable income arising from the timing differences in recognizing income, expenses or losses between the accounting and tax regulations. Income tax expense for the year is recorded into income statements; tax payable is provided by applicable tax rate on taxable income; deferred tax assets or liabilities are recorded at applicable tax rate on timing differences.

CITIC Group and some of its subsidiaries have adopted a consolidated tax filing policy and calculated tax payable with 33% of taxable income. According to the *Notice on Enterprise Income Tax Filing of CITIC Group* (Guo Shui Han [2005] No. 1005) issued by the State Administration of Taxation, CITIC Group and those subsidiaries mentioned above should prepare corporate income tax filing on a consolidation basis since 2005.

### (t) Revenue Recognition

When it is probable that the economic benefits will flow to the Group, the amount of revenue and relevant costs can be measured reliably, revenue is recognized as follows:

### (1) Interest income

Interest income from loans is recognized on an accrual basis on the time-proportion with reference to the principal outstanding and the interest rates applicable. For loans overdue (including rescheduled loans) and not yet recovered for more than 90 days, or loans with interest overdue for more than 90 days, the accrual interest is discontinued and is accounted for as an off-balance sheet item. Recognized interest receivables of such loans set off against interest income in the income statement, and turn to be accounted for as an off-balance sheet item. Repayment for a non-accrual loan will be firstly set off against the outstanding loan principal. It is only when the loan principal is fully recovered that any excess amount received can be recognized as interest income for the period.

#### (2) Rendering of services

When the outcome of a transaction involving the rendering of services can be reliably measured, revenue is recognized in the income statement by reference to the completion stage of the transaction. When the outcome of the transaction involving the rendering of services cannot be reliably measured, revenue is recognized only to the extent of the costs incurred that are expected to be recoverable. Income from property management service is recognized when the service is rendered; it is probable that the economic benefits will flow to the group; and the revenue and costs can be reliably measured.

(3) Insurance income

Insurance income is recognized on an accrual basis, starting from the time when the related insurance obligation becomes effective in accordance with agreed terms of signed insurance contract.

(4) Sale of goods

Revenue from sale of goods is recognized when the significant risks and rewards of ownership of the goods has been transferred to the buyer; the group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the economic benefits associated with the transaction will be received by the group; and the relevant amount of revenue and costs can be reliably measured.

Revenue from sale of properties is recognized when the construction is completed; the completion certificate is issued by the relevant government authorities; the sales agreement is signed; and the evidence of the customer payment in accordance with the term of the sales agreement is received. Usually, the evidence of the customer payment is the receipt of deposit of over 20% of the agreement amount or the payment schedule of the remaining amount being confirmed.

#### (5) Revenue from Contracts of construction

When the outcome of a construction contract can be reliably measured, revenue associated with the construction contract is recognized at the balance sheet date by using the percentage-of-completion method. When the outcome of a construction contract cannot be reliably measured, revenue is recognized only to the extent of the contract costs incurred that are recoverable.

(6) Other revenue

Other revenue is recognized on an accrual basis.

#### (u) Borrowing Costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalized into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses, when expenditures for the assets are being incurred; borrowing costs are being incurred; and activities that are necessary to prepare the asset for their intended uses are in progress.

Except for the specific borrowings for the construction of fixed assets, other borrowings are recognized as expenses for the period and charged to the income statement as part of the financial costs.

#### (v) Employee Benefits

According to the relevant regulations in PRC, CITIC Group and its domestic subsidiaries established basic pension schemes in 1998. For each employee, the basic pension cost is accrued based on 28% of the total salary, of which 8% is borne by the employee and 20% is borne by CITIC Group and its domestic subsidiaries. By the end of 2007, CITIC Group and its domestic subsidiaries have made adequate accrual for this basic pension.

CITIC Group and certain of its domestic subsidiaries also established annuity schemes, the related cost is accrued based on 8% of the total salary of an employee, of which 4% is borne by the employee and 4% is borne by CITIC Group and these subsidiaries. By the end of 2007, CITIC Group and these subsidiaries have made adequate accrual for the annuity.

#### (w) Provisions and Contingent Liabilities

Provisions are made when the group has a present obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of outflow can be reliably estimated.

When the possibility of an outflow of economic benefits caused by the settlement of the above obligation is low, or the outflow amount cannot be reliably measured, this obligation is disclosed as a contingent liability.

#### (x) Related Parties

Two or more parties are considered to be related parties when at any time during the relevant financial period: if one party has the power, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where one or more parties are subject to common control from another party, they are considered to be related parties.

#### (y) Segmental Reporting

A segment is a distinguishable component of the group that is engaged either in providing distinguished products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

During the represented period, the business segments of the group include: financial services, real estate and civil infrastructure, manufacturing, resources, trading and services, information industry, project contracting and unallocated.

### 4. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) The Group prepared its consolidated financial statements in accordance with the Provisional Regulations on Consolidated Financial Statements (Cai Kuai Zi [1995] No.11) issued by the Ministry of Finance and in accordance with the Official Reply on the Issues Relating to the Scope of Consolidated Financial Statements (Cai Kuai Zi [1996] No.2).

The consolidated financial statements are consolidated by the financial statements of CITIC Group and all of its principal subsidiaries as at 31 December 2007. Subsidiaries are those entities controlled by CITIC Group directly or indirectly: holding 50% or above equity shares directly or indirectly; carrying more than half of the voting rights; controlling the composition of the board of directors; or governing the financial and operating policies of an entity so as to obtain benefits from its activities. The investments in subsidiaries are accounted under equity method in CITIC Group's financial statements, and these subsidiaries are consolidated at the end of the accounting year.

The consolidated financial statements of the group are prepared base on the individual financial statements of CITIC Group and its consolidated subsidiaries. Material intragroup transactions, including any intra-group unrealized profits and balances, are eliminated through the preparation of the group's consolidated financial statements.

(b) Principal subsidiaries (included in the consolidation of the group for year 2007) are as follows:

Name	Shares held (%)	Registration location	Principal activities	Туре
CITIC Holdings	100.00%	Beijing	Financial services	Limited liabilities company
CNCB	62.33%	Beijing	Financial services	Listed company
CITIC Prudential Life Insurance Co., Ltd.	50%	Guangzhou	Financial services	Limited liabilities company
CITIC Trust & Investment Co., Ltd.	80%	Beijing	Financial services	Limited liabilities company
CITIC Asset Management Corporation Ltd.	100%	Beijing	Financial services	Limited liabilities company
CITIC Guoan Group	100%	Beijing	Investment holding	Limited liabilities company
CITIC Real Estate Co., Ltd.	86.50%	Beijing	Real estate and civil infrastructure	Listed company
CITIC East China Group	100%	Shanghai	Real estate and civil infrastructure	Limited liabilities company
CITIC Tianjin Industrial Development Co., Ltd.	100%	Tianjin	Real estate and civil infrastructure	Limited liabilities company
CITIC Construction	100%	Beijing	Project contracting	Limited liabilities company
Central and Southern China Municipal Engineering Design & Research Institute	100%	Wuhan	Project contracting	Limited liabilities company
Wuhan Architectural Design Institute	100%	Wuhan	Project contracting	Limited liabilities company
CITIC Metal Co., Ltd	100%	Beijing	Resources	Limited liabilities company
CITIC Investment Holding Co., Ltd	100%	Beijing	Manufacturing	Limited liabilities company
CITIC Bohai Aluminium Industries Holding Co., Ltd.	100%	Qinhuangdao	Manufacturing	Limited liabilities company
CITIC Heavy Machinery Co., Ltd.	100%	Luoyang	Manufacturing	Limited liabilities company
CITIC Machinery Manufacturing Co., Ltd.	100%	Beijing	Manufacturing	Limited liabilities company
CITIC Application Service Provider Co., Ltd.	70%	Beijing	Information industry	Listed company

Name	Shares held (%)	Registration location	•	
CITIC Digital Technology Co., Ltd.	100%	Beijing	Information industry	Limited liabilities company
China Enterprise Communications Ltd.	51%	Beijing	Information industry	Limited liabilities company
CITIC Networks Co., Ltd.	100%	Shenzhen	Information industry	Limited liabilities company
Beijing Capital Mansion	100%	Beijing	Services	Limited liabilities company
Beijing Daxing Capital Golf Club	80%	Beijing	Services	Limited liabilities company
Beijing CITIC Real Estate Co., Ltd.	100%	Beijing	Trading	Limited liabilities company
Shenzhen CITIC Investment Co., Ltd.	100%	Shenzhen	Trading	Limited liabilities company
CITIC Automobile Co., Ltd.	100%	Beijing	Trading	Limited liabilities company
China CITIC Press	100%	Beijing	Publishing	Limited liabilities company
CITIC International Economic Consultants Co., Ltd.	100%	Beijing	Services	Limited liabilities company
CITIC Ningbo Group	100%	Ningbo	Services	Limited liabilities company
CITIC Travel Co., Ltd.	100%	Beijing	Services	Limited liabilities company
CITIC Technology Co., Ltd.	100%	Beijing	Trading	Limited liabilities company
China Zhonghaizhi Corporation	51.03%	Shenzhen	Services	Limited liabilities company
Xinyi Services Center Co., Ltd.	80%	Beijing	Services	Limited liabilities company
Company	55.17%	Hong Kong	Financial services	Limited liabilities company
CITIC Hong Kong (Holdings) Ltd.	100%	Hong Kong	Investment holding	Limited liabilities company
CITIC USA Holding Inc.	100%	USA	Investment holding	Limited liabilities company
CITIC Power Investment Co., Ltd.	100%	Hong Kong	Real estate and civil infrastructure	Limited liabilities company

Name	Shares held (%)	Registration location	Principal activities	Туре	
CITIC Australia Pty. Limited	100%	Australia	Resources	Limited liabilities company	
CITIC United Asia Investments Ltd.	100%	Hong Kong	Resources	Limited liabilities company	
Keentech Group Ltd.	100%	British Virgin Islands	Resources	Limited liabilities company	
Macau Cement Manufacturing Co., Ltd.	67.68%	Macau	Manufacturing	Limited liabilities company	
Sundance Forest Industries Ltd	100%	Canada	Manufacturing	Limited liabilities company	
CITIC Asia Satellite Holding Company Ltd.	100%	British Virgin Islands	Information industry	Limited liabilities company	

# 5. INTERPRETATION FOR IMPORTANT ACCOUNTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

# (1) Cash and Deposit

(2)

	2007	2006
	RMB'000	RMB'000
Deposits with the central bank	119,027,823	72,060,587
Others	49,468,189	37,764,688
Total	168,496,012	109,825,275
Loans to Customers		
	2007	2006
	RMB'000	RMB'000
Short-term loans		
Short-term loans to customers	319,734,658	242,461,046
Discounted bills	33,777,853	46,203,285
Trade finance for inward and outward bills	14,427,260	4,798,805
Less: provision for short-term loans	25,746	35,860
Total short-term loans	367,914,025	293,427,276
Medium and long-term loans		
Medium and long-term loans to customers	279,921,740	218,653,066
Overdue loans	8,496,018	11,865,885
Less: provision for medium and long-term loans	12,307,192	13,026,975
Total medium and long-term loans to customers	276,110,566	217,491,976
Total loans to customers	644,024,591	510,919,252

(*a*) Analysis by categories (short-term loans to customers, medium and long-term loans to customers and overdue loans):

#### Short-term loans to customers

By nature:

2007	2006
RMB'000	RMB'000
183 552 491	38,461,696
71,678,710	139,603,994
44,813,165	45,479,164
19,690,292	18,916,192
319,734,658	242,461,046
	<i>RMB'000</i> 183,552,491 71,678,710 44,813,165 19,690,292

• Medium and long-term loans (not including overdue loans)

By nature and original maturity:

	1–5 years	2007 over 5 years	Total
	RMB'000	RMB'000	RMB'000
Unsecured loans	43,524,135	36,065,372	79,589,507
Loans with guarantees	35,397,912	10,564,900	45,962,812
Loans secured by properties	55,047,854	63,525,318	118,573,172
Loans pledged by monetary assets	17,810,769	17,985,480	35,796,249
Total	151,780,670	128,141,070	279,921,740
		2006	
	1–5 years	over 5 years	Total
	RMB'000	RMB'000	RMB'000
Unsecured loans	57,949,391	27,735,198	85,684,589
Loans with guarantees	31,004,097	11,853,424	42,857,521
Loans secured by properties	31,487,644	40,018,868	71,506,512
Loans pledged by monetary assets	6,353,874	12,250,570	18,604,444
Total	126,795,006	91,858,060	218,653,066
Overdue loans			
By nature:			
		2007	2006
		RMB'000	RMB'000
Unsecured loans		1,765,602	3,824,103
Loans with guarantees		3,936,134	2,050,187
Loans secured by properties		2,372,722	5,546,409
Loans pledged by monetary assets	_	421,560	445,186
Total	=	8,496,018	11,865,885

(b) Analysis by risk grading (short-term loans to customers, medium and long-term loans to customers and over due loans):

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> RMB'000
Normal Special-mention	584,604,579 13,507,530	445,736,063 13,533,258
Total performing loans	598,112,109	459,269,321
Substandard Doubtful Loss	1,080,926 8,404,490 554,891	2,596,558 7,936,628 3,177,490
Total non-performing loans	10,040,307	13,710,676
Total	608,152,416	472,979,997

By the nature of non-performing loans:

	2007	2006
	RMB'000	RMB'000
Unsecured loans	2,443,004	4,499,142
Loans with guarantees	3,993,409	5,681,685
Loans secured by properties	3,238,076	3,177,113
Loans pledged by monetary assets	365,818	352,736
Total	10,040,307	13,710,676

(c) Analysis by industry (including short-term loans to customers, medium and longterm loans to customers, overdue loans and discounted bills):

	2007	2006
	RMB'000	RMB'000
Manufacturing	150,971,310	112,025,698
Transportation, storage and postal services	65,885,167	39,413,853
Property development	45,786,933	34,435,564
Wholesale and retail	45,405,546	36,364,296
Production and supply of electric power,		
gas and water	44,765,590	38,580,526
Leasing and commercial services	35,413,659	31,985,149
Water conservancy, environmental and		
public utility management	28,324,352	26,915,000
Construction	22,112,835	23,701,979
Public and social organizations	8,131,132	10,468,000
Finance	6,685,798	5,023,577
Others	78,107,588	82,418,556
Total corporate loans	531,589,910	441,332,198
Total individual loans	110,340,359	77,851,084
Gross amount of loans	641,930,269	519,183,282
Less: provision for loan losses	12,332,938	13,062,835
Net carrying amount of loans	629,597,331	506,120,447

<sup>\*</sup> The analysis of loans by industry has been classified in a new calibre in year 2007. The group adjusted the opening balance of the loans by new categories at the same time.

(*d*) Analysis by geographical spread (including short-term loans to customers, medium and long-term loans to customers, overdue loans and discounted bills):

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> RMB'000
Domestic	587,521,119	473,145,335
Overseas	54,409,150	46,037,947
including: Hong Kong SAR	46,889,197	40,245,447
Others	7,519,953	5,792,500
Gross amount of loans	641,930,269	519,183,282
Less: provision for loan losses	12,332,938	13,062,835
Net carrying amount of loans	629,597,331	506,120,447

(e) Provision for Loans Losses

		Total provision for impairment losses						
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	Value of write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for short-term loans Provision for medium and	35,860	192,233	202,260	-	(10,027)	-	(87)	25,746
long-term loans	13,026,975	3,499,584	374,505	206,780	2,918,299	3,671,144	33,062	12,307,192
Total	13,062,835	3,691,817	576,765	206,780	2,908,272	3,671,144	32,975	12,332,938

#### (3) Receivables

	2007	2006
	RMB'000	RMB'000
	14 550 012	0 740 022
Other receivables	14,550,813	9,740,932
Accounts receivable	10,378,393	9,398,720
Prepayments	4,177,473	2,293,424
Interests receivable	3,436,488	2,021,538
Subtotal	32,543,167	23,454,614
Less: provision for bad debts	4,737,628	5,385,080
Total	27,805,539	18,069,534

### Provision for Bad Debts

		Total provision for impairment losses						
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	Value of write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for bad debts	5,385,080	229,563	10,687	8,165	210,711	430,662	(427,501)	4,737,628
Total	5,385,080	229,563	10,687	8,165	210,711	430,662	(427,501)	4,737,628

#### (4) Investments

	2007	2006
	RMB'000	RMB'000
Short-term investments	103,830,437	33,344,471
Securities held under resale agreements	118,074,055	44,946,655
Total short-term investments	221,904,492	78,291,126
Long-term debt investments	104,540,547	98,797,183
Long-term equity investments	58,506,808	49,197,565
Total long-term investments	163,047,355	147,994,748
Total investments	384,951,847	226,285,874

#### (a) Short-term investments

	<b>Gross</b> RMB'000	<b>2007</b> <b>Provision</b> <i>RMB'000</i>	<b>Net</b> <i>RMB'000</i>
Bonds issued by PBOC	39,482,418	_	39,482,418
Government bonds	14,083,056	-	14,083,056
Bonds issued by domestic financial institutions	30,826	-	30,826
Corporate bonds	16,423,821	-	16,423,821
Debt securities issued by PRC policy banks Debt securities issued by international	6,666,754	-	6,666,754
institutions	4,500,841		4,500,841
Total bonds	81,187,716	-	81,187,716
Fund	95,993	638	95,355
Entrusted loans and investments	6,715,274	517,131	6,198,143
Others	16,461,301	112,078	16,349,223
Total	104,460,284	629,847	103,830,437
		2006	
	Gross	Provision	Net
	RMB'000	RMB'000	RMB'000
Bonds issued by PBOC	16,284,754	-	16,284,754
Government bonds	3,483,114	-	3,483,114
Bonds issued by domestic financial institutions	3,254,406	-	3,254,406
Corporate bonds	1,332,259	12,035	1,320,224
Debt securities issued by PRC policy banks Debt securities issued by international	1,065,919	-	1,065,919
institutions	740,563		740,563
		10.025	26,148,980
Total bonds	26,161,015	12,035	-0,110,200
Total bonds Fund	26,161,015 3,692,989	12,035 564	3,692,425
			, ,
Fund	3,692,989	564	3,692,425

(i) The government bonds, the PBOC bills and the debt securities issued by PRC policy banks held by the group are traded in the inter-bank bond market.

# (ii) Analysis by market value

	20	07	2006	
	Net book	Market	Net book	Market
	value	value	value	value
Bonds issued by PBOC	39,482,418	39,460,659	16,284,754	16,311,378
Government bonds	14,083,056	14,072,741	3,483,114	3,487,688
Bonds issued by domestic financial				
institutions	30,826	30,826	3,254,406	3,254,406
Corporate bonds	16,423,821	16,423,821	1,320,224	1,440,192
Debt securities issued by PRC				
policy banks	6,666,754	6,669,686	1,065,919	1,083,619
Debt securities issued by international				
institutions	4,500,841	4,500,841	740,563	743,265
Total bonds	81,187,716	81,158,574	26,148,980	26,320,548
Fund	95,355	95,355	3,692,425	3,695,448
Entrusted loans and investments	6,198,143	6,198,143	1,677,415	1,721,362
Others	16,349,223	17,487,578	1,825,651	1,832,949
Total	103,830,437	104,939,650	33,344,471	33,570,307

# (b) Long-term debt investments

	<b>Gross</b> RMB'000	<b>2007</b> <b>Provision</b> <i>RMB'000</i>	<b>Net</b> <i>RMB'000</i>
Bonds issued by domestic financial institutions Debt securities issued by international	4,223,979	-	4,223,979
institutions	48,526,213	7,277	48,518,936
Government bonds	20,337,628		20,337,628
Debt securities issued by PRC policy banks	20,941,722	_	20,941,722
Corporate bonds	7,464,025	70,030	7,393,995
Bonds issued by PBOC	2,701,480	_	2,701,480
Others	424,765	1,958	422,807
Total	104,619,812	79,265	104,540,547
		2006	
	Gross	Provision	Net
	RMB'000	RMB'000	RMB'000
Bonds issued by domestic financial institutions Debt securities issued by international	45,237,529	168,000	45,069,529
institutions	17,564,700	49,515	17,515,185
Government bonds	13,900,233	-	13,900,233
Debt securities issued by PRC policy banks	13,638,027	-	13,638,027
Corporate bonds	6,151,526	76,526	6,075,000
Bonds issued by PBOC	1,894,122	-	1,894,122
Others	708,287	3,200	705,087
Total	99,094,424	297,241	98,797,183

# (c) Long-term equity investments

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB</i> ′000
Investments in:		
Listed companies	38,803,255	24,037,884
Unlisted companies	29,066,204	32,248,983
Total	67,869,459	56,286,867
Less: provision for impairment	9,362,651	7,089,302
Net carrying amount	58,506,808	49,197,565

# (d) Provision for investments

		Total provision for impairment losses						
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	Value of write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for short-term								
investments	333,079	358,391	231	-	358,160	133,068	71,676	629,847
Provision for long-term debt								
investments	297,241	6,665	226	1,243	5,196	47,583	(175,589)	79,265
Provision for long-term equity								
investments	7,089,302	2,340,855	500	26,120	2,314,235	124,231	83,345	9,362,651
Total	7,719,622	2,705,911	957	27,363	2,677,591	304,882	(20,568)	10,071,763

# (5) Other Current Assets

	2007	2006
	RMB'000	RMB'000
Inventories	23,691,709	12,852,183
Deferred expenses	154,949	244,245
Other current assets	967,263	718,878
Less: provision for inventories	128,483	30,362
Total	24,685,438	13,784,944

# (a) Analysis of inventories by usage

	2007	2006
	RMB'000	RMB'000
Products in process	8,671,296	3,552,280
Finished goods	4,281,734	3,907,201
Raw materials	1,896,868	1,811,914
Self-made semi-finished goods	434,285	486,291
Low-value consumption goods	60,084	48,286
Consigned processing materials	39,535	36,558
Others	8,307,907	3,009,653
Total	23,691,709	12,852,183
Less: provision for inventories	128,483	30,362
Net carrying amount	23,563,226	12,821,821

# (b) Analysis of inventories by industry

	2007	2006
	RMB'000	RMB'000
Real estate and civil infrastructure	17,763,838	7,374,695
Manufacturing	3,402,930	3,209,326
Resources	2,022,396	1,764,520
Trading and services	304,334	292,167
Information industry	165,812	190,224
Project contracting	27,697	16,395
Unallocated	4,702	4,856
Total	23,691,709	12,852,183
Less: provision for inventories	128,483	30,362
Net carrying amount	23,563,226	12,821,821

#### (c) Provision for inventories

	Total provision for impairment losses							
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	Value of write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for inventories	30,362	22,368	10,784		11,584		86,537	128,483
Total	30,362	22,368	10,784		11,584		86,537	128,483

(6) **Fixed Assets** 

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Fixed assets net	53,615,036	32,528,008
Construction in progress	7,978,813	6,731,620
Fixed assets pending disposal	18,458	14,876
Less: provision for impairment	58,869	52,179
provision for construction in progress	16,388	2,984
Total	61,537,077	39,219,341

Costs of the fixed assets:

	Opening balance	Additions	Disposals	Closing balance
			•	
Land use rights	2,058,118	46,504	425,418	1,679,204
Plant and buildings	18,827,815	5,450,679	3,293,795	20,984,699
Transportation equipment	2,669,383	837,128	277,022	3,229,489
Machinery & equipment	13,537,147	19,421,100	1,584,288	31,373,959
Others	6,388,994	2,260,187	1,049,957	7,599,224
Total	43,481,457	28,015,598	6,630,480	64,866,575

Accumulated depreciation:

	Opening balance	Additions	Written back	Closing balance	
	Datance	Additions	Dack	Dalance	
Land use rights	-	-	-	-	
Plant and buildings	2,599,162	779,304	788,588	2,589,878	
Transportation equipment	559,044	295,518	332,731	521,831	
Machinery & equipment	5,033,632	1,483,270	924,922	5,591,980	
Others	2,761,611	500,040	713,801	2,547,850	
Total	10,953,449	3,058,132	2,760,042	11,251,539	

# Provision for impairment:

		Total provision for impairment losses						
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	Value of write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for fixed assets Including:	52,179	7,135	-	-	7,135	-	(445)	58,869
Plant and buildings	18,491	1,069	-	-	1,069	-	3,007	22,567
Machinery & equipment	-	850	-	-	850	-	-	850
Others	33,688	5,216	-	-	5,216	-	(3,452)	35,452
Provision for construction in progress	2,984	16,388			16,388		(2,984)	16,388
Total	55,163	23,523			23,523		(3,429)	75,257

# (7) Other Long-term Assets

	2007	2006
	RMB'000	RMB'000
Intangible assets	2,883,123	2,644,157
Less: provision for intangible assets	354	354
Deferred tax assets	1,836,302	2,389,064
Long-term deferred expenses	1,265,612	1,106,594
Repossessed assets	992,973	1,848,747
Less: provision for repossessed assets	318,231	1,056,468
Other long-term assets	3,573,081	2,140,699
Less: provision for other long-term assets	3,812	3,618
Total	10,228,694	9,068,821

Provision for impairment:

		Total provision for impairment losses						
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	<b>Value of</b> write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for intangible assets	354	-	-	-	-	-	-	354
Provision for repossessed assets	1,056,468	70,456	-	-	70,456	16,544	(792,149)	318,231
Provision for other long-term assets	3,619	(243)			(243)		(49)	3,812
Total	1,060,441	70,213			70,213	16,544	(792,198)	322,397

### (8) Short-term Deposits from Customers

		<b>2007</b> <i>RMB</i> ′000	<b>2006</b> <i>RMB</i> ′000
		KIVID 000	KIVID 000
	Short-term deposits	345,524,091	266,495,498
	Short-term savings deposits	158,561,941	96,028,079
	Deposits from banks and other financial institutions	98,240,639	28,945,107
	Short-term pledged deposits	30,652,510	22,804,860
	Total	632,979,181	414,273,544
(9)	Short-term Financing		
		2007	2006
		RMB'000	RMB'000
	Short-term loans	16,974,882	16,658,208
	Amounts of securities sold under repurchase agreements	15,234,145	2,579,174
	Current portion of long-term liabilities	3,804,293	964,943
	Tatal	26 012 220	20 202 225
	Total	36,013,320	20,202,325
(10)	Payables		
		2007	2006
		<b>2007</b> RMB'000	<b>2006</b> <i>RMB'000</i>
	Accounts payable	19,818,154	12,793,102
	Other payables	17,309,177	7,365,523
	Receipts in advance	8,596,155	4,906,579
	Outward remittances	6,630,748	3,437,504
	Accrued payroll	3,813,463	1,605,054
	Tax payable	5,637,526	1,124,742
	Inward remittances	1,365,590	647,535
	Bills payable	837,176	775,725
	Welfare payable	141,712	361,058
	Total	64,149,701	33,016,822
(11)	Other Current Liabilities		
		2007	2006
		RMB'000	RMB'000
	Accrued expenses	641,227	741,547
	Other current liabilities	2,878,629	2,488,729
	Total	3,519,856	3,230,276
		0,017,000	0,200,270

### (12) Long-term Deposits from Customers

		2007	2006
		RMB'000	RMB'000
	Long-term deposits	184,883,345	162,876,176
	Long-term savings deposits	67,105,426	75,358,083
	Long-term pledged deposits	70,195,862	61,459,758
	Total	322,184,633	299,694,017
(12)	I and tamp Dand Danahlar		
(13)	Long-term Bond Payables		
		2007	2006
		RMB'000	RMB'000
	Total long-term bond payables	54,671,861	47,394,183
	Inc: the Company	26,820,957	27,429,321
	CNCB	11,990,000	11,990,000
	CITIC Resources Holdings Ltd.	7,146,518	-
	Company	5,854,229	6,474,862
	CITIC Guoan Group	2,860,157	1,500,000
(14)	Other Long-term Liabilities		

	2007	2006
	RMB'000	RMB'000
I and tame a such las	1 (27 579	1 004 422
Long-term payables	1,637,578	1,004,433
Long-term reserves	4,348,363	2,024,756
Deferred tax credits	9,584,683	1,152,370
Other long-term liabilities	1,011,672	389,738
Total	16,582,296	4,571,297

#### Deferred tax:

Deferred ta	ax debits	Deferred ta	ax credits	Ne	Net	
2007	2006	2007	2006	2007	2006	
944,523	1,732,000	-	-	944,523	1,732,000	
302,829	354,558	-	-	302,829	354,558	
32,884	11,729	25	-	32,859	11,729	
14,608	-	-	-	14,608	-	
9,846	-	20	108	9,826	(108)	
-	-	1,341	53,659	(1,341)	(53,659)	
-	-	771,830	-	(771,830)	-	
24,150	-	1,072,274	213,291	(1,048,124)	(213,291)	
507,462	290,777	7,739,193	885,312	(7,231,731)	(594,535)	
1,836,302	2,389,064	9,584,683	1,152,370	(7,748,381)	1,236,694	
	2007 944,523 302,829 32,884 14,608 9,846 	944,523 1,732,000 302,829 354,558 32,884 11,729 14,608 - 9,846 - - 24,150 - 507,462 290,777	2007         2006         2007           944,523         1,732,000         -           302,829         354,558         -           32,884         11,729         25           14,608         -         -           9,846         -         20           -         -         1,341           -         -         771,830           24,150         -         1,072,274           507,462         290,777         7,739,193	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	$\begin{array}{c ccccccccccccccccccccccccccccccccccc$	

### (15) Capital

	Opening balance	Increase in current year	Decrease in current year	Closing balance	Note
Capital	32,335,295	1,423,357	-	33,758,652	*

\* This item represents the paid-in capital contributed by the Ministry of Finance of the PRC (MOF). The increased amount of RMB 1,423,360,000 in the current year represents the transferred capital obtained from tax make-up for investing income abroad.

### (16) Reserves

(17)

	2007	2006
	RMB'000	RMB'000
Capital surplus	52,296,111	13,991,933
Surplus reserves	8,666,961	8,611,153
Opening balance of retained earnings	(9,105,955)	(14,900,651)
Difference from translation of financial statements		
dominated in foreign currencies	992,641	(714,381)
Less: unrecognized investment losses	372,875	192,220
Total	52,476,883	6,795,834
Retained earnings:		
		RMB'000
Closing balance of 2006		110,975
Add: adjustments of opening balance		(9,216,930)
Other adjustment		-
Opening balance of 2007		(9,105,955)
Transferred from net profit of 2007		15,968,444
Closing balance of 2007		6,862,489
Operating Income		
	2007	2006
	RMB'000	RMB'000
Income of products sold	54,373,714	41,859,376
Interests	38,518,370	27,825,756
Interests from financial institutions	4,996,869	2,051,270
Fee and commission	3,359,288	1,716,859
Insurance income	3,011,666	1,613,724
Other operating income	5,092,359	5,567,578
Total	109,352,266	80,634,563

### (18) Operating Cost

	2007	2006
	RMB'000	RMB'000
Cost of products sold	44,727,585	35,054,983
Interest costs	20,875,356	16,914,592
Interest costs to financial institutions	4,750,842	1,744,061
Commission costs	312,555	233,973
Cost of insurance business	3,152,420	1,540,607
Other operating costs	2,599,793	1,585,203
Loss of foreign currency translation	4,304,540	221,568
Total	80,723,091	57,294,987

<sup>\*</sup> Loss of foreign currency translation: the assets of CITIC Group are accounted by currencies. According to the regulations of the Ministry of Finance, CITIC Group translated the foreign currency assets into RMB which forms the main part of the loss of foreign currency translation in 2007.

### (19) Operating Expenses

	2007	2006
	RMB'000	RMB'000
Staff costs	6,660,940	5,426,150
Depreciation	1,145,691	1,261,424
Expenses of reception	768,594	574,851
Rents	659,245	551 <i>,</i> 945
Amortisation	423,533	384,788
Publicity expenses of operation	389,638	302,625
Travel fees	295,811	273,466
Charges of mail & telephone	273,935	226,028
Running costs of electrical equipments	231,135	224,305
Sundry expenses	213,021	329,619
Other operating expenses	4,266,172	2,974,689
Total	15,327,715	12,529,890

### (20) Provisions for Impairment Losses

	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Total provision for 2007 RMB'000
Provision for loan losses	3,691,817	576,765	206,780	2,908,272
Provision for long-term				
investments	2,347,520	726	27,363	2,319,431
Provision for bad debts	229,563	10,687	8,165	210,711
Provision for short-term				
investments	358,391	231	-	358,160
Provision for repossessed assets	70,456	-	-	70,456
Provision for construction				
in process	16,388	-	-	16,388
Provision for inventories	22,368	10,784	-	11,584
Provision for fixed assets	7,135	-	-	7,135
Provision for other long-term assets	(243)	-	-	(243)
Writing off of non-performing assets	1,027,280			1,027,280
Total	7,770,675	599,193	242,308	6,929,174

### (21) Supplemental Information of Cash Flow Statements

(a) R	econciliation	of net	profit to	cash	flows	from	operating	activities.
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		2007
		RMB'000
1.	Reconciliation of net profit to cash flows from operating activities	
	Net profit	15,968,444
	Add: provision for impairment loss of assets	5,901,894
	Depreciation of fixed assets	3,808,937
	Amortization of intangible assets	305,235
	Amortization of long-term deferred expenses	541,964
	Decrease in prepaid expenses (deduct: increase)	89,296
	Increase in accrued expenses (deduct: decrease)	(100,321)
	Losses on disposal of fixed assets, intangible assets and other	
	long-term assets (deduct: gains)	(369,839)
	Losses on scrapping of fixed assets	3,044
	Financial expenses (deduct: gains)	25,179,896
	Losses from investments (deduct: gains)	(23,688,278)
	Deferred tax Credits (deduct: decrease)	8,985,075
	Decrease in inventories (or deduct: increase)	(10,839,526)
	Decrease in operating receivables (deduct: increase)	(263,341,060)
	Increase in operating payables (deduct: decrease)	260,588,260
	Others	4,405,929
	Net cash flows from operating activities	27,438,950
2.	Investing and financing activities that do not affect	
	cash receipt and payment	
	Liabilities converted to capital	351,371
	Reclassify convertible bonds to be expired within one year	
	as current liability	-
	Fixed assets financed by finance leases	251,505

**2007** *RMB'000* 

2006

2007

3.	Net increase/decrease in cash and cash equivalents:	
	Cash at the end of the year	22,176,388
	Including: cash on hand	198,136
	Deposit at bank which can be paid at any time	16,379,146
	Other monetary assets which can be paid at any time	5,599,106
	Others	-
	Cash equivalents at the end of the year	100,594,641
	Including: short-term bonds investment (maturity within 3 months)	-
	Less: cash at the beginning of the year	16,499,015
	Less: cash equivalents at the beginning of the year	61,161,825
	Net increase/decrease in cash and cash equivalents	45,110,189

### (b) Cash and Cash Equivalents

	RMB'000	RMB'000
Amount of cash and cash equivalents in balance sheet:		
Deposits with central bank	42,148,965	30,138,000
Cash and deposits (excluding deposits with central bank)	37,867,752	35,484,352
Inter-bank placements	10,364,000	4,688,000
Short-term investments	32,390,312	7,350,488
Total	122,771,029	77,660,840
Corresponding amount in balance sheet:		
Deposits with central bank	119,027,823	72,060,587
Cash and deposits (excluding deposits with central bank)	49,468,189	37,764,688
Inter-bank placements	11,053,496	5,150,387
Short-term investments	103,830,437	33,344,471
Total	283,379,945	148,320,133
Less: short-term investments (maturity more than 3 months)	160,608,916	70,659,293
Cash and cash equivalents	122,771,029	77,660,840

# 6. INTERPRETATION FOR IMPORTANT ACCOUNTS OF CITIC GROUP'S FINANCIAL STATEMENTS

### (1) Cash and Deposit

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> RMB'000
Deposit at bank Other monetary assets	9,180,464 918,814	4,368,698
Total	10,099,278	5,416,735

### (2) Receivables

(3)

	2007	2006
	RMB'000	RMB'000
Dividends receivable	3,565,020	3,000,000
Interests receivable	40,924	18,289
Other receivables	7,360,564	7,391,654
Less: provision for bad debts	3,619,348	4,000,869
Total	7,347,160	6,409,074
Loans		
	2007	2006
	RMB'000	RMB'000
Short-term loans	864,296	897,883
Less: provision for short-term loans	5,446	5,700
Total short-term loans	858,850	892,183
Medium and long-term loans	1,143,479	3,205,447
Less: provision for medium and long-term loans	933,951	1,506,128
Total medium and long-term loans	209,528	1,699,319
Total loans	1,068,378	2,591,502

\* The loans mentioned above are capitalized loans to internal subsidiaries, which were formed before the re-organization. The loans issued after the re-organization are accounted as short-term investments in the form of entrusted loans

- (*a*) Analysis by categories (short-term loans, medium and long-term loans):
  - Short-term loans

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Unsecured loans	864,296	897,883
Total	864,296	897,883

### • Medium and long-term loans

By nature and original maturity:

		2007	
	1–5 years	over 5 years	Total
	RMB'000	RMB'000	RMB'000
Unsecured loans	189,531	756,019	945 <i>,</i> 550
Loans with guarantees	-	76,269	76,269
Loans secured by properties Loans pledged by monetary	-	63,077	63,077
assets	58,583		58,583
Total	248,114	895,365	1,143,479

		2006	
	1–5 years	over 5 years	Total
	RMB'000	RMB'000	RMB'000
Unsecured loans	968,978	2,046,126	3,015,104
Loans with guarantees	-	109,217	109,217
Loans secured by properties Loans pledged by monetary	-	18,500	18,500
assets	62,626		62,626
Total	1,031,604	2,173,843	3,205,447

### (b) Provision for Loans Losses

		Total p	rovision for	impairment	losses			
		Charge	Value recovery-	Recovery of value			Movement due to	
	Opening balance RMB'000	for the period RMB'000	written back RMB'000	written off RMB'000	<b>Subtotal</b> RMB'000	Value of write-off RMB'000	other reasons RMB'000	Closing balance RMB'000
Provision for short-term loans Provision for medium and	5,700	(167)	-	-	(167)	-	(87)	5,446
long-term loans	1,506,128	111,643		65,545	46,098	599,133	(19,142)	933,951
Total	1,511,828	111,476	_	65,545	45,931	599,133	(19,229)	939,397

### (4) Investments

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Short-term investments Long-term investments	23,255,552 137,409,792	2,290,331 93,176,908
Total investments	160,665,344	95,467,239

### (a) Short-term investments

	2007	2006
	RMB'000	RMB'000
Delegated management assets	5,845,860	261,970
Entrusted loans	8,806,195	1,642,500
Entrusted investments	4,328,915	346,149
Stocks	878,693	4,984
Bonds	1,577	_
Fund	63,840	56,416
Others	3,730,000	25,750
Total short-term investments	23,655,080	2,337,769
Less: Provision for short-term investments	399,528	47,438
Total	23,255,552	2,290,331

### Analysis by market value

	20	07	20	06
	Net book value Market value M		Net book value	Market value
	RMB'000	RMB'000	RMB'000	RMB'000
Delegated management asset	s 5,787,402	5,787,402	259,350	259,350
Entrusted loans	8,511,866	8,511,866	1,642,500	1,642,500
Entrusted investments	4,328,915	4,328,915	302,202	302,202
Stocks	869,906	1,166,290	4,934	4,934
Bonds	1,561	1,561	-	-
Fund	63,202	63,202	55,852	55,852
Others	3,692,700	3,692,700	25,493	25,493
Total	23,255,552	23,551,936	2,290,331	2,290,331

(b) Long-term equity investments

	2007	2006
	RMB'000	RMB'000
Investments in:		
Listed companies	66,140,895	5,377,032
Unlisted special companies which hold		
the shares of the listed companies	27,744,383	18,467,258
Other unlisted companies	51,781,015	75,387,619
Others	195,750	320,000
Total	145,862,043	99,551,909
Less: provision for long-term investments	8,452,251	6,375,001
		;
Net carrying amount	137,409,792	93,176,908

\* As at 31 December 2007, the market value of listed companies directly held by CITIC Group and indirectly held through unlisted special companies by CITIC Group is RMB356,001,580,000; while as at 31 December 2006 the market value is RMB59,541,510,000.

### (i) Analysis by industry:

	<b>2007</b> <i>RMB</i> ′000	<b>2006</b> RMB'000
	KIVIB 000	KIVID 000
Financial services	82,609,765	45,845,199
Resources	19,944,735	16,869,875
Investment holding	19,438,057	17,972,175
Real estate and civil infrastructure	8,604,036	3,065,712
Manufacturing	4,399,555	3,893,210
Information industry	4,332,110	4,642,534
Trading and services	820,918	825,876
Project contracting	447,993	275,503
Others	5,264,874	6,161,825
Total long-term equity investments	145,862,043	99,551,909
Less: provision for long-term investments	8,452,251	6,375,001
Net carrying amount of long-term equity investments	137,409,792	93,176,908

### (ii) Analysis by currency:

	2007		200	6
		Amount in		Amount in
	USD	RMB	USD	RMB
Investment in RMB	-	84,333,153	-	41,234,754
Investment amount in USD	8,423,307	61,528,890	7,468,228	58,317,155
Total long-term equity investments	8,423,307	145,862,043	7,468,228	99,551,909
Less: provision for long-term investments		8,452,251		6,375,001
Net carrying amount of long-term equity investments	8,423,307	137,409,792	7,468,228	93,176,908

### (c) Provision for investments

		Total p	rovision for	impairment	losses			
	Opening balance RMB'000	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Subtotal RMB'000	Value of write-off RMB'000	Movement due to other reasons RMB'000	Closing balance RMB'000
Provision for short-term investments	47,438	352,090	-	-	352,090	-	-	399,528
Provision for long-term investments	6,375,001	2,110,422		26,120	2,084,302	(33,182)	(40,234)	8,452,251
Total	6,422,439	2,462,512	_	26,120	2,436,392	(33,182)	(40,234)	8,851,779

### (5) Fixed Assets

Costs of the fixed assets:

	<b>Opening</b> <b>balance</b> <i>RMB'000</i>	<b>Additions</b> <i>RMB'000</i>	<b>Disposals</b> RMB'000	<b>Closing</b> <b>balance</b> <i>RMB'000</i>
Plant and buildings	21,828	_	_	21,828
Transportation equipment	21,225	-	_	21,225
Machinery & equipment	870,604	(14)	81	870,509
Others	42,182	6,478	869	47,791
Total	955,839	6,464	950	961,353

Accumulated depreciation:

	<b>Opening</b> <b>balance</b> <i>RMB'000</i>	<b>Additions</b> <i>RMB'000</i>	Written back RMB′000	Closing balance RMB'000
Plant and buildings	9,540	1,172	-	10,712
Transportation equipment	9,544	1,557	-	11,101
Machinery & equipment	384,607	219,849	_	604,456
Others	27,970	7,585	834	34,721
Total	431,661	230,163	834	660,990

### (6) Other Long-term Assets

	2007	2006
	RMB'000	RMB'000
Intangible assets	2,557	3,951
Long-term deferred expenses	176,888	195,932
Repossessed assets	134,172	139,609
Long-term accounts receivable	199,776	204,767
Right to trade in preciously non-tradable shares	129,426	153,510
Total	642,819	697,769

\* The long-term deferred expenses represents the costs of issuing bonds.

### (7) Short-term Financing

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Short-term loans Current portion of long-term liabilities	3,919,191 612,180	4,484,263 220,241
Total	4,531,371	4,704,504

#### (8) Payables

	2007	2006
	RMB'000	RMB'000
Accounts payable	186,076	54,666
Other payables	4,048,437	3,140,838
Consigned investments	4,328,915	346,149
Tax payable	537,363	70,865
Total	9,100,791	3,612,518

### (9) Other Current Liabilities

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Swap Profit receipts in advance	50,965 54,035	16,166 3,086,215
Total	105,000	3,102,381

### (10) Long-term Bond Payables

	Cut-off Date	Interest rate (%)	Closing balance of interest payable (in RMB)	Closing balance (in Original currency)	Closing balance (in RMB)
YEN					
96 Samurai	Sep.19,1996-Sep.19,2016	4.95	143,075	10,143,075	648,443
RMB					
01 CITIC	Dec.19,2001-Dec.19,2011	3.98	4,580	3,504,580	3,504,580
02 CITIC	Sep.26,2002-Sep.26,2017	4.08	48,289	4,548,289	4,548,289
03 CITIC 4 billion	Dec.12,2003-Dec.12,2013	4.5	9,730	4,009,730	4,009,730
03 CITIC 6 billion	Dec.12,2003-Dec.12,2023	5.1	15,569	6,015,569	6,015,569
05 CITIC 5 billion	Dec.9,2005-Dec.9,2015	Basic			
		interest			
		rate +1.48	8,114	5,008,114	5,008,114
05 CITIC 4 billion	Dec.9,2005-Dec.9,2025	4.6	13,441	4,013,441	4,013,441
Total			242,798		27,748,166

- \* Repayment projection: 01 CITIC, 02 CITIC and 05 CITIC 4 billion are designated to pay the interests annually and to pay the principle at the maturity date. 03 CITIC, 05 CITIC 5 billion and 96 Samurai are designated to pay the interests semi-annually and to pay the principle at the maturity date. The closing balance of interest payable is the accrued interest which has not been paid
- \*\* As part of the closing balance of long-term bond payables of CITIC Group, the set off amount in consolidation is RMB927,210,000.

#### (11) Capital

	1 0	Increase in current year RMB'000		Closing balance RMB'000	Note
Capital	32,335,295	1,423,357	-	33,758,652	*

\* This item represents the paid-in capital from the Ministry of Finance of the PRC (MOF). The increased amount of RMB 1,423,360,000 in the current year represents the transferred capital amount obtained from tax make-up for investing income abroad.

#### (12) Reserves

	2007	2006	
	RMB'000	RMB'000	Note
Capital surplus	52,296,111	13,991,933	*(i)
Surplus reserves	8,666,961	8,611,153	
Opening balance of retained earnings	(9,125,434)	(14,917,923)	*(ii)
Difference from translation of financial			
statements dominated in foreign currencies	77,640	(1,150,734)	
Less: unrecognized investment losses	_		
Total	51,915,278	6,534,429	

\*(i) The movements of the capital surplus represents CITIC Group's adjustments along with the changes of its invested companies' capital surplus according to the equity method. The amount is RMB 38,304,180,000.

#### \*(ii) Movements of retained earnings:

Amount
(8,457,066)
(244,584)
(423,785)
(9,125,434)
15,906,515
6,781,081

#### (13) Operating Income

	2007	2006
	RMB'000	RMB'000
Interests	66,872	116,655
Fee and commission	38,079	20,468
Interests from financial institutions	32,444	34,373
Other operating income	272,480	887,902
Total	409,875	1,059,398

### (14) Operating Cost

	<b>2007</b> <i>RMB</i> ′000	<b>2006</b> <i>RMB'000</i>
Loss of foreign currency translation	4,283,945	207,600
Interest costs	3,066,154	1,969,343
Commission costs	27,493	13,686
Other operating costs	179,483	47,043
Total	7,557,076	2,237,672

Loss of foreign currency translation: the assets of CITIC Group are accounted by currencies. According to the regulations of the Ministry of Finance, the company translated the foreign currency assets into RMB which forms the main part of the loss of foreign currency translation in 2007.

### (15) Investment Income

\*

	2007	2006
	RMB'000	RMB'000
Income from short-term investments	543,438	185,778
Income from long-term investments	27,148,346	9,785,673
Including: recognized income(loss) according to		
equity method	18,540,544	9,710,217
Income from stock transfer	8,626,581	72,244
Dividends from invested companies	58,821	31,853
Others	(77,600)	(28,641)
Total	27,691,784	9,971,451

#### (16) **Provisions for Impairment Losses**

	Charge for the period RMB'000	Value recovery- written back RMB'000	Recovery of value written off RMB'000	Total provision for 2007 RMB'000
Provision for long-term investments	2,110,422	-	26,120	2,084,302
Provision for short-term investments	352,090	-	-	352,090
Provision for bad debts	(79,311)	-	8,000	(87,311)
Provision for loan losses	111,476	-	65,545	45,931
Provision for other assets	(207)	-	-	(207)
Writing off of non-performing assets	46,012			46,012
Total	2,540,482		99,665	2,440,817

### 7. SEGMENTAL REPORTING

#### (a) Business segments

		Destate				2007					
	Financial services	Real estate and civil infrastruc- ture	Project	Resources	Manu- facturing	Information industry	Trading and services	Head	Unallocated	Elimination	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Operating income Operating costs Operating expenses Investment income	55,350,388 25,455,683 11,894,322 1,534,994	5,389,135 3,107,467 670,801 2,297,285	7,580,832 6,949,838 262,798 151,394	22,506,435 19,958,420 845,937 739,718	11,415,756 9,830,496 1,222,775 1,401,947	2,601,794 2,099,262 564,353 1,380,904	5,215,726 3,936,756 1,188,067 1,510,288	409,875 7,557,076 580,153 27,691,784	338,267 533,483 749,060 1,662,003	(1,455,942) 1,294,610 (2,650,551) (14,682,039)	109,352,266 80,723,091 15,327,715 23,688,278
Business taxes and surcharges	2,116,645	820,696	118,329	27,358	43,879	65,640	100,420	16,698	-	-	3,309,665
Operating profit	17,418,732	3,087,456	401,261	2,414,438	1,720,553	1,253,443	1,500,771	19,947,732	717,727	(14,782,040)	33,680,073
Add: non-operating income Less: non-operating	190,237	113,511	8,251	21,460	121,731	7,113	224,154	13,083	15,916	-	715,456
expenses	80,281	21,878	6,231	288	44,353	20,447	723,430	19,390	1,116		917,414
Profit before provision for impairment losses	17,528,688	3,179,089	403,281	2,435,610	1,797,931	1,240,109	1,001,495	19,941,425	732,527	(14,782,040)	33,478,115
Less: provision for impairment losses	3,000,120	218,602	28,323	15,456	98,707	75,333	252,917	2,440,817	798,899		6,929,174
Profit after provision for impairment losses	14,528,568	2,960,487	374,958	2,420,154	1,699,224	1,164,776	748,578	17,500,608	(66,372)	(14,782,040)	26,548,941
Less: income tax Less: Minority interests Add: unrealised											7,204,353 3,474,378
investment losses											98,234
Net Profit											15,968,444
Assets Liabilities	1,131,760,795 1,031,764,023	52,582,300 28,736,526	11,745,525 11,028,638	41,310,505 28,657,686	21,072,578 13,130,373	16,532,093 7,937,525	32,106,875 17,480,293	180,123,342 78,542,897	8,674,856 12,857,197	(174,179,671) (52,921,450)	1,321,729,198 1,177,213,708

						2006					
	Financial services RMB'000	Real estate and civil infrastruc- ture RMB'000	Project contracting RMB'000	<b>Resources</b> RMB'000	Manu- facturing RMB'000	Information industry RMB'000	Trading and services RMB'000	Head office RMB'000	Unallocated RMB'000	Elimination RMB'000	<b>Total</b> RMB'000
Operating income Operating costs Operating expenses Investment income Business taxes and surcharges	38,735,817 18,245,924 9,635,853 382,462 1,424,317	5,580,217 3,560,299 700,522 1,665,155 429,949	3,127,870 2,623,759 262,971 2,158 52,903	16,001,191 14,563,732 554,095 180,020 6,422	8,459,463 7,639,829 692,104 553,802 26,685	2,136,915 1,941,869 600,207 617,334 57,384	6,917,175 5,702,697 1,089,120 1,168,189 66,443	1,059,398 2,237,672 425,789 9,971,451 12,820	359,170 60,801 927,783 (808,687) 8	(1,742,653) 718,405 (2,358,554) (8,570,994)	80,634,563 57,294,987 12,529,890 5,160,890 2,076,931
Operating profit	9,812,185	2,554,602	190,395	1,056,962	654,647	154,789	1,227,104	8,354,568	(1,438,109)	(8,673,498)	13,893,645
Add: non-operating income Less: non-operating expenses	195,166	106,681	3,359	18,183	58,942	8,776	12,033	6,078	21,214		430,432
Profit before provision for impairment losses	9,934,337	2,647,678	192,007	1,074,145	682,514	157,859	1,228,684	8,344,022	(1,417,047)	(8,673,498)	14,170,701
Less: provision for impairment losses	1,766,529	441,018	17,356	41,945	92,390	21,566	3,538	1,814,246			4,198,588
Profit after provision for impairment losses	8,167,808	2,206,660	174,651	1,032,200	590,124	136,293	1,225,146	6,529,776	(1,417,047)	(8,673,498)	9,972,113
Less: income tax Less: Minority interests Add: unrealised investment losses											2,547,333 975,791 15,197
Net Profit											6,464,186
Assets Liabilities	810,600,367 758,973,668	33,454,503 17,883,492	6,635,444 5,128,971	16,923,484 10,165,811	15,169,334 8,716,628	16,497,942 8,882,790	27,894,718 12,860,058	111,106,497 65,775,915	791,001 8,311,470	(111,900,249) (30,834,848)	927,173,041 865,863,955

\*

According to the industry adjustments of subsidiaries, the amounts have been re-classified at the beginning of the year.

### (b) Geographical segments

			2007					2006		
	Domestic RMB'000	Hong Kong SAR RMB'000	Others RMB'000	Elimination RMB'000	<b>Total</b> RMB'000	Domestic RMB'000	Hong Kong SAR RMB'000	Others RMB'000	Elimination RMB'000	<b>Total</b> RMB'000
Operating income Operating costs	85,799,989 60,438,040	22,797,911 19,681,127	1,214,789 948,070	(460,423) (344,146)	109,352,266 80,723,091	61,230,233 41,349,232	18,607,678 15,373,436	1,152,912 819,025	(356,260) (246,706)	80,634,563 57,294,987
Operating expenses Investment income	12,743,033 23,995,628	2,439,914 5,631,566	161,044 47,517	(16,276) (5,986,433)	15,327,715 23,688,278	10,251,955 5,305,193	2,133,355 2,977,786	154,134 38,995	(9,554) (3,161,084)	12,529,890 5,160,890
Business taxes and surcharges	3,307,146	2,519			3,309,665	2,075,190	1,741			2,076,931
Operating profit	33,307,398	6,305,917	153,192	(6,086,434)	33,680,073	12,859,049	4,076,932	218,748	(3,261,084)	13,893,645
Add: non-operating income Less: non-operating	619,306	91,620	4,530	-	715,456	336,803	93,260	369	-	430,432
expenses	917,387	27			917,414	153,356	20			153,376
Profit before provision for impairment losses	33,009,317	6,397,510	157,722	(6,086,434)	33,478,115	13,042,496	4,170,172	219,117	(3,261,084)	14,170,701
Less: provision for impairment losses	6,783,083	146,091			6,929,174	4,141,847	56,741			4,198,588
Profit after provision for impairment losses	26,226,234	6,251,419	157,722	(6,086,434)	26,548,941	8,900,649	4,113,431	219,117	(3,261,084)	9,972,113
Less: income tax Less: Minority interes Add: unrealised investment	ts				7,204,353 3,474,378					2,547,333 975,791
losses					98,234					15,197
Net Profit					15,968,444				!	6,464,186
Assets	1,194,389,356	180,314,219	6,052,630	(59,027,007)	1,321,729,198	834,779,270	134,687,200	4,028,764	(46,322,193)	927,173,041
Liabilities	1,053,038,380	130,494,931	1,553,637	(7,873,240)	1,177,213,708	777,489,432	95,372,980	887,056	(7,885,513)	865,863,955

### 8. RELATED PARTY TRANSACTIONS

The transactions with related parties of the group in 2007 included transactions in operating activities with those associates and joint ventures of the group. These transactions were in terms of normal business contracts and lines, and traded at market prices. All the intra-group transactions of the group are not disclosed since they have been eliminated in the preparation of the consolidated financial statements.

### (a) Transactions with related parties (income statement items)

		Total	As
	With related	amount	percentage of
	parties	incurred	the total
	in 2007	in 2007	amount (%)
	(1)	(2)	(1)/(2)
Interest income	1,698	38,518,370	0.00%
Fee and commission	95	3,359,288	0.00%
Interest costs	4,747	20,875,356	0.02%
Interest costs to financial institutions	260	4,750,842	0.01%

### (b) Balances of receivables and payables arising from related parties (balance sheet items)

	With related parties (1)	2007 Total balance in balance sheet (2)	As percentage of the total amount (%) (1)/(2)	With related parties (3)	2006 Total balance in balance sheet (4)	As percentage of the total amount (%) (3)/(4)
Assets:						
Other receivables	80,513	14,550,813	0.55%	754,100	9,740,932	7.74%
Account receivables	8,571	10,378,393	0.08%	7,877	9,398,720	0.08%
Overdue loans	-	8,496,018	-	317,800	11,865,885	2.68%
Short-term loans to customers	-	319,734,658	-	224,563	242,461,046	0.09%
Liabilities:						
Short-term deposits	186,132	345,524,091	0.05%	4,530,678	266,495,498	1.70%
Deposits from banks and other financial						
institutions	5,176	98,240,639	0.01%	772,871	28,945,107	2.67%
Other payables	285,123	17,309,177	1.65%	290,806	7,365,523	3.95%
Accrued expenses	-	641,227	-	35,807	741,547	4.83%
Short-term loans	-	16,974,882	-	5,000	16,658,208	0.03%
Account payables	7,242	19,818,154	0.04%	2,946	12,793,102	0.02%

#### 9. CONTINGENCIES

#### (1) Off-balance sheet items

#### (a) Derivative financial instruments

Derivative financial instruments are off-balance sheet instruments, including forward, swaps, and option contracts conducted in exchange and interest market.

The following tables provide the nominal amounts and the fair value of derivatives of the group and the nominal amounts are analyzed at the balance sheet date. The nominal amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

		2007			2006	
	Nominal	Fair	value	Nominal	Fair	value
	amount	Assets	Liabilities	amount	Assets	Liabilities
Interest rate contracts	166,844,706	1,246,366	680,952	115,488,737	347,343	626,677
Exchange contracts	164,896,908	1,635,514	2,054,350	91,216,380	434,986	349,494
Credit contracts	456,000	9,000	2,000	560,000	2,000	1,000
Total	332,197,614	2,890,880	2,737,302	207,265,117	784,329	977,171

#### (b) Irrevocable off-balance sheet credit

Acceptances comprise undertakings by the group to pay bills of exchange drawn on customers.

Value of guarantees and letters of credit presented below represents the maximum potential loss the group would bear if the corresponding counter party failed to exercise completely as contracted.

	20	07	20	06
		CITIC		CITIC
	Consolidated	Group	Consolidated	Group
	RMB'000	RMB'000	RMB'000	RMB'000
Direct credit substitutes	240,151,436	-	183,269,829	-
Trade-related contingencies	1,643,140	-	1,850,269	-
Other commitments	49,955,071	10,520	48,178,370	16,380
Guarantees	17,421,626	8,854,090	2,204,845	356,990
Loan guarantees	7,094,534	10,182,080	6,183,224	10,027,260
Total	316,265,807	19,046,690	241,686,537	10,400,630

The above credit businesses are those which expose the group to credit risk.

### (2) Contingent liabilities

#### Outstanding litigations

As at 31 December 2007, the group was the defendant in certain pending litigations. The total amount involved in these litigations was approximately RMB 362,210,000.

#### (3) Commitments

#### (a) Operating lease commitments

The future minimum lease payments under non-cancellable operating leases in respect of the premises were payable as follows:

	2007	2006
	RMB'000	RMB'000
Within 1 year	636,892	500,543
After 1 year but within 5 years	1,419,955	1,179,470
After 5 years	952,311	568,114
Total	3,009,158	2,248,127
Capital commitments		
	2007	2006
	RMB'000	RMB'000
Authorized and contracted	398,879	256,954
Authorized but not contracted	200,072	181,538
Total	598,951	438,492

#### 10. COMPARATIVE FIGURES

(b)

According to the Document Caijin [2007] No.167, CITIC Group began to implement the Accounting Regulations for Financial Enterprises in 2007; CITIC Group made the retroactive adjustments to assets impairments. The adjustment of the consolidated financial statements includes a decrease of RMB 8,547,440,000 in the opening balance of total assets and a decrease of RMB 8,547,440,000 in the opening balance of investor's equity.

### 3. MATERIAL CHANGES

The directors of CITIC Group confirm that there were no material changes in the financial or trading position or outlook of CITIC Group from 31 December 2007, being the date to which the last published audited consolidated financial statements of CITIC Group were made up, to the Latest Practicable Date.

The holders of Scheme Shares, the holders of the Options and the Bondholders are warned that none of CITIC Group, the Offeror, BBVA and the concert parties has verified or is in a position to verify the information in this Appendix III save to the extent that such information has been correctly and fairly reproduced or extracted from the prospectus and the annual report published by CNCB, and they accept no responsibility for its contents, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents in this Appendix III except to the extent they have been correctly and fairly reproduced or extracted.

## 1. FINANCIAL SUMMARY

Set out below is a summary of the audited consolidated results of CNCB for each of the three financial years ended 31 December 2007 extracted from the prospectus and the 2007 annual report as published by CNCB and its unaudited consolidated results for the six months ended 30 June 2008 extracted from its announcement date 20 August 2008, except that the definitions used in this document have been adopted in the summary below.

### Summary Consolidated Income Statement

(Expressed in millions of Renminbi unless otherwise stated)

	Period ended	Year ended 31 Decembe		
	30 June 2008	2007	2006	2005
Interest income	29,099	41,494	28,444	22,511
Interest expense	(10,871)	(15,324)	(11,971)	(9,851)
Net interest income	18,228	26,170	16,473	12,660
Fee and commission income	1,551	2,365	965	608
Fee and commission expense	(170)	(285)	(206)	(190)
Net fee and commission income	1,381	2,080	759	418
Net trading gain/(loss)	483	(834)	454	375
Net gain from investment securities	88	284	45	(24)
Other operating income	180	255	196	226
Operating income	20,360	27,955	17,927	13,655
General and administrative expenses	(7,735)	(11,795)	(9,259)	(7,104)
Provisions for impairment losses on				
- loans and advances to customers	(1,413)	(2,860)	(1,481)	(1,096)
– others	(9)	(128)	(185)	(2)
Profit before taxation	11,203	13,172	7,002	5,453
Income tax	(2,774)	(4,850)	(3,144)	(2,369)
Net profit	8,429	8,322	3,858	3,084
Attributable to:				
Shareholders of CNCB	8,429	8,322	3,858	3,083
Minority interests				1
Net profit	8,429	8,322	3,858	3,084
Profit appropriations	2,088	726	3,000	271
Earnings per share attributable to				
shareholders of CNCB				
– Basic and diluted (Renminbi)	0.22	0.23	0.12	0.10

*Note:* The auditors' report issued by KPMG for each of the three financial years ended 31 December 2005, 2006 and 2007 was not qualified.

# 2. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CNCB FOR THE YEAR ENDED 31 DECEMBER 2007

The following information has been extracted from the audited consolidated financial statements of CNCB for the year ended 31 December 2007, except that the definitions used in this document have been adopted in the extract below.

# **Consolidated Income Statement**

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

	Note	2007	2006
Interest income		41,494	28,444
Interest expense	-	(15,324)	(11,971)
Net interest income	4	26,170	16,473
Fee and commission income	5	2,365	965
Fee and commission expense	-	(285)	(206)
Net fee and commission income		2,080	759
Net trading (loss)/gain	6	(834)	454
Net gain from investment securities	7	284	45
Other operating income	_	255	196
Operating income		27,955	17,927
General and administrative expenses	8	(11,795)	(9,259)
Provisions for impairment losses on			
– loans and advances to customers	17(b)	(2,860)	(1,481)
– others	9	(128)	(185)
Profit before taxation		13,172	7,002
Income tax	13	(4,850)	(3,144)
Net profit	=	8,322	3,858
Attributable to:			
Shareholders of CNCB		8,322	3,858
Minority interests	_		
Net profit	_	8,322	3,858
Profit appropriations	28	726	3,000
Earnings per CNCB Share attributable to shareholders of CNCB	=		
– Basic and diluted (Renminbi)	14	0.23	0.12

# **Consolidated Balance Sheet**

As at 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

	<b>31 December</b> <i>Note</i> <b>2007</b>	
INOLE	2007	2006
Assets		
Cash and balances with central bank 15	209,399	90,620
Amounts due from banks and other	,	,
financial institutions 16	55,851	43,250
Loans and advances to customers 17	568,686	453,381
Trading assets 18(a)	6,500	4,725
Derivatives 34	2,049	452
Investment securities 19	153,348	99,699
Property and equipment 20	8,948	8,745
Deferred tax assets 21	954	2,210
Other assets 22	5,451	3,641
	-,	
Total assets	1,011,186	706,723
Liabilities	44 -	0.01
Amounts due to central bank	415	201
Amounts due to banks and other	110 505	0 ( 1 ( (
financial institutions 23	112,587	36,166
Trading liabilities $18(b)$	-	79
Derivatives 34	1,914	576
Deposits from customers 24	787,211	618,412
Current tax liabilities	3,444	1,230
Deferred tax liabilities 21	13	141
Other liabilities and provisions 25	9,511	6,224
Subordinated debts/bonds issued 26	12,000	12,000
Total liabilities	927,095	675,029
Equity		
Share capital 27	39,033	31,113
Reserves 27	41,138	(303)
Retained earnings	3,915	879
	,	
Total equity attributable to shareholders		
of CNCB	84,086	31,689
Minority interests	5	5
Total equity	84,091	31,694
Total equity and liabilities	1,011,186	706,723

# **Balance Sheet of CNCB**

As at 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

	31 December	31 December
Note	2007	2006
<b>.</b> .		
Assets	200 200	00 (20
Cash and balances with central bank	209,390	90,620
Amounts due from banks and other		40 710
financial institutions	56,365	43,718
Loans and advances to customers	568,479	453,204
Trading assets	6,500 2,040	4,725
Derivatives	2,049	452
Investment securities	153,017	99,335
Investment in subsidiaries 2(c)	33	33
Property and equipment	8,909	8,717
Deferred tax assets	954	2,210
Other assets	5,452	3,637
Total assets	1,011,148	706,651
Liabilities		
Amounts due to central bank	415	201
Amounts due to banks and other		
financial institutions	112,587	36,166
Trading liabilities	_	79
Derivatives	1,914	576
Deposits from customers	787,214	618,416
Current tax liabilities	3,444	1,230
Deferred tax liabilities	4	140
Other liabilities and provisions	9,492	6,215
Subordinated debts/bonds issued	12,000	12,000
Total liabilities	927,070	675,023
Equity		
Share capital	39,033	31,113
Reserves	41,151	(351)
Retained earnings	3,894	866
Total equity	84,078	31,628
Total equity and liabilities	1,011,148	706,651

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

	Note	Share capital	Capital reserve	Statutory surplus reserve fund	General reserve	Investment revaluation reserve	Properties revaluation reserve	Retained earnings	Exchange difference	Minority interests	Total equity
As at 1 January 2007		31,113	(391)	-	-	(14)	102	879	-	5	31,694
Share issued	27(a)	7,920	36,916	-	-	-	-	-	-	-	44,836
Net profit		-	-	-	-	-	-	8,322	-	-	8,322
Net change in fair value of available-for-sale investments Realised on disposal of		-	-	-	-	(76)	-	-	-	-	(76)
available-for-sale investments		-	-	-	-	(8)	-	-	-	-	(8)
Revaluation gain of bank premises Appropriations to statutory surplus		-	-	-	-	-	54	-	-	-	54
reserve fund and general reserve		-	-	829	3,731	-	-	(4,560)	-	-	-
Exchange difference		-	-	-	-	-	-	-	(5)	-	(5)
Profit appropriation	28							(726)			(726)
As at 31 December 2007		39,033	36,525	829	3,731	(98)	156	3,915	(5)	5	84,091

		Share capital/ owners'	Capital	Statutory surplus reserve	Gerneral	Investment revaluation	Properties revaluation	Retained	Exchange	Minority	Total
	Note	equity	reserve	fund	reserve	reserve	reserve	earnings	difference	interests	equity
As at 1 January 2006		26,661	-	-	-	181	2,772	(6,394)	-	5	23,225
Capital injection		7,400	-	-	-	-	-	-	-	-	7,400
Net profit		-	-	-	-	-	-	3,858	-	-	3,858
Net change in fair value of											
available-for-sale investments		-	-	-	-	(14)	-	-	-	-	(14)
Revaluation gain of bank premises		-	-	-	-	-	123	-	-	-	123
Transfer of revaluation gain realised											
through disposal		-	-	-	-	-	(21)	21	-	-	-
Transfer of welfare payable to											
capital reserve	27(b)	-	102	-	-	-	-	-	-	-	102
Profit appropriation		-	-	-	-	-	-	(3,000)	-	-	(3,000)
Shares issued upon incorporation and											
elimination of owner's capital,											
reserves and accumulated losses		(2040)	(102)			(101)	(0.777.0.)	( 104			
as at 31 December 2005		(2,948)	(493)			(181)	(2,772)	6,394			
As at 31 December 2006		31,113	(391 )	_		(14)	102	879		5	31,694

## **Consolidated Cash Flow Statement**

For the year ended 31 December 2007 (Expressed in millions of Renminbi unless otherwise stated)

Note	2007	2006
Operating activities		
Profit before taxation	13,172	7,002
Adjustments for:		
- Revaluation loss/(gain) on investments		
and derivatives	812	(78)
<ul> <li>Net loss on disposal of fixed assets</li> </ul>	2	2
– Unrealised foreign exchange loss	626	49
– Impairment losses	2,988	1,666
<ul> <li>Depreciation and amortisation</li> </ul>	780	708
<ul> <li>Interest expense on subordinated</li> </ul>		
debts/bonds issued	588	427
	18,968	9,776
Changes in operating assets and liabilities:	·	
Increase in balances with central bank	(113,620)	(897)
Decrease/(increase) in amounts due from banks		
and other financial institutions	215	(15,668)
Increase in loans and advances to customers	(114,861)	(96,886)
Increase in other operating assets	(3,396)	(901)
Increase/(decrease) in amounts due to		
central bank	214	(39)
Increase in amounts due to banks and		
other financial institutions	76,421	8,145
Increase in deposits from customers	168,799	87,839
Income tax paid	(1,376)	(1,102)
(Decrease)/increase in other operating liabilities	(1,845)	2,159
Net cash flows from operating activities	29,519	(7,574)

# APPENDIX III

# FINANCIAL INFORMATION RELATING TO CNCB

	Note	2007	2006
Investing activities			
Proceeds from disposal and redemption			
of investments		254,118	211,648
Proceeds from disposal of property and			()
equipment, land use rights, and other assets Payments on acquisition of investments		62 (287,898)	63 (230,133)
Payments on acquisition of property and		(207,090)	(200,100)
equipment, and land use rights		(1,408)	(740)
Cash from equity investment income		3	
Net cash flows from investing activities		(35,123)	(19,162)
		(00)120)	(17)102)
Financing activities			
Proceeds from share issuance, including			
interest income received and net of			
cost of issuing shares paid		44,843	_
Proceeds from capital injection		_	7,400
Interest paid on subordinated debts/bonds		(551)	(200)
issued Proceeds from debts issue		(551)	(298) 6,000
Profit paid to CITIC Group		(726)	(3,000)
From paid to effice Group		(720)	(3,000)
Net cash flows from financing activities		43,566	10,102
Net increase/(decrease) in cash and			
cash equivalents		37,962	(16,634)
Cash and cash equivalents as at 1 January		53,027	70,130
Effect of exchange rate changes on cash and			
cash equivalents		(444)	(469)
Cash and cash equivalents as at 31 December Cash flows from operating activities include:	29	90,545	53,027
Interest received		40,152	29,135
Interest poid evoluting interest surgers and			_
Interest paid, excluding interest expense on subordinated debts/bonds issued		(13,864)	(12,009)
Saboraniatea acoto, bonas issuea		(10,004)	(12,007)

### Notes to the Financial Statements

(Expressed in millions of Renminbi unless otherwise stated)

### 1. BACKGROUND

CNCB is a joint stock company incorporated in the PRC on 31 December 2006 pursuant to the restructuring of China CITIC Bank (previously known as "CITIC Industrial Bank"). The registered office of CNCB is located at Block C, Fuhua Mansion, 8 Chaoyangmen Beidajie, Dongcheng District, Beijing, China.

In April 2007, the CNCB Shares were listed in the Shanghai Stock Exchange and Hong Kong Stock Exchange respectively.

The principal activities of CNCB and its subsidiaries (collectively the "group") are the provision of corporate and personal banking services, conducting treasury business and corresponding banking businesses, and the provision of asset management, entrusted lending and custodian services.

The consolidated financial statements for the year ended 31 December 2007 comprises CNCB and its subsidiaries.

For the purpose of these financial statements, Mainland China excludes the Hong Kong, the Macau Special Administrative Region of the PRC ("Macau") and Taiwan.

#### 2 SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") and its interpretations promulgated by the International Accounting Standards Board (the "IASB"), and the disclosure requirements of the Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange. A summary of the significant accounting policies adopted by the group is set out below.

The IASB has issued certain new and revised IFRSs that are first effective for the current accounting period of the group and CNCB. Note 3 provides information on the impact resulting from initial application of these developments to the extent that they are relevant to the group for the current and prior accounting periods reflected in these financial statements. The group has not adopted new standards and interpretations not yet effective for the current account period (see Note 3).

The accounting policies set out below have been applied consistently by the group in the preparation of these financial statements.

#### (b) Basis of preparation of the financial statements

The financial statements are presented in RMB, which is the group's functional and presentation currency, rounded to the nearest million.

The financial statements are prepared using the historical cost basis, except for the following assets and liabilities which are stated at their fair value: financial assets and financial liabilities at fair value through profit or loss and available-for-sale financial assets, except those for which a reliable measure of fair value is not available; and properties.

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the circumstances. The results of such estimates and assumptions form the basis of judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Judgements made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the subsequent period are discussed in Note 38.

#### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the group. Control exists when the group has the power to govern the financial and operational policies of an enterprise so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to equity interests that are not owned by CNCB, whether directly or indirectly through subsidiaries, and in respect of which the group has not agreed any additional terms with the holders of those interests which would result in the group as a whole having a contractual obligation in respect of those interest that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the equity shareholders of CNCB. Minority interests in the results of the group are presented on the face of the consolidated income statement as an allocation of the net profit or loss for the year between minority interests and the equity shareholders of the CNCB.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the group's interest is allocated all such profits until the minority's share of losses previously absorbed to the group has been recovered.

In CNCB's balance sheet, investments in subsidiaries are stated at cost less allowances for impairment losses, if any.

#### (d) Foreign currency translations

Foreign currency transactions during the year are translated into Renminbi at the foreign exchange rates ruling at the transaction dates.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi at the foreign exchange rates ruling at that date. Exchange gains and losses are recognized in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated using the foreign exchange rates at the transaction dates. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated using the foreign exchange rates at the date the fair value is determined.

When the gain or loss on a non-monetary item is recognised directly in equity, any exchange component of that gain or loss is recognised directly in equity, all other foreign exchange differences arising on settlement and translation of monetary and non-monetary assets and liabilities are recognised in the income statement.

The assets and liabilities of the subsidiaries are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The revenue, expenses and cash flows of the subsidiaries are translated into Renminbi at rates approximating the foreign exchange rates ruling at the date of the transaction. Foreign exchange differences arising on translation are recognised directly in equity.

### (e) Financial instruments

#### (i) Initial recognition

The group classifies its financial instruments into different categories at inception, depending on the purpose for which the assets were acquired or the liabilities were incurred. The categories are: fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets and other financial liabilities.

Financial assets and financial liabilities are measured initially at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include observable market data. Transaction costs for financial assets and financial liabilities at fair value through profit or loss are expensed immediately.

All financial assets and financial liabilities are recognised in the balance sheet, when and only when the group, as appropriate, becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets and financial liabilities is recognised using trade date accounting. From this date, any gains and losses arising from changes in fair value of the financial assets or financial liabilities are recorded.

#### (ii) Categorisation

Fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss include those financial assets and financial liabilities held for trading and those designated by the group upon recognition as at fair value through profit or loss.

Financial assets and financial liabilities are classified as held for trading if they are acquired or incurred principally for the purpose of short term profit taking. All derivatives not qualified for hedging purposes are included in this category and are carried as assets when their fair value is positive and as liabilities when their fair value is negative; and

Financial assets and financial liabilities are designated at fair value through profit or loss upon initial recognition when:

- the financial assets or financial liabilities are managed, evaluated and reported internally on a fair value basis;
- the designation eliminates or significantly reduces an accounting mismatch in the gain and loss recognition arising from the difference in measurement basis of the financial assets or financial liabilities;
- the financial asset or financial liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract; or
- the separation of the embedded derivatives from the financial instrument is prohibited.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, other than (a) those that the group intends to sell immediately or in the near term, which will be classified as held for trading; (b) those that the group, upon initial recognition, designates as at fair value through profit or loss or as available-for-sale; or (c) those where the group may not recover substantially all of its initial investment, other than because of credit deterioration, which will be classified as available-for-sale. Loans and receivables mainly comprise loans and advances to customers and placements with banks and financial institutions.

Held-to-maturity financial assets

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables, or that the group designated as at fair value through profit or loss or as available-for-sale:

Available-for-sale financial assets

Available-for-sale assets are non-derivative financial assets that are designated as available for sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity assets.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

#### *(iii)* Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, without any deduction for transaction costs that may occur on sale or other disposal except for loans and receivables, held-to-maturity financial assets and financial liabilities not designated at fair value through profit or loss, which are measured at amortised cost using the effective interest rate method. Financial assets and financial liabilities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses, if any.

Gains and losses from changes in the fair value of financial instruments at fair value through profit or loss are included in the income statement when they arise. Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised at which time the cumulative gains or losses previously recognised in equity will be recognised in the income statement. For financial assets and financial liabilities carried at amortised cost, a gain or loss is recognised in the income statement when the financial asset or financial liability is derecognised or impaired, and through the amortisation process.

#### (iv) Fair value measurement principles

The fair value of financial assets is based on their quoted market price in an active market at the valuation date without any deduction for transaction costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. A quoted market price is from an active market where price information is readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and that price information represents actual and regularly occurring market transactions on an arm's length basis.

If a quoted market price is not available, the fair value of the financial assets is established using valuation techniques that provide a reliable estimate of prices which could be obtained in actual market transactions. Valuation techniques applied include recent arm's length market transactions between knowledgeable and willing parties, referenced to the fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. Periodically the group calibrates the valuation techniques and tests them for validity. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the balance sheet date applicable for an instrument with similar terms and conditions. Where other pricing models are used, inputs are based on market data at the balance sheet date.

In estimating the fair value of a financial asset and financial liability, the group considers all factors, including but not limited to interest rate, credit risk, foreign currency exchange price and market volatility, that are likely to affect the fair value of the financial asset and financial liability.

The group obtains market data in the same market where the financial instrument was originated or purchased.

### (v) Derecognition

Financial assets are derecognised on the date when the contractual rights to the cash flows expire or substantially all the risks and rewards of ownership are transferred. Financial liabilities are derecognised on the date when the obligations specified in the contracts are discharged, cancelled or expired. The group uses the weighted average method to determine realised gains and losses to be recognised in profit or loss on derecognition.

#### (vi) Impairment

Financial assets are assessed at each balance sheet date to determine whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The carrying amount of assets is reduced through the use of an allowance for impairment losses and a corresponding provision for impairment losses is recognised in the income statement.

Losses expected as a result of future events, no matter how likely, are not recognised because the necessary loss event has not yet occurred.

Loans and receivables

The group uses two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

(vi-1) Individual impairment allowances

All loans and advances in the corporate lending portfolios are considered individually significant and assessed individually for impairment. Individually impaired loans and advances are graded at a minimum at substandard (see Note 35(a) for the definitions of the loan classification).

Loans and advances which are assessed individually for impairment are evaluated in the light of objective evidence of loss events, for example:

- Significant financial difficulty of the borrower;
- A breach of contract, such as default or delinquency in interest payments or principal repayments;
- For economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the group would not otherwise consider; or
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

It may not be possible to identify a single, discrete event that caused the impairment but it may be possible to identify impairment through the combined effect of several events.

Loans and receivables. The individual impairment allowance is based upon management's best estimate of the present value of the cash flows which are expected to be received discounted at the original effective interest rate. In estimating these cash flows, management makes judgments about the borrower's financial situation and the net realisable value of any underlying collateral or guarantees in favour of the group. Each impaired asset is assessed on its merits.

Cash flows relating to short term loans and receivables are not discounted if the effect of discounting is immaterial.

(vi-2) Collective impairment allowances

Loans and advances, which include the following, are assessed for impairment losses on a collective basis:

- All homogeneous groups of loans (representing all the retail loan portfolios) which are all considered not individually significant
- Individually assessed loans with no objective evidence of impairment on an individual basis

For the purpose of collective assessment, assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms.

Loans and advances assessed collectively for impairment are assessed in the light of objective evidence of impairment that there is observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of loans and advances since the initial recognition of those assets, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

#### Homogeneous groups of loans not considered individually significant

For homogeneous groups of loans, including all of the retail lending portfolio, that are not considered individually significant, the group adopts a flow rate methodology to assess impairment losses on a collective basis.

This methodology utilises a statistical analysis of historical trends of probability of default and amount of consequential loss, as well as an evaluation of current economic conditions that may have a consequential impact on inherent losses in the portfolio. Individually assessed loans with no objective evidence of impairment on an individual basis

Loans which are individually significant and therefore have been individually assessed but for which no impairment can be identified, either due to the absence of any loss events or due to an inability to measure reliably the impact of loss events on future cash flows, are grouped together in portfolios of similar credit risk characteristics for the purpose of assessing a collective impairment loss. This assessment covers those loans and advances that were impaired at the balance sheet date but which will not be individually identified as such until some time in the future.

The collective impairment loss is assessed after taking into account:

- Historical loss experience in portfolios of similar risk characteristics;
- The emergence period between a loss occurring and that loss being identified; and
- The current economic and credit environments and whether in management's experience these indicate that the actual level of inherent losses is likely to be greater or less than that suggested by historical experience.

The emergence period between a loss occurring and its identification is determined by management based on the historical experience of the markets where the group operates.

Impairment losses recognised on a collective basis represent an interim step pending the identification of impairment losses on individual assets (which are subject to individual assessment) in the pool of financial assets that are collectively assessed for impairment.

As soon as information is available that specifically identifies objective evidence of impairment on individual assets in a pool, those assets are removed from the pool of financial assets. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment for impairment.

Any subsequent changes to the amounts and timing of the expected future cash flows compared to the prior estimates that can be linked objectively to an event occurring after the write-down, will result in a change in the impairment allowances on loans and receivables and be charged or credited to the income statement.

When the borrower or the guarantor fails to repay the loan principal and interest, and repossessed assets are received by the group for recovery of the impaired loans, the carrying value of the impaired loans is adjusted, if necessary, to the estimated fair value of the repossessed assets through impairment allowances. The adjusted carrying value of the impaired loans is transferred to repossessed assets, net of impairment allowances.

When there is no reasonable prospect of recovery for the loan and the related interest receivables, the loan and the interest receivables as well as impairment allowances are written off.

Loans and receivables with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the group has made concessions that it would not otherwise consider. Renegotiated loans and receivables are subject to ongoing monitoring to determine whether they remained as impaired or past due.

Held-to-maturity assets

For held-to-maturity financial assets, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. (i.e. the effective interest rate computed at initial recognition of these assets). Impairment losses are recognised in the income statement. Held-to-maturity assets with a short duration are not discounted if the effect of discounting is immaterial.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years.

Available-for-sale assets

When a decline in the fair value of an available-for-sale asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

The amount of the cumulative loss that is removed from equity and recognised in the income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in the income statement.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed, with the amount of the reversal being recognised in the income statement. Impairment losses recognised in the income statement for an investment in an equity instrument classified as available-for-sale are not reversed through the income statement. Any increase in the fair value of such assets is recognised directly in equity.

For an available-for-sale asset that is not carried at fair value because its fair value cannot be reliably measured, such as an unquoted equity instrument, the amount of any impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### (vii) Derivative financial instruments

The group's derivative financial instruments are principally undertaken in response to customers' needs or for the group's own asset and liability management purposes. The group also uses derivative financial instruments to hedge its exposure to market risks arising from its investment activities. Derivatives that do not qualify for hedge accounting are accounted for as financial assets and financial liabilities at fair value through profit or loss.

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

#### (viii) Embedded derivatives

An embedded derivative is a component of a hybrid (combined) instrument that includes both the derivative and a host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. The embedded derivatives are separated from the host contract and accounted for as a derivative when (a) the economic characteristics and risks of the embedded derivative are not closely related to the host contract; and (b) the hybrid (combined) instrument is not measured at fair value with changes in fair value recognised in the income statement.

When the embedded derivative is separated, the host contract is accounted for in accordance with note (i), (ii) and (iii) above.

### (f) Repurchase and resale agreements

Assets sold subject to a simultaneous agreement to repurchase them at a certain later date at a fixed price (repurchase agreements) continue to be recognised in the financial statements, and are measured in accordance with the accounting policy for such assets. The proceeds from the sale of the assets are reported as amounts due to central bank, banks or other financial institutions depending on the identity of the counterparty and are carried in the balance sheet at amortised cost.

Assets purchased subject to commitments to resell them at future dates (resale agreement) are not recognised. The amounts paid are accounted for as balances with central bank, amounts due from banks and other financial institutions or loans and advances to customers depending on the identity of the counterparty and are carried in the balance sheet at amortised cost.

The difference between the purchase and resale consideration, and that between the sale and repurchase consideration, are amortised over the period of the respective transaction using the effective interest method and are included in interest income or expense, as appropriate.

### (g) Property and equipment

#### (i) Cost or revaluation

Property and equipment are stated at cost upon initial recognition.

Subsequent to initial recognition, the group adopts a revaluation policy to carry all classes of property at revaluation, being their fair value at the date of the revaluation, less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Equipment is stated at cost less accumulated depreciation and impairment losses.

Revaluations are performed with sufficient regularity to ensure that the carrying amount of properties does not differ materially from that which would be determined using fair values at the balance sheet date.

Increases in the carrying amount arising on revaluation of each property are credited to revaluation reserves. Decreases that offset previous increases of the same asset are charged against revaluation reserves; all other decreases are charged to the income statement.

Construction in progress represents property under construction and is stated at cost less impairment losses. Capitalisation of these costs ceases and the construction in progress is transferred to an appropriate class of property and equipment when the asset is substantially ready for its intended use.

Where an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

The group recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense when incurred.

#### (iii) Depreciation

Depreciation is calculated to write off the cost or revalued value, less residual value if applicable, of property and equipment and is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. The estimated useful lives are as follows:

### Estimated useful lives

Bank premises	30–35 years
Computer equipment and others	5–10 years

No depreciation is provided in respect of construction in progress.

The residual value and useful lives of assets are reviewed, and adjusted if appropriate, as of each balance sheet date.

(iv) Impairment

The carrying amount of property and equipment is reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount of the reduction is recognised in the income statement except for property where it is carried at valuation and the impairment loss does not exceed the revaluation surplus for the same asset, in which case it is treated as a revaluation decrease. The recoverable amount is the greater of the net selling price and value in use.

If in a subsequent period the amount of impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the writedown or allowances are reversed through the income statement. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in the income statement in prior years.

<sup>(</sup>ii) Subsequent costs

#### (v) Disposal and retirement

Gains or losses arising from the disposal or retirement of property and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement on the date of disposal or retirement. In respect of the disposal or retirement of property, any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained earnings and is shown as a movement in reserves.

### (h) Land use rights

Land use rights are stated at cost less amortisation. Land use rights are amortised on a straight-line basis over the respective periods of grant.

#### (i) Repossessed assets

In the recovery of impaired loans and advances, the group may take repossession of assets held as collateral through court proceedings or voluntary delivery of possession by the borrowers. Where it is intended to achieve an orderly realisation and the group is no longer seeking repayment from the borrower, repossessed assets are reported in "Other assets".

Repossessed assets are initially recognised at the carrying value of the loan principal and interest receivable, net of respective allowances for impairment losses, upon the seizure of these assets in lieu of the rights on the loans and advances and interest receivable. An impairment loss is recognised in the income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

### (j) Fiduciary activities

The group acts in a fiduciary capacity as a custodian, trustee or an agent for customers. Assets held by the group and the related undertakings to return such assets to customers are excluded from the balance sheet as the risks and rewards of the assets reside with the customers.

Entrusted lending is one of the principal fiduciary activities of the group. The group enters into entrusted loan agreements with a number of customers, whereby the customers provide funding (the "entrusted funds") to the group, and the group grants loans to third parties (the "entrusted loans") at the instruction of the customers. As the group does not assume the risks and rewards of the entrusted loans and the corresponding entrusted funds, entrusted loans and funds are recorded as off-balance sheet items at their principal amounts and no impairment assessments are made for these entrusted loans.

#### (k) Provisions and contingent liabilities

A provision is recognised in the balance sheet when the group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

### (1) Employee benefits

#### (i) Employment benefits

Salaries and bonuses, housing benefits and costs for social security benefits are accrued in the year in which the services are rendered by employees of the group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### (ii) Post employment benefits

Post employment benefits of the group mainly include retirement benefits and supplementary retirement benefits.

Obligations for contributions to defined contribution retirement schemes are recognised as an expense in the income statement as incurred for current employees.

The group's obligations in respect of supplementary retirement benefits are calculated by estimating the amount of future benefits that the group is committed to pay to the employee after their retirement using actuarial techniques. Such benefits are discounted to determine their present values. The discount rate is the yield on PRC government bonds at the balance sheet date, the maturity dates of which approximate to the terms of the group's obligations. In calculating the group's obligations, any actuarial gains and losses are recognised in the income statement immediately in the same financial year.

#### (m) Income recognition

Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

#### (i) Interest income

Interest income for all interest-bearing assets is recognised in the income statement using the effective interest method or an applicable floating rate. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset. When calculating the effective interest rate, the group estimates cash flows by considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Interest on the impaired financial assets is recognised using the rate of interest used to discount future cash flows ("unwinding of discount") for the purpose of measuring the related impairment loss.

### (ii) Fee and commission income

Fee and commission income is recognised in the income statement when the corresponding service is provided.

Origination or commitment fees received by the group which result in the creation or acquisition of a financial asset are deferred and recognised as an adjustment to the effective interest rate. If the commitment expires without the group making a loan, the fee is recognised as revenue on expiry.

(iii) Dividend

Dividend is recognised in the income statement on the date when the group's right to receive payment is established.

# (n) Offsetting

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when, and only when, the group has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### (o) Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash, non-restricted balances with central bank, banks and other financial institutions, and short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (p) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the terms of the leases.

### (q) Income tax

Income tax in the income statement comprises current tax and movements in deferred tax balances. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date. Deferred tax assets also arise from unused tax losses and unused tax credits.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if the group or the CNCB has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the group or CNCB intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
- the same taxable entity; or
- different taxable entities, which, in each future period in which significant amounts
  of deferred tax liabilities or assets are expected to be settled or recovered, intend
  to realise the current tax assets and settle the current tax liabilities on a net basis
  or realise and settle simultaneously.

### (r) Profit appropriations

Profit appropriations are recognised as a liability in the year in which they are approved and declared.

### (s) Related parties

Parties are considered to be related to the group if the group has the ability, directly or indirectly, to control the party, exercise significant influence or joint control over the party in making financial and operating decisions, or vice versa, or where the group and the party are subject to common control, common joint control or common significant influence. Related parties may be individuals and other entities.

### (t) Segment reporting

A segment is a distinguishable component of the group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

# 3. CHANGES IN ACCOUNTING POLICY

The IASB has issued a number of new and revised IFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the group and CNCB.

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of IFRS 7, Financial instruments: Disclosures and the amendment to IAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of IFRS 7, the financial statements include expanded disclosure about the significance of the group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by IAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in Note 35.

The amendment to IAS 1 introduces additional disclosure requirements to provide information about the level of capital and the group's and CNCB's objectives, policies and processes for managing capital. These new disclosures are set out in Note 36.

Both IFRS 7 and the amendment to IAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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# 4. NET INTEREST INCOME

Interest income arises from:

	2007	2006
Balances with central bank	1,511	964
Amounts due from banks and other financial institutions	2,211	715
Loans and advances to customers (note (i))		
– corporate loans	27,025	19,320
– personal loans	3,609	2,397
– discounted bills	1,932	1,571
Investments in debt securities (note (ii))	5,206	3,477
	41,494	28,444
Interest expense arises from:		
Balance due to central bank	(6)	(9)
Amounts due to banks and other financial institutions	(2,057)	(745)
Deposits from customers	(12,673)	(10,790)
Subordinated debts/bonds issued	(588)	(427)
	(15,324)	(11,971)
Net interest income	26,170	16,473
		,

Notes:

- (i) Interest income arising from loans and advances to customers includes interest income accrued on individually assessed impaired loans and advances to customers of RMB221 million for the year ended 31 December 2007 (2006: RMB248 million), which includes interest income on the unwinding of discount of allowances for loan impairment losses of RMB187 million for the year ended 31 December 2007 (2006: RMB210 million) (Note 17(b)).
- (ii) Interest income from investments in debt securities is mainly derived from unlisted investments.

# 5. FEE AND COMMISSION INCOME

	2007	2006
Commission for wealth management services	594	16
Bank card fees	434	199
Agency fees and commission ( <i>note(i</i> ))	358	186
Guarantee fees	295	215
Consultancy and advisory fees	269	45
Settlement fees	236	214
Commission for custodian business	135	16
Others	44	74
Total	2,365	965

Note:

7.

 Agency fees and commission include fees and commission for underwriting bonds and investment funds, agency fees for insurance service and others, and fees from entrusted lending business.

# 6. NET TRADING (LOSS)/GAIN

	2007	2006
Dealing (loss)/profit		
– debt securities	(161)	10
– foreign currencies	144	503
– derivatives	(632)	(60)
<ul> <li>– financial liabilities designated at fair value through</li> </ul>		
profit and loss	(185)	1
Total	(834)	454
NET GAIN FROM INVESTMENT SECURITIES		
	2007	2006
Net income from sale of available-for-sale securities	274	45
Net revaluation gain transferred from equity on disposal	10	
Total	284	45

# APPENDIX III FIN

# FINANCIAL INFORMATION RELATING TO CNCB

# 8. GENERAL AND ADMINISTRATIVE EXPENSES

	2007	2006
Staff costs		
– salaries, bonuses and staff welfare expenses	3,882	2,264
– contributions to defined contribution retirement schemes	213	169
– housing fund	178	147
– housing allowance	113	94
– others	391	240
	4,777	2,914
Property and equipment expense		
– depreciation	645	621
<ul> <li>rent and property management expenses</li> </ul>	577	497
<ul> <li>electronic equipment operating expenses</li> </ul>	172	156
– maintenance	106	100
– others	158	134
	1,658	1,508
Business tax and surcharges (note (i))	2,034	1,398
Management fee to CITIC Group	-	750
Amortisation expense	135	87
Other general and administrative expenses	3,191	2,602
	11,795	9,259

Note:

(i) Business tax of 5% is levied primarily on interest income from loans and advances to customers, and fee and commission income. The surcharges, which include education surcharges and city construction tax, are charged at 3% and between 1% and 7% of business tax paid respectively.

# 9. PROVISIONS FOR IMPAIRMENT LOSSES ON ASSETS OTHER THAN LOANS AND ADVANCES TO CUSTOMERS

	2007	2006
Impairment losses charge/(release) on		
<ul> <li>Off-balance sheet credit commitments</li> </ul>	65	54
– Investments	7	(4)
– Others	56	135
Total	128	185

# 10. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

The aggregate of the emoluments before individual income tax in respect of the Directors and Supervisors who held office during the year is as follows:

				2007			
		D	liscretionary		ontributions to defined contribution	(note(ii)) Other	
	Fees	Salaries	bonus payable	Sub-total	retirement schemes	benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Chen Xiaoxian	-	450	5,105	5,555	143	788	6,486
Wu Beiying	-	182	3,574	3,756	106	573	4,435
Non-executive Directors							
Kong Dan	-	-	-	-	-	-	-
Chang Zhenming	-	-	-	-	-	-	-
Wang Chuan	-	-	-	-	-	-	-
Dou Jianzhong	-	-	-	-	-	-	-
Chen Xuduolin	-	-	-	-	-	-	-
Ju Weimin (note (i))	-	-	-	-	-	-	-
Zhang Jijing (note (i))	-	-	-	-	-	-	-
José Ignacio Goirigolzarri (note (i))	-	-	-	-	-	-	-
Independent non-executive Directors							
Bai Zhong En	50	-	-	50	-	-	50
John Dexter Langlois	50	-	-	50	-	-	50
Ai Hongde (note (i))	50	-	-	50	-	-	50
Xie Rong (note (i))	50	-	-	50	-	-	50
Wang Xiangfei	50	-	-	50	-	-	50
Supervisors/External Supervisors							
Liu Chongming	-	-	-	-	-	-	-
Wang Shuanlin	-	-	-	-	-	-	-
Zhuang Yumin (note (i))	45	-	-	45	-	-	45
Zheng Xuexue (note (i))	-	-	-	-	-	-	-
Guo Ketong	-	-	-	-	-	-	-
Lin Zhengyue	-	115	1,196	1,311	53	135	1,499
Deng Yuewen	-	109	966	1,075	58	126	1,259
Li Gang		110	751	861	51	130	1,042
Former Directors and Supervisors resigned in 2007							
Li Qianxin (note (i))	-	-	-	-	-	-	-
Xi Bolun (note (i))							
	295	966	11,592	12,853	411	1,752	15,016

# FINANCIAL INFORMATION RELATING TO CNCB

	Fees	Salaries	iscretionary bonus payable	2006 Sub-total	Contributions to defined contribution retirement schemes	(note (iii)) Other benefits in kind	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors							
Chen Xiaoxian	-	450	2,314	2,764	232	-	2,996
Wu Beiying	-	-	-	-	-	-	-
Non-executive Directors							
Kong Dan	-	-	-	-	-	-	-
Chang Zhenming	-	-	-	-	-	-	-
Wang Chuan	-	-	-	-	-	-	-
Dou Jianzhong	-	-	-	-	-	-	-
Chen Xuduolin	-	-	-	-	-	-	-
Independent non-executive Directors							
Bai Zhong En	-	-	-	-	-	-	-
John Dexter Langlois	-	-	-	-	-	-	-
Xi Bolun	-	-	-	-	-	-	-
Wang Xiangfei	-	-	-	-	-	-	-
Supervisors/External Supervisors							
Liu Chongming	-	-	-	-	-	-	-
Wang Shuanlin	-	-	-	-	-	-	-
Li Qianxin	-	-	-	-	-	-	-
Guo Ketong	-	-	-	-	-	-	-
Lin Zhengyue	-	110	281	391	77	-	468
Deng Yuewen	-	109	474	583	89	-	672
Li Gang							
Former Directors and Supervisors resigned in 2006							
Wang Jun	_	_	-	-	-	-	-
Nan Jingming	-	-	-	-	-	-	-
. 0 0							
		669	3,069	3,738	398	_	4,136

Notes:

- (i) Mr. Ju Weimin, José Ignacio Goirigolzarri, and Zhang Jijing were appointed as nonexecutive directors of CNCB in February 2007. Mr. Xie Rong and Ai Hongde were appointed as independent non-executive directors of CNCB in February 2007. Ms Zhuang Yumin was appointed as an external supervisor in March 2007. Mr. Zheng Xuexue was appointed as a supervisor in August 2007. Mr. Li Qianxin, the supervisor, resigned in August 2007. Mr. Xi Bolun, the independent non-executive director, resigned in January 2007.
- (ii) Other benefits in kind included CNCB's contributions to medical fund, housing provident fund and other social insurances, which are payable to labour and social securities authorities based on the lower of certain percentages of the salaries or the prescribed upper limits as required by the relevant regulations issued by the government authorities. Other benefits also included CNCB's contribution to the defined contribution retirement schemes, which was set up by CITIC Group in accordance with the relevant government policies, and supplementary medical insurance scheme.
- (iii) None of the Directors and Supervisors received any inducements, or compensation for loss of office, or waived any emoluments during the years ended 31 December 2007 and 2006.

# 11. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2006: one) are Directors or Supervisors whose emoluments are disclosed in Note 10 above. The aggregate of the emoluments before individual income tax in respect of the other three (2006: four) highest paid individuals are as follows:

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> RMB'000
Salaries and other emoluments Discretionary bonuses Retirement scheme contributions	2,232 10,671 315	728 5,494 781
Total	13,218	7,003

The emoluments before individual income tax of the three (2006: four) individuals with the highest emoluments are within the following bands:

	2007	2006
RMB1,500,001-RMB2,000,000	-	4
RMB4,000,001-RMB4,500,000	3	

### 12. LOANS TO DIRECTORS, SUPERVISORS AND OFFICERS

13.

Loans to the Directors, Supervisor and Officers (and their affiliates) of CNCB as defined under section 161B of the Companies Ordinance during the years ended 31 December 2007 and 2006 are as follows:

	2007	2006
Aggregate amount of relevant loans outstanding at year end	26	10
Maximum aggregate amount of relevant loans outstanding during the year	26	12
INCOME TAX		
(a) Recognised in the income statement		
	2007	2006
Current tax		
– Mainland China	3,697	1,199
– Hong Kong	1	-
Deferred tax (Note 21(b)) (Note(i))	1,152	1,945
Income tax	4,850	3,144

Note:

(i) On 16 March 2007, the Tenth National People's Congress plenary session passed the unified enterprise income tax law. Pursuant to the unified income tax law, the income tax rate that is applicable to CNCB and its subsidiaries in the Mainland China will be reduced from 33% to 25% effective from 1 January 2008. Deferred tax assets and liabilities are adjusted for the change in income tax rate through income statement and equity.

### (b) Reconciliation of profit before tax to income tax

	2007	2006
Profit before tax	13,172	7,002
Expected PRC income tax charged at statutory tax rate (note (i))	4,347	2,311
<ul> <li>Tax impact on non-deductible expenses</li> <li>Staff costs (note (ii))</li> <li>Effect of tax rate reduction from 33% to 25%</li> <li>Others (note (iii))</li> </ul>	228 295 226	654 
Tax impact on non-taxable income – Interest income from PRC government bonds – Others	(245) (1)	(168) (28)
Income tax	(246)	(196)
income ux	4,000	5,144

#### Notes:

- (i) The provision for PRC income tax of the group is calculated based on the statutory tax rate of 33% in accordance with the relevant PRC income tax rules and regulations except for the group's subsidiaries outside Mainland China which are subject to the income tax rate of 17.5%.
- (ii) Pursuant to the Notice (Cai Shui [2008] No.36) from the Ministry of Finance and the State Administration of Taxation in March 2008, CNCB's deductible salary expense for the year ended 31 December 2007 was approved to be RMB2,984 million.
- (iii) The amounts primarily represent entertainment expenses, advertisement expenses and marketing expenses in excess of the deductible amounts. The amount for the year ended 31 December 2006 includes management fee to CITIC Group that is not tax deductible.

### 14. EARNINGS PER CNCB SHARE

The calculation of basic and diluted earnings per CNCB Share amounts is based on the following:

	2007	2006
Earnings:		
Consolidated net profit for the period attributable to shareholders of CNCB	8,322	3,858
Shares:		
Weighted average number of CNCB Shares in issue or		
deemed to be in issue (million)	36,499	31,113
Earnings per CNCB Share (RMB)	0.23	0.12

Earnings per CNCB Share information for the year ended 31 December 2007 is computed by dividing the consolidated net profit attributable to shareholders of CNCB by the weighted average number of CNCB Shares in issue during the year.

On 31 December 2006, with the approval of the State Council of the PRC, CNCB was restructured and incorporated as a joint-stock limited company with a registered capital of RMB31,113 million divided into 31,113 million shares with a par value of RMB1 each. Earnings per share information for the year ended 31 December 2006 has been computed by dividing the consolidated net profit attributable to shareholders of CNCB by 31,113 million shares as if these shares had been in issue since 1 January 2006.

There was no difference between basic and diluted earnings per CNCB Share as there were no potentially dilutive shares outstanding during the year ended 31 December 2007 and 2006.

# 15. CASH AND BALANCES WITH CENTRAL BANK

	31 December 2007	31 December 2006
Cash	4,341	2,589
Balances with central bank		
– Statutory deposit reserve funds (note (i))	84,968	41,246
– Surplus deposit reserve funds (note (ii))	33,545	30,138
– Fiscal deposits reserve funds	515	677
- Balances under resale agreement with the PBOC	86,030	15,970
	205,058	88,031
Total	209,399	90,620

#### Notes:

 CNCB places statutory deposit reserves with the People's Bank of China (the "PBOC"). The statutory deposit reserves are not available for use in CNCB's daily business.

As at 31 December 2007, the statutory deposit reserve placed with the PBOC was calculated at 14.5% (as at 31 December 2006: 9%) of eligible Renminbi deposits for domestic branches of CNCB. CNCB was also required to deposit an amount equivalent to 5% (as at 31 December 2006: 4%) of its foreign currency deposits from domestic branch customers as statutory deposit reserve.

(ii) The surplus deposit reserve is maintained with the PBOC for the purposes of clearing.

# 16. AMOUNTS DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

### (a) Analysed by nature

3	1 December 2007	31 December 2006
Deposits		
– Banks	15,310	8,894
- Other financial institutions	255	381
	15,565	9,275
Money market placements		
– Banks	10,765	4,843
- Other financial institutions	471	596
	11,236	5,439
Balances under resale agreements (note (i))		
– Banks	26,157	19,422
- Other financial institutions	3,039	9,419
	29,196	28,841
Gross balances	55,997	43,555
Less: Allowances for impairment losses (Note 16(d))	(146)	(305)
Net balances	55,851	43,250

Note:

 Assets purchased under resale agreements are bank acceptance bills, loans and advances to customers, bonds issued by the PRC government, bonds issued by policy banks and other debt securities of equivalent amounts.

### (b) Analysed by original maturity

	31 December 2007	31 December 2006
Balances maturing		
– less than one month	36,437	24,958
<ul> <li>between one month and one year</li> </ul>	18,891	17,471
– more than one year	669	1,126
Gross balances	55,997	43,555

### (c) Analysed by geographical location

	31 December 2007	31 December 2006
Balances with		
– banks in Mainland China	43,260	27,214
- other financial institutions in Mainland China (note (i))	3,765	10,396
	47,025	37,610
Balances with		
– banks outside Mainland China	8,972	5,945
	8,972	5,945
Gross balances	55,997	43,555

#### Note:

(i) Other financial institutions in Mainland China represent finance companies, investment trust companies and leasing companies which are registered with and under the supervision of the China Banking Regulatory Commission (the "CBRC"), and securities companies and investment fund companies registered with and under the supervision of the China Securities Regulatory Commission.

# (d) Movements of allowances for impairment losses

	2007	2006
As at 1 January	(305)	(342)
Charge for the year	(9)	(3)
Reversal for the year	10	6
Write-offs	158	34
As at 31 December	(146)	(305)

	31 December 2007	31 December 2006
Gross impaired amounts due from banks and other financial institutions	171	357
Impairment allowances against gross impaired amounts due from banks and other financial		
institutions (note (i))	(146)	(305)
Net total	25	52
Gross impaired amounts due from banks and other financial institutions as a percentage of total amounts		
due from banks and other financial institutions	0.31%	0.82%

Impaired amounts due from banks and other financial institutions and allowances

Note:

(e)

(i) The allowances for impairment losses for amounts due from banks and other financial institutions are individually assessed.

# 17. LOANS AND ADVANCES TO CUSTOMERS

### (a) Analysed by nature

	31 December 2007	31 December 2006
Corporate loans	468,340	369,156
Personal loans	76,089	48,375
Discounted bills	33,599	45,636
Gross loans and advances to customers	578,028	463,167
Less:		
<ul> <li>Individual impairment allowances</li> </ul>	(5,421)	(6,859)
- Collective impairment allowances	(3,921)	(2,927)
Less: Impairment allowances (Note 17(b))	(9,342)	(9,786)
Net loans and advances to customers	568,686	453,381

# (b) Movements of allowances for impairment losses

	2007 Loans and Impaired loans and advances advances			
	for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Total
As at 1 January Charge for the year – new impairment allowances	2,663	264	6,859	9,786
charged to income statement – impairment allowances released	959	81	2,193	3,233
to income statement	-	-	(373)	(373)
Unwinding of discount	-	-	(187)	(187)
Transfers out	-	-	(45)	(45)
Write-offs		(46)	(3,026)	(3,072)
As at 31 December	3,622	299	5,421	9,342

	2006 Loans and Impaired loans and advances advances			
	for which allowances are collectively assessed	for which allowances are collectively assessed	for which allowances are individually assessed	Total
As at 1 January Charge for the year	2,383	225	9,622	12,230
– new impairment allowances				
charged to income statement – impairment allowances released	280	51	2,020	2,351
to income statement	-	-	(870)	(870)
Unwinding of discount	-	-	(210)	(210)
Transfers out	-	-	(153)	(153)
Write-offs	-	(12)	(3,673)	(3,685)
<ul> <li>Recoveries of loans and advances previously written off</li> </ul>			123	123
As at 31 December	2,663	264	6,859	9,786

# (c) Loans and advances to customers and allowances

	(note (i)) Loans and advances for which allowances are collectively assessed	(note Impaired and adv for which allowances are collectively assessed	d loans	7 Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to – financial institutions	1,281	-	231	1,512	15.28%
– non-financial institutions	568,255	488	7,773	576,516	1.43%
	569,536	488	8,004	578,028	1.47%
Less: Impairment allowances against loans and advances to – financial institutions – non-financial institutions	(9) (3,613) (3,622)	(299)	(65) (5,356) (5,421)	(74) (9,268) (9,342)	
Net loans and advances to					
<ul> <li>– financial institutions</li> <li>– non-financial institutions</li> </ul>	1,272 564,642	189	166 2,417	1,438 567,248	
	565,914	189	2,583	568,686	
	(note (i)) Loans and advances for which allowances are collectively assessed	(note Impaired and adv for which allowances are collectively assessed	d loans	6 Total	Gross impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to – financial institutions	Loans and advances for which allowances are collectively assessed	(note Impaired and add for which allowances are collectively	(ii)) d loans vances for which allowances are individually assessed	Total	impaired loans and advances as a % of gross total loans and advances
Gross loans and advances to – financial institutions – non-financial institutions	Loans and advances for which allowances are collectively	(note Impaired and add for which allowances are collectively	(ii)) d loans vances for which allowances are individually		impaired loans and advances as a % of gross total loans and
- financial institutions	Loans and advances for which allowances are collectively assessed 2,867	(note Impaired and adw for which allowances are collectively assessed	(ii)) d loans vances for which allowances are individually assessed 240	<b>Total</b> 3,107	impaired loans and advances as a % of gross total loans and advances 7.72%
<ul> <li>financial institutions</li> <li>non-financial institutions</li> </ul> Less: Impairment allowances against loans and advances to <ul> <li>financial institutions</li> </ul>	Loans and advances for which allowances are collectively assessed 2,867 448,735 451,602 (38)	(note Impaired and add for which allowances are collectively assessed 	(iii)) d loans vances for which allowances are individually assessed 240 10,911 11,151 (66)	Total 3,107 460,060 463,167 (104)	impaired loans and advances as a % of gross total loans and advances 7.72% 2.46%
<ul> <li>financial institutions</li> <li>non-financial institutions</li> </ul> Less: Impairment allowances against loans and advances to	Loans and advances for which allowances are collectively assessed 2,867 448,735 451,602 (38) (2,625)	(note Impairee and adu for which allowances are collectively assessed - - 414 414 - (264)	(iii)) d loans vances for which allowances are individually assessed 240 10,911 11,151 (66) (6,793)	Total 3,107 460,060 463,167 (104) (9,682)	impaired loans and advances as a % of gross total loans and advances 7.72% 2.46%
<ul> <li>financial institutions</li> <li>non-financial institutions</li> </ul> Less: Impairment allowances against loans and advances to <ul> <li>financial institutions</li> </ul>	Loans and advances for which allowances are collectively assessed 2,867 448,735 451,602 (38)	(note Impaired and add for which allowances are collectively assessed 	(iii)) d loans vances for which allowances are individually assessed 240 10,911 11,151 (66)	Total 3,107 460,060 463,167 (104)	impaired loans and advances as a % of gross total loans and advances 7.72% 2.46%
<ul> <li>financial institutions</li> <li>non-financial institutions</li> </ul> Less: Impairment allowances against loans and advances to <ul> <li>financial institutions</li> </ul>	Loans and advances for which allowances are collectively assessed 2,867 448,735 451,602 (38) (2,625)	(note Impairee and adu for which allowances are collectively assessed - - 414 414 - (264)	(iii)) d loans vances for which allowances are individually assessed 240 10,911 11,151 (66) (6,793)	Total 3,107 460,060 463,167 (104) (9,682)	impaired loans and advances as a % of gross total loans and advances 7.72% 2.46%
<ul> <li>financial institutions</li> <li>non-financial institutions</li> </ul> Less: Impairment allowances against loans and advances to <ul> <li>financial institutions</li> <li>non-financial institutions</li> </ul> Net loans and advances to	Loans and advances for which allowances are collectively assessed 2,867 448,735 451,602 (38) (2,625) (2,663)	(note Impairee and adu for which allowances are collectively assessed - - 414 414 - (264)	(iii)) d loans vances for which allowances are individually assessed 240 10,911 11,151 (66) (6,793) (6,859)	Total 3,107 460,060 463,167 (104) (9,682) (9,786)	impaired loans and advances as a % of gross total loans and advances 7.72% 2.46%

Notes:

- (i) Loans and advances assessed on a collective basis for impairment bear relatively insignificant impairment losses as a proportion of the total portfolio. These loans and advances include those which are graded normal or special-mention.
- (ii) Impaired loans and advances to customers include loans and advances for which objective evidence of impairment exists and which have been assessed as bearing significant impairment losses. These loans and advances include loans and advances for which objective evidence of impairment has been identified:
  - individually (representing corporate loans and advances which are graded substandard, doubtful or loss); or
  - collectively; that is the portfolios of homogeneous loans and advances (representing personal loans and advances which are graded substandard, doubtful or loss).
- (iii) The definitions of the loan classification as stated above are described in Note 35(a).
- (iv) As at 31 December 2007, the loans and advances for which the impairment allowances were individually assessed amounted to RMB8,004 million. The covered portion and uncovered portion of these loans and advances were RMB1,424 million and RMB6,580 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB1,774 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation. The individual impairment allowances made against these loans and advances were RMB5,421 million.

# (d) Analysed by legal form of borrowers

	31 December 2007	31 December 2006
Corporate loans to		
– Joint-stock enterprises	207,697	166,490
– State-owned enterprises	167,708	131,954
– Foreign invested enterprises	55,100	39,048
– Private enterprises	27,673	18,162
<ul> <li>Collectively-controlled enterprises</li> </ul>	5,847	5,721
– Others	4,315	7,781
Subtotal	468,340	369,156
Personal loans		
– Home mortgage loans	60,833	36,470
– Credit card advances	4,145	1,280
– Others	11,111	10,625
Subtotal	76,089	48,375
Discounted bills	33,599	45,636
Gross loans and advances to customers	578,028	463,167
Less: Impairment allowances	(9,342)	(9,786)
Net loans and advances to customers	568,686	453,381

# 18. TRADING ASSETS AND LIABILITIES

### (a) Trading assets – debt securities

	31 December 2007	31 December 2006
At fair value and issued by:		
Government		
– of Mainland China	-	52
PBOC	1,093	2,051
Policy banks in Mainland China	2,167	1,764
Banks and other financial institutions		
– in Mainland China	-	32
– outside Mainland China	364	550
Corporate entities		
– in Mainland China	2,876	276
Total	6,500	4,725
Listed outside Hong Kong	_	154
Unlisted	6,500	4,571
Total	6,500	4,725

# (b) Trading liabilities – short positions in debt securities

	31 December 2007	31 December 2006
At fair value and issued by: Government		
– outside Mainland China		79

# **19. INVESTMENT SECURITIES**

	Note	31 December 2007	31 December 2006
Held-to-maturity debt securities Available-for-sale	(a)	109,391	68,196
– debt securities	(b)	43,502	31,166
- equity investments	(c)	455	337
		43,957	31,503
Total		153,348	99,699

# (a) Held-to-maturity debt securities

3	1 December 2007	31 December 2006
Issued by:		
Government		
– of Mainland China	34,048	17,673
– outside Mainland China	73	2,813
PBOC	35,965	17,638
Policy banks		
– in Mainland China	17,424	13,824
– outside Mainland China	127	439
Banks and other financial institutions		
– in Mainland China	3,839	991
– outside Mainland China	6,275	6,439
Public sector entities outside Mainland China	9,895	6,663
Corporate entities		
– in Mainland China	1,080	581
- outside Mainland China	665	1,135
Total	109,391	68,196
Listed in Hong Kong	210	156
Listed outside Hong Kong	5,449	6,572
Unlisted	103,732	61,468
Total	109,391	68,196
Market value of listed securities	5,582	6,641

Debt securities intended to be held to maturity by the group with an amortised cost of RMB1,450 million were transferred to available-for-sale category during the year. Such transfer was made due to isolated events which were not anticipated by the group.

# APPENDIX III

(c)

Total

# (b) Available-for-sale debt securities

	31 December 2007	31 December 2006
At fair value and issued by:		
Government		
– of Mainland China	231	2,029
– outside Mainland China	2,506	539
PBOC	5,129	4,032
Policy banks		
– in Mainland China	8,424	8,559
– outside Mainland China	452	331
Banks and other financial institutions		
– in Mainland China	-	99
– outside Mainland China	11,745	7,539
Public sector entities outside Mainland China	5,400	2,325
Corporate entities		
– in Mainland China	9,569	5,159
– outside Mainland China	46	554
Total	43,502	31,166
Listed in Hong Kong	484	558
Listed outside Hong Kong	7,243	6,549
Unlisted	35,775	24,059
Unisted		
Total	43,502	31,166
Available-for-sale equity investments		
	31 December	31 December
	2007	2006
At fair value and issued by:		
Banks and other financial institutions		
– in Mainland China	114	70
– outside Mainland China	341	267

455

337

All of the above equity investments are unlisted.

### 20. PROPERTY AND EQUIPMENT

	Bank premises (Note 20 (a))	Construction in progress	Computer equipment	Others	Total
Cost or valuation:					
As at 1 January 2007	7,253	237	2,011	1,208	10,709
Additions	145	75	303	291	814
Disposals	(5)	-	(85)	(101)	(191)
Transfers	240	(240)	-	-	-
Surplus on revaluation	54	-	-	-	54
Elimination of accumulated					
depreciation on revaluation	(304)				(304)
As at 31 December 2007	7,383	72	2,229	1,398	11,082
Accumulated depreciation and					
impairment losses:			(1 294)	(680)	(1.064)
As at 1 January 2007	(304)	-	(1,284) (181)	(680) (160)	(1,964) (645)
Depreciation charges Disposals	(304)	_	(181)	(100) 97	(043)
Elimination on revaluation	304	_	74		304
As at 31 December 2007			(1,391)	(743)	(2,134)
Net carrying value:					
As at 31 December 2007 (note (i))	7,383	72	838	655	8,948
Cost or valuation:					
As at 1 January 2006	7,355	69	1,839	1,145	10,408
Additions	66	190	242	228	726
Disposals	(96)	(16)	(74)	(165)	(351)
Transfers	2	(6)	4	-	_
Surplus on revaluation	123	_	_	-	123
Elimination of accumulated					
depreciation on revaluation	(197)				(197)
As at 31 December 2006	7,253	237	2,011	1,208	10,709
Accumulated depreciation and impairment losses:					
As at 1 January 2006	_	-	(1,113)	(681)	(1,794)
Depreciation charges	(236)	-	(243)	(142)	(621)
Disposals	39	-	72	143	254
Elimination on revaluation	197				197
As at 31 December 2006			(1,284)	(680)	(1,964)
Net carrying value:					
As at 31 December 2006 (note (i))	7,253	237	727	528	8,745

Note:

(i) As at 31 December 2007, the net book value of the group's bank premises for which the registration procedures for ownership had not been completed was approximately RMB593 million (as at 31 December 2006: RMB669 million). The group anticipates that there would be no significant issues and costs in completing such procedures.

### (a) Analysed by remaining term of leases

The net carrying value of bank premises at the balance sheet date is analysed by the remaining terms of the leases as follows:

	31 December 2007	31 December 2006
Long term leases (over 50 years), held in Hong Kong Medium term leases (10–50 years), held in the PRC	38 7,345	27 7,226
Total	7,383	7,253

# (b) Valuation

The bank premises of the group were revalued as at 31 December 2007 at their open market value by reference to recent market transactions in comparable properties. The valuations were carried out by an independent firm of valuer, Jones Lang Lasalle Sallmanns Limited.

The revaluation surpluses have been transferred to the properties revaluation reserve of the group.

Had these bank premises been carried at cost less accumulated depreciation, the carrying amounts would have been RMB5,081 million as at 31 December 2007 (as at 31 December 2006: RMB4,832 million).

# 21. DEFERRED TAX ASSETS/(LIABILITIES)

### (a) Analysed by nature

	31 December 2007	31 December 2006
Deferred tax assets Deferred tax liabilities	954 (13)	2,210 (141)
Net balance	941	2,069

(b) The components of deferred tax assets/(liabilities) recognised in the balance sheet and the movements during the year ended 31 December 2007 and the year ended 31 December 2006 are as follows:

	Impairment loss on loans and advances to customers	Fair value Note (i)	Others	Total deferred tax assets/ (liabilities)
As at 1 January 2007 Recognised in income statement	1,732 (824)	(141) 104	478 (432)	2,069 (1,152)
Recognised in equity		24		24
As at 31 December 2007	908	(13)	46	941
As at 1 January 2006	3,378	(93)	726	4,011
Recognised in income statement	(1,646)	(51)	(248)	(1,945)
Recognised in equity		3		3
As at 31 December 2006	1,732	(141)	478	2,069

### Notes:

- (i) Unrealised gains or losses arising from fair value adjustments for securities and derivatives are subject to tax when realised.
- (ii) The group did not have significant unrecognised deferred tax arising at the balance sheet date.

# 22. OTHER ASSETS

	31 December 2007	31 December 2006
Interest receivables		
– debt securities	1,744	986
<ul> <li>loans and advances to customers</li> </ul>	1,497	982
– others	118	28
	3,359	1,996
Repossessed assets	487	599
Land use rights	187	191
Intangible assets	83	57
Others	1,335	798
Total	5,451	3,641

# 23. AMOUNTS DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

### (a) Analysed by nature

	31 December 2007	31 December 2006
Deposits		
– Banks	4,732	5,359
- Other financial institutions	91,877	25,962
	96,609	31,321
Balances under repurchase agreements (note (i))		
– Banks	5,112	1,538
- Other financial institutions	10,227	165
	15,339	1,703
Money market takings		
– Banks	-	2,486
- Other financial institutions	639	656
	639	3,142
Total	112,587	36,166

Note:

(i) Assets pledged under repurchase agreements are bank acceptance bills, loans and advances to customers and debt securities.

# (b) Analysed by geographical location

	31 December 2007	31 December 2006
Balances payable on demand		
– Banks in Mainland China	3,382	3,760
- Other financial institutions in Mainland China	90,642	23,755
	94,024	27,515
Term deposits		
– Banks in Mainland China	6,083	4,455
- Other financial institutions in Mainland China	5,187	3,028
	11,270	7,483
Term deposits		
– Banks outside Mainland China	380	1,168
- Other financial institutions outside Mainland China	6,913	
	7,293	1,168
Total	112,587	36,166

# 24. DEPOSITS FROM CUSTOMERS

### Analysed by nature

	31 December 2007	31 December 2006
Demand deposits		
– Corporate customers	338,074	260,971
– Personal customers	66,900	26,053
	404,974	287,024
Time and call deposits		
– Corporate customers	301,931	251,580
– Personal customers	80,306	79,808
	382,237	331,388
Total (note (i))	787,211	618,412

Note:

 As at 31 December 2007, the group's deposits from customers included structured deposits amounting to RMB7,212 million (as at 31 December 2006: RMB13,559 million), which are financial liabilities designated at fair value through profit or loss upon initial recognition.

# 25. OTHER LIABILITIES AND PROVISIONS

	31 December 2007	31 December 2006
Interest payables		
– Deposits from customers	3,751	2,885
– Others	341	293
Salaries and welfare payables	2,958	1,319
Supplementary retirement benefit obligations	38	48
Business and other tax payables	743	476
Litigation provision (note (i))	40	20
Others	1,640	1,183
Total	9,511	6,224
Note:		
(i) Movements of litigation provision are as follow:		
	2007	2006
As at 1 January	20	_
Charge for the year	40	20
Transfer out during the year	(20)	
As at 31 December	40	20

# 26. SUBORDINATED DEBTS/BONDS ISSUED

The carrying value of the group's subordinated debts/bonds at the balance sheet date represents:

	Note	31 December 2007	31 December 2006
Subordinated floating rate debts maturing			
– in June 2010	<i>(i)</i>	4,778	4,778
– in July 2010	<i>(i)</i>	602	602
– in September 2010	<i>(i)</i>	300	300
– in June 2010	<i>(ii)</i>	320	320
Subordinated fixed rate bonds maturing			
– in June 2016	(iii)	4,000	4,000
– in June 2021	( <i>iv</i> )	2,000	2,000
Total nominal value		12,000	12,000

Notes:

- (i) The interest rate per annum on the subordinated floating rate debts is the PBOC one-year fixed deposit rate plus an interest margin of 2.72%.
- The interest rate per annum on the subordinated floating rate debts is the PBOC one-year fixed deposit rate plus an interest margin of 2.60%.
- (iii) The interest rate per annum on the subordinated fixed rate bonds is 3.75%. The group has an option to redeem the debts on 22 June 2011. If they are not redeemed early, the interest rate of the debts will increase in June 2011 to 6.75% per annum for the next five years.
- (iv) The interest rate per annum on the subordinated fixed rate bonds is 4.12%. The group has an option to redeem the debts on 22 June 2016. If they are not redeemed early, the interest rate of the debts will increase in June 2016 to 7.12% per annum for the next five years.

### 27. EQUITY

(a) Share capital

	No. of shares	Amount
Registered, issued and fully paid:		
Ordinary shares of RMB1 each		
As at 1 January 2006	-	_
Shares issued upon incorporation	31,113	31,113
As at 31 December 2006	31,113	31,113
Shares issued in A share offering	2,302	2,302
Shares issued in H share global offering	5,618	5,618
As at 31 December 2007	39,033	39,033

- -

On 31 December 2006, CNCB was incorporated with a registered and paid up capital of RMB31,113 million divided into 31,113 million shares with a par value of RMB1 each. Shares of 31,113 million were issued to the joint promoters of CNCB, CITIC Group, CNCB's holding company and the Company, a CITIC Group fellow subsidiary.

With the approval from the CBRC dated 28 February 2007 (Yin Jian Fu [2007] No.85) in respect of the sale of CNCB Shares from CITIC Group to BBVA, CITIC Group sold 1,502,763,281 CNCB Shares to BBVA on 1 March 2007.

In April 2007, a total of 2,302 million CNCB A Shares with a par value of RMB1 each were issued by CNCB at a subscription price of RMB5.80 per CNCB Share, with share premium totalling RMB11,049 million, through the CNCB A Share initial public offering to domestic investors. Upon the completion of the CNCB A Share initial public offering, the CNCB Shares held by CITIC Group before the CNCB A Share public offering were converted into CNCB A Shares.

In April 2007, a total of 4,885 million CNCB H Shares with a par value of RMB1 each were issued by CNCB at a subscription price of HKD5.86 per CNCB Share, with share premium totalling RMB23,352 million, through the CNCB H Share initial public offering to Hong Kong and overseas investors (the "Global Offering"). Upon the completion of the Global Offering, all of the CNCB Shares held by the Company and BBVA before the Global Offering were converted into CNCB H Shares.

In May 2007, a total of 733 million CNCB H Shares with a par value of RMB1 each were issued by CNCB at a subscription price of HKD5.86 per CNCB Share, with share premium totaling RMB3,497 million, as a result of the exercise of the over-allotment option.

All CNCB A Shares and CNCB H Shares are ordinary shares and rank pari passu with the same rights and benefits.

# (b) Capital reserve

	Note	Amount
As at 1 January 2006		
- Transfer of welfare payable to capital reserve	<i>(i)</i>	102
- Shares issued upon incorporation and elimination		
of owner's capital, reserves and accumulated losses as at 31 December 2005	(;;)	(402)
losses as at 31 December 2005	(ii)	(493)
As at 31 December 2006		(391)
Share premium before costs of issuing shares	(iii)	37,898
Costs of issuing shares net of interest income received	(iii)	(982)
Net Share premium	(iii)	36,916
As at 31 December 2007		36,525

Notes:

- (i) In accordance with the notice "Accounting Treatment on Salary Payables for Enterprise Restructuring" (Cai Ban Qi [2006] No.23) issued by MOF on 17 March 2006, RMB102 million of accrued welfare payable was transferred to the capital reserve.
- (ii) Pursuant to the restructuring, the owner's capital, reserves and accumulated losses of CNCB, as determined under PRC GAAP, were converted into CNCB's issued share capital upon its incorporation. Further, in order to have the same amount of share capital under both IFRS and PRC GAAP, RMB391 million was transferred from newly created capital reserve to share capital under IFRS.
- (iii) As described in Note 27(a), CNCB issued a total of 7,920 million CNCB Shares of RMB1 each at a total consideration of RMB45,818 million in 2007. After accounting for interest income and costs directly associated with the share issue, CNCB credited the share premium of RMB36,916 million to capital reserve.

Capital reserve may be used for increasing paid-in capital as approved by the shareholders.

#### (c) Surplus reserves

Under relevant PRC Laws, CNCB is required to appropriate 10% of its net profit, as determined under the Accounting Standards for Business Enterprises and other relevant regulations issued by the MOF (collectively "PRC GAAP"), to the statutory surplus reserve until the reserve balance reaches 50% of the registered capital. After making the appropriation to the statutory surplus reserve, CNCB may also appropriate its net profit to the discretionary surplus reserve upon approval by shareholders in general meeting.

Subject to the approval of shareholders, statutory and discretionary surplus reserves may be used to make good prior year losses, if any, and may be converted into capital, provided that the balance of statutory surplus reserve after such capitalisation is not less than 25% of the registered capital before such capitalisation.

### (d) General reserve

Pursuant to Cai Jin [2005] No. 49 and Cai Jing [2005] No. 90 issued by the MOF on 17 May 2005 and 5 September 2005 respectively (collectively named as the "MOF Notices"), which are effective on 1 July 2005, banks and certain other financial institutions in the PRC, including the Bank, should set up a general reserve calculated as a percentage of the total risk assets at the balance sheet date, through a transfer from retained earnings, to cover potential losses that are not yet incurred.

The general reserve forms part of the equity of the financial institution. Financial institutions are not allowed to make profit distributions to shareholders until adequate general reserve has been made. If a financial institution cannot meet the requirement of maintaining adequate general reserve as stipulated in the MOF Notices as at 1 July 2005, the financial institution is required to take necessary steps to ensure that such requirement can be met in approximately 3 years but not more than 5 years, from 1 July 2005.

### (e) Investment revaluation reserve

Investment revaluation reserve has been accounted for in accordance with the accounting policies adopted for the measurement of available-for-sale investments at fair value.

#### (f) Properties revaluation reserve

Properties revaluation reserve has been made in accordance with the accounting policies adopted for the group's bank premises.

# 28. **PROFIT APPROPRIATIONS**

### (a) Profit appropriations and distributions other than dividends declared during the year

	2007	2006
Appropriations to		
<ul> <li>Statutory surplus reserve</li> </ul>	829	_
– General reserve	3,731	
	4,560	

In accordance with the approval from the Directors dated 26 March 2008, the group appropriated RMB829 million to Statutory Surplus Reserve Fund and RMB3,731 million to General Reserve, 10% and 45% of the net profit after taxation under relevant PRC accounting rules and regulations, respectively.

#### (b) Dividends payable to equity shareholders of CNCB attributable to the year

On 26 March 2008, the Directors proposed a final cash dividend of RMB0.535 per ten shares in respect of the year ended 31 December 2007. Subject to the agreement of the shareholders in the Annual General Meeting, the total amount of approximately RMB2,088 million is payable to those on the register of shareholders as at 12 June 2008. This dividend has not been recognised as liability at the balance sheet date.

# (c) Profit distributions of CNCB's profit between 31 December 2005 and the date of incorporation

In accordance with relevant PRC rules and regulations, CITIC Group is entitled to the profit and loss made by CNCB between 31 December 2005 and the date of the Bank's incorporation. Accordingly, CITIC Group was entitled to the RMB3,726 million net profit of the group under PRC GAAP for the year 2006.

CNCB paid RMB3,000 million and RMB726 million in cash with respect to the above profit to CITIC Group in 2006 and 2007 respectively.

#### 29. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

#### Cash and cash equivalents

	31 December	31 December
	2007	2006
Cash	4,341	2,589
Surplus deposit reserve funds	33,545	30,138
Amounts due from banks and other financial institutions Less:	55,851	43,250
- amounts due over three months when acquired	(760)	(1,171)
– balances under resale agreements	(29,196)	(28,841)
	25,895	13,238
Investment securities	26,764	7,062
Total	90,545	53,027

#### 30. COMMITMENTS AND CONTINGENT LIABILITIES

#### (a) Credit commitments

At any given time the group has outstanding commitments to extend credit. These commitments take the form of approved loans and credit card limits.

The group provides financial guarantees and letters of credit to guarantee the performance of customers to third parties.

Acceptances comprise undertakings by the group to pay bills of exchange drawn on customers. The group expects most acceptances to be settled simultaneously with the reimbursement from the customers.

The contractual amounts of commitments and contingent liabilities are set out in the following table by category. The amounts reflected in the table for commitments assume that amounts are fully advanced. The amount reflected in the table for guarantees and letters of credit represents the maximum potential loss that would be recognised at the balance sheet date if counterparties failed completely to perform as contracted.

	31 December	31 December
	2007	2006
Contractual amount		
Loan commitments		
<ul> <li>with an original maturity of under one year</li> </ul>	102	147
- with an original maturity of one year or over	8,048	5,547
	8,150	5,694
Guarantees and letters of credit	68,563	49,466
Acceptances	166,939	132,000
Credit card commitments	16,934	8,412
	260,586	195,572

These commitments and contingent liabilities have off-balance sheet credit risk. Before the commitments are fulfilled or expire, management assess and make allowances, which are recorded in other liabilities, for any probable losses accordingly. As the facilities may expire without being drawn upon, the total of the contractual amounts is not representative of expected future cash outflows.

	31 December	31 December
	2007	2006
Credit risk weighted amount of contingent liabilities		
and commitments	108,025	70,976

The credit risk weighted amount refers to the amount as computed in accordance with the rules set out by the CBRC and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% of contingent liabilities and commitments. The credit risk weighted amounts stated above have taken into account the effects of bilateral netting arrangements.

There are no relevant standards prescribed by IFRS in calculating the above credit risk weighted amounts.

### (b) Capital commitments

The group had the following authorized capital commitments at the balance sheet date:

	31 December 2007	31 December 2006
Purchase of property and equipment – Contracted for	391	105

### (c) Operating lease commitments

The group leases certain properties under operating leases, which typically run for an initial period of one to five years and may include an option to renew the lease when all terms are renegotiated. At the balance sheet date, the group's future minimum lease payments under non-cancellable operating leases for premises were as follows:

	31 December 2007	31 December 2006
Within one year	447	366
After one year but within two years	388	306
After two year but within three years	336	255
After three year but within five years	495	356
After five years	609	496
Total	2,275	1,779

### (d) Outstanding litigations and disputes

As at 31 December 2007, the group was the defendant in certain pending litigations with gross claims of RMB214 million (as at 31 December 2006: RMB144 million). Based on the opinion of internal and external legal counsels of the group, the possible loss of these litigations is recognised as other liability and provisions. The group believes that the accrual of other liability is reasonable and adequate.

### (e) Underwriting obligations

At the balance sheet date, the unexpired underwriting commitments of PRC bonds were as follows:

	31 December	31 December
	2007	2006
Underwriting obligations	-	950

### (f) Redemption obligations

As an underwriting agent of PRC government bonds, the group has the responsibility to buy back those bonds sold by it should the holders decide to early redeem the bonds held. The redemption price for the bonds at any time before their maturity date is based on the coupon value plus any interest unpaid and accrued up to the redemption date. Accrued interest payables to the bond holders are calculated in accordance with relevant rules of the MOF and the PBOC. The redemption price may be different from the fair value of similar instruments traded at the redemption date.

The redemption obligations below represent the nominal value of government bonds underwritten and sold by the group, but not yet matured at the balance sheet date:

	31 December 2007	31 December 2006
Redemption obligations	7,642	15,590

#### (g) Provision against commitments and contingent liabilities

The group has assessed and has made provision for any probable outflow of economic benefits in relation to the above commitments and contingent liabilities at the balance sheet date in accordance with its accounting policies.

# 31. PLEDGED ASSETS

### Financial assets pledged as collaterals

The following assets have been pledged as security for bills rediscounting transactions and assets and securities sold under repurchase agreements. These transactions are conducted under terms that are usual and customary to standard lending. The related secured liabilities are recorded as amounts due to central bank, or banks and other financial institutions of approximately similar carrying value at the balance sheet date.

:	31 December	31 December
	2007	2006
Debt securities	9,853	1,168
Discounted bills	521	41
Loans and advances to customers	5,392	535
Total	15,766	1,744

### 32. TRANSACTIONS ON BEHALF OF CUSTOMERS

### (a) Entrusted lending business

The group provides entrusted lending business services to corporations and individuals. All entrusted loans are made under the instruction or at the direction of these entities or individuals and are funded by entrusted funds from them.

For entrusted assets and liabilities and entrusted provident housing fund mortgage business, the group generally does not take on credit risk in relation to these transactions. The group acts as an agent to hold and manage these assets and liabilities at the direction of the entrustor and receives fee income for the services provided. Trust assets are not assets of the group and are not recognised in the balance sheet. Surplus funding is accounted for as deposits from customers. Income received and receivable for providing these services is included in the income statement as fee income.

At the balance sheet date, the entrusted assets and liabilities were as follows:

	31 December 2007	31 December 2006
Entrusted loans	21,982	21,986
Entrusted funds	21,982	21,986

### (b) Wealth management services

The group's wealth management services to customers mainly represent sales of wealth management products to corporate and personal banking customers. The funds obtained from wealth management services are invested in investment products, including government bonds, PBOC bills, notes issued by policy banks, short-dated corporate notes, entrusted loans and IPO shares. The credit risk, liquidity risk and interest rate risk associated with these products are borne by the customers who invest in these products. The group only earns commission which represents the charges on customers in relation to the provision of custody, sales and management services. The income is recognised in the income statement as commission income.

The wealth management products and funds obtained are not assets and liabilities of the group and are not recognised in the balance sheets. The funds obtained from wealth management services that have not yet been invested are recorded under deposits from customers.

At the balance sheet date, the assets and liabilities under wealth management services were as follows:

	31 December 2007	31 December 2006
Investments under wealth management services	30,798	4,110
Funds from wealth management services	30,798	4,110

Amongst the above funds from wealth management service, RMB27,253 million was entrusted to CITIC Trust Co., Ltd. ("CITIC Trust"), a wholly owned subsidiary of CITIC Group, as at 31 December 2007 (2006: RMB1,500 million).

### 33. SEGMENT REPORTING

Segment information is presented in respect of the group's business and geographical segments. Business segment information has been chosen as the primary reporting format as it is more relevant to the group's internal financial reporting. Measurement of segment assets and liabilities and segment income and results is based on the group's accounting policies.

Segment income, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Funding is provided to and from individual segment through treasury operations as part of the asset and liability management process. Internal charges and transfer pricing of these transactions are based on management's assessment of its average cost of funding and interest bearing assets and liabilities with reference to market rates and have been reflected in the performance of each segment. Net interest income and expenses arising from internal charges and transfer pricing adjustments are referred to as "internal net interest income/expenses".

Segment income, expenses, assets, and liabilities are determined before intra-group balances and intra- group transactions are eliminated as part of the consolidation process, except to the extent that such intra- group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

### (a) Business segments

The group comprises the following main business segments:

### Corporate banking

This segment represents the provision of a range of financial products and services to corporations, government agencies and financial institutions. The products and services include corporate loans, trade financing, deposit taking activities, agency services, remittance and settlement services and guarantee services.

### Personal banking

This segment represents the provision of a range of financial products and services to individual customers. The products and services comprise personal loans, deposit services and securities agency services.

#### Treasury business

This segment covers the group's treasury operations. The treasury enters into inter-bank money market transactions and repurchase transactions, and invests in debt instruments. It also trades in debt instruments, derivatives and foreign currency for its own account. The treasury carries out customer driven transactions on derivatives and foreign currency trading. Its function also includes the management of the group's overall liquidity position, including the issuance of subordinated debts/bonds.

### Others and unallocated

These represent equity investments and headquarters assets, liabilities, income and expenses that are not directly attributable to a segment or cannot be allocated on a reasonable basis.

APPENDIX III

## FINANCIAL INFORMATION RELATING TO CNCB

	Corporate Banking	Personal Banking	2007 Treasury Business	Others and unallocated	Total
External net interest income Internal net interest	18,804	1,915	5,499	(48)	26,170
income/(expense)	2,078	1,514	(3,177)	(415)	
Net interest income/(expense)	20,882	3,429	2,322	(463)	26,170
Net fee and commission income/(expense)	826	1,258	51	(55)	2,080
Net trading gain/(loss)	551	-	47	(1,432)	(834)
Net gain arising from investment securities	-	-	284	-	284
Other income			3	124	255
Operating income/(expense) General and administrative expenses	22,387	4,687	2,707	(1,826)	27,955
- depreciation and amortisation	(360)	(358)	(32)	(30)	(780)
– others	(6,720)	(3,465)	(589)	(241)	(11,015)
Impairment losses charge	(2,866)	(130)	(7)	15	(2,988)
Profit/(loss) before tax	12,441	734	2,079	(2,082)	13,172
Capital expenditure	685	637	60	52	1,434
		31	December 200	)7	
Segment assets	580,015	99,733	324,391	7,047	1,011,186
Segment liabilities	649,675	149,174	121,412	6,834	927,095
Off-balance sheet credit commitments	243,652	16,934	-		260,586

APPENDIX III

## FINANCIAL INFORMATION RELATING TO CNCB

	Corporate Banking	Personal Banking	2006 Treasury Business	Others and unallocated	Total
External net interest income/(expense)	12,323	911	3,316	(77)	16,473
Internal net interest income/(expense)	981	1,288	(1,851)	(418)	
Net interest income/(expense)	13,304	2,199	1,465	(495)	16,473
Net fee and commission income/(expense)	516	187	82	(26)	759
Net trading gain/(loss)	330	-	174	(50)	454
Net gain arising from investment securities	-	-	45	_	45
Other operating income	92		1	103	196
Operating income/(expense)	14,242	2,386	1,767	(468)	17,927
General and administrative expenses					
- depreciation and amortisation	(367)	(273)	(34)	(34)	(708)
– others	(4,910)	(2,042)	(476)	(1,123)	(8,551)
Impairment losses charge	(1,638)	20	7	(55)	(1,666)
Profit/(loss) before tax	7,327	91	1,264	(1,680)	7,002
Capital expenditure	411	292	27	31	761
		31	December 200	06	
Segment assets	462,757	58,695	179,180	6,091	706,723
Segment liabilities	515,135	106,826	48,706	4,362	675,029
Off-balance sheet credit commitments	187,160	8,412	_		195,572

### (b) Geographical segments

The group operates principally in Mainland China with branches and sub-branches located in 21 provinces, autonomous regions and municipalities directly under the central government. CNCB's principal subsidiary, China International Finance Limited, is registered and operating in Hong Kong.

In presenting information by geographical segment, operating income is allocated based on the location of the branches that generated the revenue. Segment assets and capital expenditure are allocated based on the geographical location of the underlying assets.

Geographical segments, as defined for management reporting purposes, are as follows:

- "Yangtze River Delta" refers to the following areas where tier-1 branches of the group are located: Shanghai, Nanjing, Suzhou, Hangzhou and Ningbo;
- "Pearl River Delta and West Strait" refers to the following areas where tier-1 branches of the group are located: Guangzhou, Shenzhen, Dongguan, Fuzhou and Xiamen;
- "Bohai Rim" refers to the following areas where tier-1 branches of the group are located: Beijing, Tianjin, Dalian, Qingdao, Shijiazhuang and Jinan;
- "Central" region refers to the following areas where tier-1 branches of the group are located: Hefei, Zhengzhou, Wuhan, Changsha, Taiyuan and Nanchang;
- "Western" region refers to the following areas where tier-1 branches of the group are located: Chengdu, Chongqing, Xi'an, Kunming and Hohhot;
- "Northeastern" region refers to the following areas where tier-1 branch of the Group is located: Shenyang;
- "Headquarters" refers to the headquarters of the group and the credit card center; and
- "Hong Kong" region refers to the Hong Kong Special Administrative Region where the subsidiaries of CNCB are located.

		Pearl River			20	07				
	Yangtze River Delta	Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Headquarters	Hong Kong	Elimination	Total
External net interest income Internal net interest income/	6,853	2,817	4,344	2,193	2,328	847	6,773	15	-	26,170
(expense)	616	836	2,356	98	(210)	(101	) (3,598)	3		
Net interest income/(expense) Net fee and commission	7,469	3,653	6,700	2,291	2,118	746	3,175	18	-	26,170
income	495	172	591	178	145	72	427	-	-	2,080
Net trading gain/(loss) Net gain arising from	177	67	267	41	15	9	(1,410)	-	-	(834)
investment securities	2	2	1	-	-	-	264	15	-	284
Other operating income	77	31	56	11	8	5	47	20		255
Operating income General and administrative expenses – depreciation and	8,220	3,925	7,615	2,521	2,286	832	2,503	53	-	27,955
amortisation	(182)	(64)	(148)	(46)	(45)	(14	) (281)	-	-	(780)
- others	(2,973)	(1,580)	(2,353)	(951)	(814)	(281	) (2,020)	(43)	-	(11,015)
Impairment losses charge	(652)	(257)	(1,291)	(373)	(125)	(194	) (95)	(1)		(2,988)
Profit/(loss) before tax	4,413	2,024	3,823	1,151	1,302	343	107	9		13,172
Capital expenditure	432	100	380	116	220	11	175	_	_	1,434
					31 Decen	1ber 2007				
Segment assets	331,920	180,370	400,157	118,343	91,972	32,135	558,446	651	(702,808)	1,011,186
Segment liabilities	290,160	163,985	351,995	105,395	80,262	27,447	610,107	552	(702,808)	927,095
Off-balance sheet credit commitments	82,503	36,734	66,603	36,687	13,495	7,630	16,934	_	_	260,586

	2006 Pearl River									
	Yangtze River Delta	Delta and West Strait	Bohai Rim	Central	Western	Northeastern	Headquarters	Hong Kong	Elimination	Total
External net interest income Internal net interest income/	5,010	1,763	2,806	1,420	1,565	507	3,369	33	-	16,473
(expense)	212	564	1,778	125	(65)	(17	) (2,564)	(33)		
Net interest income	5,222	2,327	4,584	1,545	1,500	490	805	-	-	16,473
Net fee and commission	200	(1	238	71	40	1(	100	_	_	750
income Not trading goin	200 140	61 54	238	31	40	16 6	133 (13)	-	-	759 454
Net trading gain Net gain/(loss) arising from							( )	-	-	
investment securities	7	-	3	-	-	-	19	16	-	45
Other operating income/ (expense)	70	21	43	10	6	2	(26)	70		196
Operating income General and administrative	5,639	2,463	5,095	1,657	1,555	514	918	86	-	17,927
expenses – depreciation and										
amortisation	(181)	(58)	(142)	(41)	(41)	(17	) (228)	-	-	(708)
- others	(2,333)	(1,142)	(1,788)	(670)	(603)	,	, , ,	(37)	-	(8,551)
Impairment losses charge	(88)	(78)	(819)	(285)	(232)		, , ,			(1,666)
Profit/(loss) before tax	3,037	1,185	2,346	661	679	152	(1,107)	49		7,002
Capital expenditure	269	77	118	43	131	18	96	9		761
					31 Decen	1ber 2006				
Segment assets	203,715	104,489	261,135	68,851	59,631	32,561	264,594	1,107	(289,360)	706,723
Segment liabilities	200,377	108,868	262,736	68,438	58,904	31,953	232,103	1,010	(289,360)	675,029
Off-balance sheet credit commitments	64,557	20,318	54,203	26,801	14,593	6,688	8,412			195,572

### 34. DERIVATIVES

Derivatives include forward, swap and option transactions undertaken by the group in the foreign exchange and interest rate markets. The group, through the operations of its branch network, acts as an intermediary between a wide range of customers for structuring deals to produce risk management products to suit individual customer needs. These positions are actively managed through entering back to back deals with external parties to ensure the group's net exposures are within acceptable risk levels. The group also uses derivatives (principally foreign exchange options and swaps, and interest rate swaps) in the management of its own asset and liability portfolios and structural positions.

The following tables provide an analysis of the notional amounts of derivatives of the group by relevant maturity groupings based on the remaining periods to settlement and the corresponding fair values at the balance sheet date. The notional amounts of the derivatives indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

				31 December 20	07			
		Notional am	ounts with rem	aining life of		Fair values		
		Between						
		three	Between					
	Less than	months	one year	More				
	three	and	and	than				
	months	one year	five years	five years	Total	Assets	Liabilities	
Interest rate derivatives	45,327	64,572	19,913	7,536	137,348	947	(312)	
Currency derivatives	66,747	39,980	6,580	-	113,307	1,093	(1,600)	
Credit derivatives			259	197	456	9	(2)	
Total	112,074	104,552	26,752	7,733	251,111	2,049	(1,914)	

	31 December 2006 Notional amounts with remaining life of						Fair values	
	Less than three months	Between three months and one year	Between one year and five years	More than five years	Total	Assets	Liabilities	
Interest rate derivatives Currency derivatives	18,603 38,845	45,405 11,781	26,497 2,227	4,474 60	94,979 52,913	250 200	(339) (236)	
Credit derivatives Total	57,448	160 57,346	80 28,804	320 4,854	560 148,452	2 452	(1)	

The replacement costs and credit risk weighted amounts in respect of these derivatives are as follows. These amounts have taken into account the effects of bilateral netting arrangements.

### **Replacement costs**

3	1 December 2007	31 December 2006
Interest rate derivatives	947	250
Currency derivatives	1,093	200
Credit derivatives	9	2
Total	2,049	452

Replacement cost represents the cost of replacing all contracts which have a positive value when marked to market. Replacement cost is a close approximation of the credit risk for these derivative contracts as at the balance sheet date.

### Credit risk weighted amounts

	31 December 2007	31 December 2006
Interest rate derivatives Currency derivatives	261 1,166	180 325
Credit derivatives	29	96
Total	1,456	601

The credit risk weighted amount has been computed in accordance with the rules set by the CBRC, and depends on the status of the counterparty and the maturity characteristics of the instrument.

### 35. FINANCIAL RISK MANAGEMENT

This section presents information about the group's exposure to and its management and control of risks, in particular the primary risks associated with its use of financial instruments:

Credit risk: the loss resulting from customer or counterparty default and arising on credit exposure in all forms, including settlement risk.
Market risk: the exposure to market variables such as interest rates, exchange rates and equity markets.
Liquidity risk: where group is unable to meet its payment obligations when due, or that it is unable, on an ongoing basis, to borrow funds in the market on an unsecured, or even secured basis at an acceptable price to fund actual or proposed commitments.
Operational risk: the risk arising from matters such as non-adherence to systems and procedures or from fraud resulting in financial or reputation loss.

The group has established policies and procedures to identify and analyse these risks, to set appropriate risk limits and controls, and to constantly monitor the risks and limits by means of reliable and up-to-date management information systems. The group regularly modifies and enhances its risk management policies and systems to reflect changes in markets, products and best practice risk management processes. Internal auditors also perform regular audits to ensure compliance with policies and procedures.

### (a) Credit risk

This category includes credit and counterparty risks from loans and advances, issuer risks from the securities business, counterparty risks from trading activities, and country risks. The group identifies and manages this risk through its target market definitions, credit approval process, post-disbursement monitoring and remedial management procedures.

In addition to underwriting standards, the principal means of managing credit risk is the credit approval process. The group has policies and procedures to evaluate the potential credit risk of a particular counterparty or transaction and to approve the transaction.

The group undertakes ongoing credit analysis and monitoring at several levels. The policies are designed to promote early detection of counterparty, industry or product exposures that require special monitoring. The Risk Management Committee monitors overall portfolio risk as well as individual problem loans, both actual and potential, on a regular basis.

In respect of the loan portfolio, the group adopts a risk-based loan classification methodology and classifies loans into five categories: normal, special-mention, substandard, doubtful and loss, in accordance with the guidelines issued by the PBOC and the CBRC.

The core definitions of the five categories of loans and advances are set out below:

Normal Borrowers can honour the terms of their loans. There is no reason to doubt their ability to repay principal and interest in full on a timely basis. Special mention Borrowers are able to service their loans currently, although repayment may be adversely affected by specific factors. Substandard Borrowers' abilities to service their loans are in question as they cannot rely entirely on normal business revenues to repay principal and interest. Losses may ensue even when collateral or guarantees are invoked. Doubtful Borrowers cannot repay principal and interest in full and significant losses will need to be recognised even when collateral or guarantees are invoked. Only a small portion or no principal and interest can be recovered Loss

The group applies a series of criteria in determining the classification of loans. The loan classification criteria focuses on a number of factors, including (i) the borrower's ability to repay the loan; (ii) the borrower's repayment history; (iii) the borrower's willingness to repay; (iv) the net realisable value of any collateral; and (v) the prospect for the support from any financially responsible guarantor. The group also takes into account the length of time for which payments of principal and interest on a loan are overdue. In general, unsecured loans with principal or interest overdue for more than 90 days and secured loans with principal or interest overdue for more than 180 days are classified at substandard or below.

after taking all possible measures and exhausting all legal remedies.

The group's retail credit policy and approval process are designed for the fact that there are high volumes of relatively homogeneous, small value transactions in each retail loan category. Because of the nature of retail banking, the credit policies are based primarily on statistical analyses of risks with respect to different products and types of customers. The group monitors its own and industry experience to determine and periodically revise product terms and desired customer profiles.

The risks involved in credit-related commitments and contingencies are essentially the same as the credit risk involved in extending loan facilities to customers. These transactions are, therefore, subject to the same credit application, portfolio maintenance and collateral requirements as for customers' application for loans.

Concentration of credit risk exists when changes in geographic, economic or industry factors similarly affect the group's counterparties whose aggregate credit exposure is material in relation to the group's total exposures. The group's portfolio of financial instruments is diversified along industry, geographic and product sectors.

### (i) Maximum credit risk exposure

The maximum exposure to credit risk at the balance sheet date without taking into consideration of any collateral held or other credit enhancement is represented by the carrying amount of each financial assets in the balance sheet after deducting any impairment allowance. A summary of the maximum exposure is as follows:

	31 December	31 December
	2007	2006
Balances with central banks	205,058	88,031
Amount due from banks and non-bank		
financial institutions	55,851	43,250
Loans and advances to customers	568,686	453,381
Trading debt securities	6,500	4,725
Investment debt securities	152,893	99,362
Derivatives	2,049	452
Other financial assets	4,434	2,466
Subtotal	995,471	691,667
Credit commitments	260,586	195 <i>,</i> 572
Maximum credit risk exposure	1,256,057	887,239
-		

### *(ii) Distribution by credit exposure*

31 Loans and advances to customers	December 200 Amount due from banks and non-bank financial institutions	)7 Investments
8,004	171	31
(5,421)	(146)	(15)
2,583	25	16
488	-	-
(299)		
189		
	Loans and advances to customers 8,004 (5,421) 2,583 488 (299)	400 from banks and non-bank financial institutions         8,004       171         (5,421)       (146)         2,583       25         488       –         (299)       –

	31 Loans and advances to customers	December 20 Amount due from banks and non-bank financial institutions	07 Investments
Past due but not impaired			
Carrying amount Within which	2,737	-	-
– Less than 90 days	2,524	-	-
– 90–365 days	213	-	-
– Over 365 days	-	-	-
Allowance for impairment			
(collectively assessed)	(65)	-	-
Net balance	2,672	_	_
Neither past due nor impaired			
Carrying amount	566,799	55,826	159,832
Allowance for impairment			
(collectively assessed)	(3,557)		
Net balance	563,242	55,825	159,832
Net balance of total assets	568,686	55,851	159,848
	31 Loans and advances to customers	December 20 Amount due from banks and non-bank financial institutions	06 Investments

278
(223)
55
-
_
-

	31 Loans and advances to customers	December 20 Amount due from banks and non-bank financial institutions	06 Investments
Past due but not impaired			
Carrying amount	3,128	-	-
Within which			
– Less than 90 days	2,102	-	-
– 90–365 days	947	-	-
– Over 365 days	79	-	-
Allowance for impairment			
(collectively assessed)	(85)	-	-
Net balance	3,043	_	
Neither past due nor impaired			
Carrying amount	448,474	43,198	104,369
Allowance for impairment			
(collectively assessed)	(2,578)		
Net balance	445,896	43,198	104,369
Net balance of total assets	453,381	43,250	104,424

*Note:* The allowances for impairment losses for amounts due from banks and other financial institutions are individually assessed. As at 31 December 2007, the above loans and advances which were overdue but not impaired and which were subject to individual assessment were RMB377 million. The covered portion and uncovered portion of these loans and advances were RMB116 million and RMB261 million respectively. The fair value of collaterals held against these loans and advances amounted to RMB210 million. The fair value of collaterals was estimated by management based on the latest available external valuations adjusted by taking into account the current realization experience as well as market situation.

(iii) Loans and advances to customers and the balance secured by collaterals analysed by economic sector concentrations at the balance sheet date:

	31 December 2007			31 December 2006		
		%	Loans and advances secured by collaterals		%	Loans and advances secured by collaterals
Corporate loans						
- Manufacturing	147,762	25.6	43,432	108,539	23.4	25,920
- Transportation, storage and post services	63,156	10.9	19,493	35,933	7.7	6,775
- Production and supply of electric power,						
gas and water	44,422	7.7	7,759	38,022	8.2	7,534
- Wholesale and retail	42,239	7.3	17,394	33,468	7.2	12,051
– Real estate	41,741	7.2	28,733	28,796	6.2	19,359
- Rent and business services	34,793	6.0	10,036	29,375	6.4	8,042
– Water, environment and public utility						
management	28,324	4.9	5,704	26,915	5.8	6,235
- Construction	22,199	3.8	4,721	23,364	5.1	6,739
- Public management and social						
organizations	8,131	1.4	1,156	10,468	2.3	1,677
– Financing	1,512	0.3	306	3,107	0.7	900
- Other customers	34,061	5.9	4,576	31,169	6.7	4,484
Subtotal	468,340	81.0	143,310	369,156	79.7	99,716
Personal loans	76,089	13.2		48,375	10.4	
Discounted bills	33,599	5.8		45,636	9.9	
Gross loans and advances to customers	578,028	100.0		463,167	100.0	
Less: Impairment allowances	(9,342)			(9,786)		
Net loans and advances to customers	568,686			453,381		

Impaired loans and individual and collective impairment allowances in respect of economic sectors which constitute 10% or more of total loans and advances to customers are as follows:

	31 December 2007					
	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances	Impairment charged to income statement during the year	Impaired loan written off during the year	
Manufacturing Transportation, storage and posting	4,051 65	2,833 50	1,026 456	1,366 196	848 30	

	31 December 2006							
	Impaired loans and advances	Individual impairment allowances	Collective impairment allowances	Impairment charged to income statement during the year	Impaired loan written off during the year			
Manufacturing Transportation, storage and posting	4,780 156	2,727 103	711 239	813 74	1,063 274			

(iv) Loans and advances to customers and the balance secured by collaterals analysed by geographical sector risk concentrations at the balance sheet date:

	31 December 2007			31 December 2006		
		%	Loans Secured by Collaterals		%	Loans Secured by Collaterals
Yangtze River Delta	182,058	31.5	66,350	146,784	31.7	49,031
Bohai Rim (including Headquarters)	169,249	29.3	53,816	138,310	29.9	36,245
Pearl River Delta and West Strait	91,258	15.8	39,985	68,230	14.7	26,079
Central	60,410	10.5	19,529	46,704	10.1	13,117
Western	55,780	9.7	27,991	43,820	9.5	15,825
Northeastern	19,065	3.2	6,631	19,141	4.1	5,502
Hong Kong		0.0	10	178	0.0	
Total	578,028	100.0	214,312	463,167	100.0	145,799

See Note 33(b) for the definitions of geographical segments.

Impaired loans and individual and collective impairment allowances in respect of geographic sectors which constitute 10% or more of total advances to customers are as follows:

	31 December 2007 Impaired Individual Collective			31 December 2006 Impaired Individual Collecti		
	loans and		impairment	loans and	impairment allowances	impairment
Yangtze River Delta	852	488	1,160	756	257	863
Bohai Rim (including Headquarters)	4,114	2,720	1,307	5,091	2,915	967
Pearl River Delta and West Strait	1,878	1,057	581	3,977	2,806	451
Central	772	638	381	816	496	272
	7,616	4,903	3,429	10,640	6,474	2,553

### (b) Market risk

Market risk arises on all market risk sensitive financial instruments, including securities, foreign exchange contracts, equity and derivative instruments, as well as from balance sheet or structural positions. Market risk arises from adverse movement in market rates including interest rates, foreign exchange rates and stock prices etc. as well as their volatility. Market risk would arise from both the group's trading and non-trading business. The objective of market risk management is to avoid excessive exposure of earnings and equity to loss and to reduce the group's exposure to the volatility inherent in financial instruments.

The Market Risk Committee is responsible for formulating the group's market risk management policies and procedures, setting risk exposure limits and approving new products. The Budget and Finance Department is responsible for the day-to-day tasks of managing market risk, including formulating procedures to identify, assess, measure and control market risks. The Treasury and Capital Markets Department is responsible for managing the group's investment portfolios, conducting proprietary and customer-driven transactions, implementing market risk management policies and rules and ensuring that risk levels are within set limits.

The use of derivatives for proprietary trading and their sale to customers as risk management products is an integral part of the group's business activities. These instruments are also used to manage the group's own exposures to market risk as part of its asset and liability management process. The principal derivative instruments used by the group are interest and foreign exchange rate related contracts, which are primarily over-the-counter derivatives.

Sensitivity analysis and foreign currency exposure analysis are the key methods used by the group to measure and monitor the market risk of its trading business with Value-at-Risk ("VaR") as a supplementary method. Gap analysis is the key method used by the group to monitor the market risk of its non-trading business.

The group applies a wide range of sensitivity analyses to assess the potential impact on the group's earnings as a result of a set of forward-looking movements in market prices and the result is regularly reviewed.

Foreign currency exposure analysis is a method to measure the effect on the group's net earnings by foreign exchange rate changes. The group calculates individual foreign currency exposure for both net spot and net forward positions. All the individual foreign currency exposures are then aggregated to form an overall exposure. Foreign currency exposure limits are set for individual currencies as well as the overall level. The group also distinguishes between trading and non-trading foreign currency exposures.

VaR is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The group's Treasury and Capital Markets Department calculates interest rate VaR using historical movement in market rates and prices, at 99% confidence level, with a 10-day holding period on its foreign currency denominated investments.

Gap analysis is a technique to project future cash flows in order to quantify the differences, for a range of future dates, between assets and liabilities.

Currently, the group is upgrading its present market risk management information system to monitor its overall market risk through new Assets and Liability Management (ALM) and Fund Transfer Pricing (FTP) systems.

The group does not actively trade in financial instruments and, in the opinion of the directors, the market risk related to trading activities to which the group is exposed is not material. Accordingly, no quantitative market risk disclosures have been prepared.

### (c) Interest rate risk

The group's interest rate exposures mainly comprise those originating in its commercial banking structural interest rate exposure, and trading positions. The Budget and Finance Department is responsible for overall interest rate risk management.

The structural interest rate risk primarily results from the timing differences in the repricing of interest-bearing assets, liabilities and commitments. The Budget and Finance Department manages the structural interest rate risk primarily through gap analysis and interest rate sensitivity analysis.

The majority of interest rate risk from the group's trading positions arises from the Treasury's investment portfolios. Sensitivity related limits such as Price Value of a Basis Point (PVBP) and duration, as well as stop loss limits and concentration limit, are the main tools adopted by the Budget and Finance Department to manage trading interest rate risk.

Interest rate risk limits are determined by the Market Risk Committee, which is comprised of senior management. The Budget and Finance Department monitors interest rate risk and reports to the Market Risk Committee on both a regular and ad hoc basis as the need arises.

The following tables indicate the effective interest rates for the year and the expected next repricing dates (or maturity dates whichever are earlier) for the assets and liabilities at the balance sheet date.

			31 December 2007				
	Effective				Between	Between	
	interest rate		Non-interest	Less than	three months	one and	More than
	(note (i))	Total	bearing	three months	and one year	five years	five years
Assets							
Cash and balances with							
central bank	1.70%	209,399	4,341	205,058			
Amounts due from banks	1.70/0	209,399	4,041	203,030	-	-	-
and other							
financial institutions	3.54%	55,851	-	54,018	1,394	439	_
Loans and advances to	0.01/0	00,001		01,010	1,071	107	
customers (note (ii))	6.11%	568,686	-	362,860	192,181	12,017	1,628
Investments	3.38%	159,848	455	55,796	44,936	40,709	17,952
Others	-	17,402	17,402	-	-	_	-
Total assets		1,011,186	22,198	677,732	238,511	53,165	19,580
Liabilities							
Amounts due to central ban	ik 5.03%	415	-	365	50	-	-
Amounts due to banks and							
other financial institution		112,587	-	111,184	764	-	639
Deposits from customers	1.98%	787,211	8,168	675,275	84,183	15,536	4,049
Subordinated debts/bonds							
issued	4.90%	12,000	-	6,000	-	-	6,000
Others	-	14,882	14,882				
Total liabilities		927,095	23,050	792,824	84,997	15,536	10,688
Asset-liability gap		84,091	(852)	(115,092)	153,514	37,629	8,892

**APPENDIX III** 

### FINANCIAL INFORMATION RELATING TO CNCB

				31 Decer	nber 2006		
in	Effective terest rate (note (i))	Total	Non-interest bearing	Less than three months	Between three months and one year	Between one and five years	More than five years
Assets							
Cash and balances with							
central bank	1.54%	90,620	2,589	88,031	-	-	-
Amounts due from banks and							
other financial institutions	2.73%	43,250	-	39,622	2,935	693	-
Loans and advances to							
customers (note (ii))	5.33%	453,381	-	223,558	225,435	3,557	831
Investments	3.37%	104,424	337	28,778	51,797	12,685	10,827
Others	-	15,048	15,048				
Total assets		706,723	17,974	379,989	280,167	16,935	11,658
Liabilities							
Amounts due to central bank	5.10%	201	-	28	173	-	-
Amounts due to banks and							
other financial institutions	1.91%	36,166	-	33,921	1,378	211	656
Deposits from customers	1.96%	618,412	4,190	489,467	107,450	14,021	3,284
Subordinated debts/bonds							
issued	4.66%	12,000	-	6,000	-	-	6,000
Others	-	8,250	8,250				
Total liabilities		675,029	12,440	529,416	109,001	14,232	9,940
Asset-liability gap		31,694	5,534	(149,427)	) 171,166	2,703	1,718

Notes:

- (i) Effective interest rate represents the ratio of interest income/expense to average interest bearing assets/liabilities.
- (ii) For loans and advances to customers, the above "Less than three months" category includes overdue amounts (net of allowances for impairment losses) of RMB5,102 million as at 31 December 2007 (as at 31 December 2006: RMB6,838 million). Overdue amounts represent loans, of which the whole or part of the principals was overdue, or interest was overdue for more than 90 days but for which principal was not yet due.

The group uses sensitivity analysis to measure the potential effect of changes in interest rates on the group's net interest income. The following table sets forth the results of the group's interest rate sensitivity analysis at 31 December 2007 and 31 December 2006.

	31 December 2 Change in intere (in basis poi	st rates	31 December 2006 Change in interest rates (in basis point)		
	(100)	100	(100)	100	
Increase/(decrease) in annualized net interest income (in millions of RMB)			211	(211)	

This sensitivity analysis is based on a static interest rate risk profile of the group's nonderivative assets and liabilities and certain simplified assumptions. The analysis measures only the impact of changes in the interest rates within one year, showing how annualized interest income would have been affected by repricing of the group's non-derivative assets and liabilities within the one-year period. The analysis is based on the following assumptions: (i) all assets and liabilities that reprice or mature within three months and after three months but within one year reprice or mature at the beginning of the respective periods (i.e., all the assets and liabilities that reprice or mature within three months reprice or mature immediately, and all the assets and liabilities that reprice or mature after three months but within one year reprice or mature immediately after three months), (ii) there is a parallel shift in the yield curve and in interest rates, and (iii) there are no other changes to the portfolio, all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the group's net interest income resulting from increases or decreases in interest rates may differ from the results of this sensitivity analysis.

### (d) Currency risk

The group's foreign currency positions arise from foreign exchange dealing, commercial bank operations and foreign currency capital related structural exposures. The foreign currency exposures arising in branch daily operations are aggregated to Treasury and Capital Markets Department through back to back transactions.

The Treasury and Capital Markets Department manages the currency risk within the limits approved by the Market Risk Committee by closing the exposure positions through external market transactions.

The group manages other currency risk by spot and forward foreign exchange transactions and matching its foreign currency denominated assets with corresponding liabilities in the same currencies.

### The exposures at the balance sheet date were as follows:

	31 December 2007				
	RMB	USD	Others	Total	
Assets					
Cash and balances with central bank	206,170	2,860	369	209,399	
Amounts due from banks and	200,170	2,000	507	200,000	
other financial institutions	44,904	7,720	3,227	55,851	
Loans and advances to customers	538,818	28,598	1,270	568,686	
Investments	119,882	34,843	5,123	159,848	
Others	14,540	2,179	683	17,402	
Total assets	924,314	76,200	10,672	1,011,186	
Liabilities					
Amounts due to central bank	415	-	-	415	
Amounts due to banks and other					
financial institutions	102,381	8,759	1,447	112,587	
Deposits from customers	735,558	42,236	9,417	787,211	
Subordinated debts/bonds issued	12,000	-	-	12,000	
Others	13,198	1,309	375	14,882	
Total liabilities	863,552	52,304	11,239	927,095	
Net on-balance sheet position	60,762	23,896	(567)	84,091	
Credit commitments	213,043	39,505	8,038	260,586	
Derivatives (note (i))	17,181	(17,052)	342	471	

APPENDIX III

### FINANCIAL INFORMATION RELATING TO CNCB

	31 December 2006			
	RMB	USD	Others	Total
Assets				
Cash and balances with central bank	87,300	2,938	382	90,620
Amounts due from banks and other	07,000	2,000	002	)0,0 <u>1</u> 0
financial institutions	34,741	6,733	1,776	43,250
Loans and advances to customers	436,418	15,638	1,325	453,381
Investments	72,569	26,321	5,534	104,424
Others	13,763	977	308	15,048
Total assets	644,791	52,607	9,325	706,723
Liabilities				
Amounts due to central bank	201	-	-	201
Amounts due to banks and				
other financial institutions	31,332	3,506	1,328	36,166
Deposits from customers	562,106	48,903	7,403	618,412
Subordinated debts/bonds issued	12,000	-	-	12,000
Others	7,862	166	222	8,250
Total liabilities	613,501	52,575	8,953	675,029
Net on-balance sheet position	31,290	32	372	31,694
Credit commitments	165,687	23,010	6,875	195,572
Derivatives (note (i))	3,307	1,645	(800)	4,152

Note:

(i) The derivatives represent the net notional amount of currency derivatives, including undelivered foreign exchange spot, foreign exchange forward, foreign exchange swap and currency option.

The group uses sensitivity analysis to measure the potential effect of changes in foreign currency exchange rates on the group's net profit and loss. The following table sets forth, as at 31 December 2007 and 31 December 2006, the results of the group's interest rate sensitivity analysis on the assets and liabilities at the same date.

	31 December Change in for currency exchar (in basis po	reign 1ge rate	31 December Change in fo currency exchar (in basis po	reign nge rate
	(100)	100	(100)	100
(Decrease)/increase in annualized net profit (in millions of RMB)	(9)	9	(2)	2

This sensitivity analysis is based on a static foreign exchange exposure profile of assets and liabilities and certain simplified assumptions. The analysis is based on the following assumptions: (i) the foreign exchange sensitivity is the gain and loss recognised as a result of 100 basis point fluctuation in the foreign currency exchange rates against RMB, (ii) the exchange rates against RMB for all foreign currencies change in the same direction simultaneously, and (iii) the foreign exchange exposures calculated include both spot foreign exchange exposures, forward foreign exchange exposures and options, and all positions will be retained and rolled over upon maturity. The analysis does not take into account the effect of risk management measures taken by management. Due to the assumptions adopted, actual changes in the group's net foreign exchange gain and loss resulting from increases or decreases in foreign exchange rates may differ from the results of this sensitivity analysis.

### (e) Liquidity risk

The purpose of liquidity management is to ensure sufficient cash flows for the group to meet all financial commitment and to capitalise on opportunities for business expansion. This includes the group's ability to meet deposit withdrawals either on demand or at contractual maturity, to repay borrowings in full amounts as they mature, or to meet other obligations for payments, to comply with the statutory liquidity ratio, and to make new loans and investments as opportunities arise.

Liquidity is managed on a daily basis according to the group's liquidity objectives by the Treasury under the direction of the Asset and Liability Committee. It is responsible for ensuring that the group has adequate liquidity for RMB and foreign currency operations.

The group manages liquidity risk by holding liquid assets (including deposits at PBOC, other short term funds and securities) of appropriate quality and quantity to ensure that short term funding requirements are covered within prudent limits. Adequate standby facilities are maintained to provide strategic liquidity to meet unexpected and material demand for payments in the ordinary course of business.

The group regularly stress tests its liquidity position.

In terms of measuring liquidity risk, the group principally uses liquidity gap analysis. Different scenarios are applied to assess the impact on liquidity for proprietary trading and client businesses.

The following tables provide an analysis of assets and liabilities of the group into relevant maturity groupings based on the remaining periods to repayment at the balance sheet date.

	Repayable on demand	Less than three months	31 Decer Between three months and one year	nber 2007 Between one and five years	More than five years	Indefinite	Total
						(note(i))	
Assets							
Cash and balances with							
central bank	38,401	86,030	-	-	-	84,968	209,399
Amounts due from banks							
and other financial							
institutions	15,327	38,666	1,394	439	-	25	55,851
Loans and advances to							
customers	1,838	118,718	256,261	108,397	79,865	3,607	568,686
Investment securities				/-		.=.	
(note (iii))	4,350	31,064	32,149	55,065	36,749	471	159,848
Others	698	2,378	2,209	991	303	10,823	17,402
Total assets	60,614	276,856	292,013	164,892	116,917	99,894	1,011,186
Liabilities							
Amounts due to central bank	_	365	50	-	_	-	415
Amounts due to banks and		000	00				110
other financial institutions	97,667	13,517	764	-	639	-	112,587
Deposits from customers	409,691	249,362	98,883	25,226	4,049	-	787,211
Subordinated debts/							
bonds issued	-	-	-	6,000	6,000	-	12,000
Others	1,533	7,858	2,003	1,437	1,703	348	14,882
-							
Total liabilities	508,891	271,102	101,700	32,663	12,391	348	927,095
Long/(short) position	(448,277)	5,754	190,313	132,229	104,526	99,546	84,091

**APPENDIX III** 

			31 Decer Between three	nber 2006			
	Repayable on demand	Less than three months	months and one year	Between one and five years	More than five years	Indefinite (note(i))	Total
Cash and balances with central bank Amounts due from banks	32,727	15,970	-	-	-	41,923	90,620
and other financial institutions Loans and advances to	10,008	29,563	2,935	692	-	52	43,250
customers	1,377	93,627	196,211	96,211	59,842	6,113	453,381
Investments (note (ii))	434	14,753	35,304	32,333	21,208	392	104,424
Others	382	1,042	819	520	209	12,076	15,048
Total assets	44,928	154,955	235,269	129,756	81,259	60,556	706,723
Liabilities							
Amounts due to central bank Amounts due to banks and	-	28	173	-	-	-	201
other financial institutions	27,160	6,761	1,378	211	656	-	36,166
Deposits from customers	293,084	160,127	119,650	41,877	3,674	-	618,412
Subordinated debts/							
bonds issued	-	-	-	6,000	6,000	-	12,000
Others	205	6,673	1,137	33	48	154	8,250
Total liabilities	320,449	173,589	122,338	48,121	10,378		675,029
Long/(short) position	(275,521)	(18,634)	112,931	81,635	70,881	60,402	31,694

#### Notes:

- (i) For cash and balances with the central bank, the indefinite period amount represents statutory deposit reserves and fiscal balances maintained with the PBOC For amounts due from banks and non-bank financial institutions, loans and advances to customers, receivables and debt securities within investments represents the balances being impaired or overdue for more than one month. Equity investments are also reported under indefinite period.
- (ii) For financial assets at fair value through profit or loss, derivatives and availablefor-sale investments, the remaining term to maturity does not represent the group's intended holding period.

### (f) Operational risk

Operational risk includes the risk of direct or indirect loss due to an event or action causing failure of technology, processes, infrastructure and personnel, and other risks having an operational impact.

The group manages this risk through a control-based environment by establishing a framework of policies and procedures in order to identify, assess, control, manage and report risks. The framework covers all business functions ranging from finance, credit, accounting, settlement, savings, treasury, intermediary business, computer applications and management, special assets resolution and legal affairs. This has allowed the group to identify and address comprehensively the operational risk inherent in all key products, activities, processes and systems. Key controls include:

- authorization limits for various business activities to branches and functions are delegated after consideration of their respective business scope, risk management capabilities and credit approval procedures. Such authorities are revised on a timely basis to reflect changes in market conditions and business development and risk management needs;
- the use of the single legal responsibility framework and strict disciplinary measures in order to ensure accountability;
- systems and procedures to identify, control and report on the major risks: credit, market, liquidity and operational;
- promotion of a risk management culture throughout the organisation by building a team of risk management professionals, providing formal training and having an appraisal system in place, to raise the overall risk awareness among the group's employees;
- the Accounting Department was appointed to be responsible for overseeing that cash management and account management are in compliance with the relevant regulations, and for improving training on anti-money laundering to ensure our staff are well-equipped with the necessary knowledge and basic skills;
- the review and approval by senior management of comprehensive financial and operating plans which are prepared by branches;
- the assessment of individual branches' financial performance against the comprehensive financial and operating plan; and
- the maintenance of contingent facilities (including backup systems and disaster recovery schemes) to support all major operations, especially back office operations, in the event of an unforeseen interruption. Insurance cover is arranged to mitigate potential losses associated with certain operational events.

In addition to the above, CNCB's Internal Audit Department, which directly reports to the Internal Audit Committee, examines and independently evaluates its risk management policies and procedures and internal controls. The Internal Audit Committee is under the direct supervision of the Executive Management Committee led by the President of the Bank.

The Internal Audit Committee determines the frequency and priority of audits of CNCB's different operating units and branches based on their assessment of the level of risk of those units and branches.

### 36. CAPITAL MANAGEMENT

Capital adequacy ratio management is the key part of CNCB's capital management. CNCB calculates and discloses capital adequacy ratios since 2004 in accordance with "Regulation Governing Capital Adequacy of Commercial Banks" issued by the CBRC in February 2004, which was amended by CBRC in July and November 2007, and other relevant guidelines. These guidelines may have significant differences with the relevant requirements in Hong Kong or other regions and countries. The capital of CNCB is analysed into core capital and supplementary capital. The core capital mainly includes paid-up share capital or ordinary shares, capital reserve, surplus reserve, retained earnings, and minority interests, after the deduction of dividends declared after the balance sheet date, as well as deductions of 100% of goodwill and 50% of unconsolidated equity investments. Supplementary capital includes general provisions and subordinated debts/bonds.

The CBRC requires that the capital adequacy ratio and core capital adequacy ratio for commercial banks shall not fall below 8% and 4% respectively. For commercial banks, supplementary capital shall not exceed 100% of core capital while long-term subordinated liabilities included in the supplementary capital should not exceed 50% of the core capital. When total positions of trading accounts exceed 10% of the on- and off-balance sheet total assets, or RMB8.5 billion, commercial banks must provide for market risk capital. At present, CNCB is fully compliant with legal and regulatory requirements.

Capital adequacy ratio management is a core issue of capital management. The capital adequacy ratio reflects CNCB 's sound operations and risk management capability. CNCB's capital adequacy ratio management objectives are to meet the legal and regulatory requirements, and to prudently determine the capital adequacy ratio under realistic exposures with reference to the capital adequacy ratio levels of leading global banks and the Bank's operating situations.

CNCB considers its strategic development plans, business expansion plans and risk variables in conducting its scenario analysis, stress testing and other measures to forecast, plan and manage capital adequacy ratio.

CNCB's policies in respect of capital management and allocation are reviewed regularly by the board of directors.

The capital adequacy ratios and the related components of CNCB as at 31 December 2007 and 2006 calculated based on the financial statements under relevant accounting rules and regulations in the PRC were as follows:

	31 December 2007	31 December 2006
Core capital adequacy ratio	13.14%	6.57%
Capital adequacy ratio	15.27%	9.41%
Components of capital base Core capital:		
– Share capital	39,033	31,113
– Capital reserve (note (i))	36,916	-
<ul> <li>Investment revaluation reserve</li> </ul>	(89)	(7)
<ul> <li>Surplus reserve and general reserve</li> </ul>	4,560	-
– Retained earnings	1,519	-
	81,939	31,106
Supplementary capital:		
- General provision for loans and advances	3,621	2,663
<ul> <li>Fair value change of trading financial assets</li> </ul>	101	-
<ul> <li>Subordinated debts/bonds</li> </ul>	9,600	10,800
Total supplementary capital	13,322	13,463
Total capital base before deductions Deductions:	95,261	44,569
<ul> <li>– Unconsolidated equity investments</li> </ul>	90	158
Total capital base after deductions	95,171	44,411
Core capital base after deductions (note (i))	81,894	31,027
Pick weighted assets	623,300	471,957
Risk weighted assets	023,300	4/1,907

Note:

(i) According to relevant regulation, 50% unconsolidated non-bank financial institutes' investments should be deducted when we calculate core capital base.

### 37. FAIR VALUE

#### (a) Financial assets

The group's financial assets mainly include cash, amounts due from central bank, banks and other financial institutions, loans and advances to customers, and investments.

Amounts due from central bank, banks and other financial institutions

Amounts due from central bank, banks and other financial institutions are mainly priced at market interest rates and mature within one year. Accordingly, the carrying values approximate the fair values.

### Loans and advances to customers

Loans and advances to customers are mostly priced at floating rates close to the PBOC rates. Accordingly, their carrying values approximate the fair values.

#### Investments

Available-for-sale investments and trading debt securities are stated at fair value in the balance sheet. The following table summarizes the carrying values and the fair values of held-to-maturity debt securities which are not presented on the balance sheet at their fair values.

	Carrying values		Carrying values Fair values	
	2007	2006	2007	2006
Held-to-maturity debt securities	109,391	68.196	108.958	68,453
field to matally dept becamee	107/071	00/1/0	100)/00	00)100

### (b) Financial liabilities

The group's financial liabilities mainly include amounts due to banks and other financial institutions, deposits from customers and subordinated debts/bonds issued. The carrying values of financial liabilities approximated their fair values at the balance sheet date except for subordinated bonds, of which the carrying values and fair values are presented as below:

	Carrying values		Fair values	
	2007	2006	2007	2006
Subordinated bonds	6,000	6,000	5,667	6,163

### 38. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

In determining the carrying amounts of some assets and liabilities, the group makes assumptions of the effects of uncertain future events on those assets and liabilities at the balance sheet date. These estimates involve assumptions about such items as risk adjustment to cash flows or discount rates used, future changes in salaries and future changes in prices affecting other costs. The group's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgments are also made during the process of applying the group's accounting policies.

### (a) Impairment losses on loans and advances

Loan portfolios are assessed periodically to assess whether impairment losses exist and if they exist, the amounts of impairment losses. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows identified with an individual loan. It also includes observable data indicating adverse changes in the repayment status of borrowers in the loan portfolio or national or local or economic conditions that correlate with defaults on the loans in the portfolio. The impairment loss for a loan that is individually evaluated for impairment is the decrease in the estimated future cash flow of that loan.

When loans and advances are collectively evaluated for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the loans and advances. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions. Management review the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss experience.

### (b) Impairment of available-for-sale equity investments

For available-for-sale equity investments, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgment is required when determining whether a decline in fair value has been significant or prolonged. In making this judgment, the historical data on market volatility as well as in the share price of the specific equity investment are taken into account. The group also takes into account other factors, such as industry and sector performance and financial information regarding the investee.

### (c) Fair value of financial instruments

The fair values for those financial instruments, where no quoted prices from an active market exist, are established by using valuation techniques. These techniques include using recent arm's length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis and option pricing models. The group has established a process to ensure that valuation techniques are constructed by qualified personnel and are validated and reviewed by personnel independent of the area that constructed the valuation techniques. Valuation techniques are certified before being implemented for valuation and are calibrated to ensure that outputs reflect actual market conditions. Valuation models established by the group make the maximum use of market inputs and rely as little as possible on group-specific data. However, it should be noted that some inputs, such as credit and counterparty risk, and risk correlations, require management estimates. Management estimates and assumptions are reviewed periodically and are adjusted if necessary.

### (d) Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity investments if the group has the intention and ability to hold them until maturity. In evaluating whether the requirements to classify a financial asset as held-to- maturity are met, management make significant judgments. Failure in correctly assessing the group's intention and ability to hold specific investments until maturity may result in reclassification of the whole portfolio as available-for-sale.

#### (e) Income taxes

Determining income tax provisions involves judgment on the future tax treatment of certain transactions. The group carefully evaluates tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislations.

Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised. Management's judgment is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

### 39. RELATED PARTIES

CITIC Group, the majority shareholder of CNCB, is a state-owned company established in the PRC in 1979. CITIC Group's core businesses include operations in the financial, industrial and service industries in the PRC and internationally. The group's related party transactions are those transactions between the group and CITIC Group and its subsidiaries, which include the Company, the other shareholder of CNCB.

### (a) Related party transactions

Other service fees

During the relevant years, the group entered into transactions with related parties in the ordinary course of its banking business including lending, investment, deposit and offbalance sheet transactions. The banking transactions were priced at the relevant market rates prevailing at the time of each transaction. Interest rates on loans and deposits are required to be set in accordance with the benchmark rates set by the PBOC.

Transactions during the relevant years and the corresponding balances outstanding at the balance sheet dates are as follows:

	Ultimate	2007 Fellow subsidi the Company	aries	
	holding	and its		
	company	subsidiaries	Others	Subsidiaries (note (i))
Interest income	50	6	96	20
Fee and commission income				
and other income	-	-	27	-
Interest expense	(134)	(4)	(602)	_
Other service fees	_	_	(45)	(27)
		2006 Fellow subsidi	aries	
	Ultimate _	the Company		
	holding	and its		
	company	subsidiaries	Others	Subsidiaries (note (i))
Interest income	119	4	105	33
Fee and commission income				
and other income	-	-	10	-
Interest expense	(68)	-	(148)	-
Management fee to CITIC Group	(750)	-	-	-

(82)

(21)

		31 December Fellow subsid		
	Ultimate holding company	the Company and its subsidiaries	Others	Subsidiaries (note (i))
Net loans and advances to customers Gross amounts due from banks	380	-	2,417	-
and other financial institutions Less: Impairment allowances	-	222	33 (8)	519
Net amounts due from banks and other financial institutions	_	222	25	519
Investments Other assets	316 5	365	213 8	87 4
Deposits from customers Amounts due to banks and	5,191	294	3,034	3
other financial institutions Other liabilities	20	- -	33,554 46	
Off-balance sheet transactions Guarantees and letters of credit Acceptances Guarantees for loans to third	308	- -	21 190	-
parties		976	50	
		31 December Fellow subsic		
	Ultimate holding company	the Company and its subsidiaries	Others	Subsidiaries (note (i))
Net loans and advances to customers	540	_	1,733	_
Gross amounts due from banks and other financial institutions	-	70	127	472
Less: Impairment allowances			(50)	
Net amounts due from banks and other financial institutions Investments	324	70	77	472 87
Other assets	4		7	4
Deposits from customers Amounts due to banks and other financial institutions	3,089	1	2,121	4

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III	-84

other financial institutions

Off-balance sheet transactions Guarantees and letters of credit

Guarantees for loans to third

Other liabilities

Acceptances

parties

Notes:

- The related party transactions between CNCB and the subsidiaries are eliminated on consolidation.
- (ii) CNCB sold wealth management products, which are managed by CITIC Trust, to its retail customers. During the year, CITIC Trust purchased from the Bank loans and advances to customers of RMB11,876 million at their net book value for these wealth management products. CNCB purchased back from CITIC Trust part of these loans of RMB4,720 million before the year end and another part of RMB5,770 million during the period between the year end and the date of this report.
- (iii) CNCB sold performing related party loans with an aggregate outstanding principal of RMB2,000 million to another domestic commercial bank for the same amount in cash on 30 June 2006. These loans were included in loans and advances to customers before they were derecognized from the balance sheet of CNCB from the date of sale.
- (iv) CNCB disposed of impaired loans due from related parties with an aggregate outstanding principal of RMB1,142 million and a net book value of RMB417 million in cash on 26 June 2006. The loans were sold in a public auction to the CITIC Group at their net book value. These loans were included in loans and advances to customers before they were derecognized from the balance sheet of the Bank from the date of sale.
- (v) In June 2006, CNCB transferred equity investments with net book value of RMB10 million to CITIC Asset Management Company limited ("CAM"), a fellow subsidiary of CNCB. Included in the amount transferred, investments with net book value of RMB6 million were sold to CAM through a public auction for a cash consideration of RMB6 million; investments with net book value of RMB4 million were sold to CAM for a cash consideration of RMB4 million in accordance with an agreement signed between CNCB and CAM.

### (b) Key management personnel and their close family members and related companies

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the group, directly or indirectly, including Directors, Supervisors and Executive Officers.

The group enters into banking transactions with key management personnel and their close family members and those companies controlled or significantly influenced by them in the normal course of business. In the opinion of the directors, other than the those disclosed as below, there are no material transactions and balances between the group and these individuals or those companies controlled or significantly influenced by them.

The aggregate amount of relevant loans outstanding as at 31 December 2007 to Directors, supervisors and executive officers amounted to RMB26 million (as at 31 December 2006: RMB10 million).

The aggregate of the compensations in respect of Directors and Supervisors is disclosed in Note 10. The Executive Officers' compensations during the years are as follows:

	<b>2007</b> <i>RMB'000</i>	<b>2006</b> <i>RMB'000</i>
Salaries and other emoluments Discretionary bonuses Contributions to defined contribution retirement schemes	5,204 25,831 753	1,155 8,543 1,192
	31,788	10,890

### (c) Contributions to defined contribution retirement schemes

The group participates in defined contribution retirement schemes organised by municipal and provincial governments for its employees in Mainland China.

The group has also established a supplementary defined contribution plan for its qualified employees. The plan is administered by CITIC Group.

The group is also required to make contributions to the Mandatory Provident Fund Scheme for its employees in Hong Kong at the rate set up by the local laws and regulations.

### (d) Transactions with other state-owned entities in the PRC

The group operates in an economic regime currently predominated by entities directly or indirectly owned by the PRC government through its government authorities, agencies, affiliations and other organizations ("state-owned entities").

Transactions with other state-owned entities include but are not limited to the following:

- lending and deposit taking;
- taking and placing of inter-bank balances;
- entrusted lending and other custody services;
- insurance and securities agency, and other intermediary services;
- sale, purchase, underwriting and redemption of bonds issued by other state-owned entities;
- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

These transactions are conducted in the ordinary course of the group's banking business on terms similar to those that would have been entered into with non-state-owned entities. The group has also established its pricing strategy and approval processes for major products and services, such as loans, deposits and commission income. The pricing strategy and approval processes do not depend on whether the customers are state-owned entities or not. Having due regard to the substance of the relationships, the Directors are of opinion that none of these transactions are material related party transactions that require separate disclosure.

# 40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of the financial statements, a number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2007, and have not been applied in preparing these consolidated financial statements:

The group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretation is expected to be in the period of initial application. So far it has included that the adoption of them is unlikely to have a significant impact on CNCB's results of operations and financial position.

In addition, IFRS 8 Operating Segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the group's 2009 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them.

IFRS 8 requires operating segments to be identified, and their amounts disclosed in the financial statements, on the same basis as internally reported for the purpose of making decisions on the allocation of an entity's resources. The group has assessed the impact of IFRS 8 and concluded that its adoption would have no significant impact on the Group's financial statements. The group will apply IFRS 8 for annual accounting periods beginning 1 January 2009.

IFRIC 13 Customer Loyalty Programmes addresses the accounting by entities that operates, or otherwise participate in, customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods or services. IFRIC 13 becomes mandatory on the group's 2009 financial statements and is not expected to have any significant impact on the consolidated financial statement.

IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirement ("MFR") and their interaction clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of MFR. The group has not yet determined the potential effect of the interpretation.

### 41. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current year's presentation.

### 42. EVENTS AFTER THE BALANCE SHEET DATE

Up to the date of this report, the group had no material events for disclosure after the balance sheet date.

# 3. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS OF CNCB FOR THE SIX MONTHS ENDED 30 JUNE 2008

The following unaudited consolidated financial statements of CNCB for the six months ended 30 June 2008 has been extracted from its announcement dated 20 August 2008, except that the definitions used in this document have been adopted in the extract below.

### Unaudited consolidated income statement

for the six months ended 30 June 2008 (Expressed in millions of Renminbi unless otherwise stated)

	Six m ended 3 2008	
Interest income Interest expense	29,099 (10,871)	18,123 (6,867)
Net interest income	18,228	11,256
Fee and commission income Fee and commission expense	1,551 (170)	715 (110)
Net fee and commission income	1,381	605
Net trading gain/(loss) Net gain from investment securities Other operating income	483 88 180	(77) 42 83
Operating income	20,360	11,909
General and administrative expenses	(7,735)	(5,137)
Provisions for impairment losses on – loans and advances to customers – others	(1,413)	(1,144) (18)
Profit before taxation	11,203	5,610
Income tax	(2,774)	(2,387)
Net profit	8,429	3,223
Attributable to: Shareholders of CNCB Minority interests	8,429	3,223
Net profit	8,429	3,223
Profit appropriations	2,088	726
Earnings per CNCB Share attributable to shareholders of CNCB – Basic and diluted (Renminbi)	0.22	0.09

## APPENDIX III FINANCIAL INFORMATION RELATING TO CNCB

### Unaudited consolidated balance sheet

as at 30 June 2008 (Expressed in millions of Renminbi unless otherwise stated)

	30 June 2008	31 December 2007
Assets		
Cash and balances with central bank	148,195	123,369
Amounts due from banks and other		
financial institutions	30,863	26,655
Balances under resale agreements	44,745	118,046
Loans and advances to customers	623,192	565,866
Trading assets	4,614	6,500
Derivatives	4,150	2,049
Investment securities	244,993	153,348
Property and equipment Deferred tax assets	9,101	8,948
Other assets	1,112 6,205	954 5,451
Other assets	0,203	
Total assets	1,117,170	1,011,186
Liabilities		
Amounts due to banks and other financial institutions	126 702	07 248
	136,703 11,393	97,248 15,754
Balances under repurchase agreements Derivatives	2,545	1,914
Deposits from customers	849,464	787,211
Current tax liabilities	1,643	3,444
Deferred tax liabilities	375	13
Other liabilities and provisions	12,889	9,511
Subordinated debts/bonds issued	12,000	12,000
Total liabilities	1,027,012	927,095
Equity		
Share capital	39,033	39,033
Reserves	40,864	41,138
Retained earnings	10,256	3,915
Total equity attributable to shareholders		
of CNCB	90,153	84,086
Minority interest	5	5
Total equity	90,158	84,091
Total equity and liabilities	1,117,170	1,011,186

## APPENDIX III FINANCIAL INFORMATION RELATING TO CNCB

### Unaudited balance sheet of CNCB

as at 30 June 2008 (Expressed in millions of Renminbi unless otherwise stated)

	30 June 2008	31 December 2007
Assets		
Cash and balances with central bank	148,190	123,360
Amounts due from banks and other		
financial institutions	31,608	27,169
Balances under resale agreements	44,814	118,046
Loans and advances to customers	622,783	565,659
Trading assets	4,614	6,500
Derivatives	4,150	2,049
Investment securities	244,577	153,017
Investment in subsidiaries	33	33
Property and equipment	9,066	8,909
Deferred tax assets	1,112	954
Other assets	6,199	5,452
Total assets	1,117,146	1,011,148
Liabilities		
Amounts due to banks and other		
financial institutions	136,703	97,248
Balances under repurchase agreements	11,393	15,754
Derivatives	2,545	1,914
Deposits from customers	849,464	787,214
Current tax liabilities	1,642	3,444
Deferred tax liabilities	366	4
Other liabilities and provisions	12,879	9,492
Subordinated debts/bonds issued	12,000	12,000
Total liabilities	1,026,992	927,070
Equity		
Share capital	39,033	39,033
Reserves	40,890	41,151
Retained earnings	10,231	3,894
Total equity	90,154	84,078
Total equity and liabilities	1,117,146	1,011,148

## APPENDIX III FINANCIAL INFORMATION RELATING TO CNCB

The interim financial report of the CNCB group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, including compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The interim financial report, which was authorized for issuance by the board of directors of CNCB on 20 August 2008, reflects the unaudited financial position of the CNCB group as at 30 June 2008 and the unaudited results of operations and cash flows of the CNCB group for the six months then ended. The results are not necessarily indicative of the results of operations and cash flows expected for the year ending 31 December 2008.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the CNCB group's financial statements for the year ended 31 December 2007.

For the purpose of this appendix, the below short form is used for the affiliates of Lehman Brothers:

LBCCA	:	Lehman Brothers Commercial Corporation Asia Limited
LBIE	:	Lehman Brothers International (Europe)
LBFSA	:	Lehman Brothers Finance SA.

### 1. DEALINGS IN SHARES

Set out below are dealings for value by the following affiliates of Lehman Brothers for their own account in the Shares from 3 December 2007 to 2 March 2008 (disclosed on a weekly basis):

Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Volume weighted average price (HK\$)	Lowest price (HK\$)	Highest price (HK\$)
3 December 2007-	LBCCA	Buy	519,000	5.0748	5.04	5.10
7 December 2007	LBCCA	Sell	166,000	5.5505	5.03	5.70
	LBIE	Sell	17,000	5.1076	5.11	5.11
10 December 2007-	LBFSA	Buy	733,000	5.3159	4.82	5.52
14 December 2007	LBIE	Buy	44,000	5.2123	5.20	5.22
	LBIE	Sell	119,000	5.4050	5.31	5.51
17 December 2007-	LBCCA	Sell	115,000	4.7132	4.69	4.77
21 December 2007	LBIE	Buy	238,000	4.6365	4.54	4.71
24 December 2007-	LBCCA	Sell	759,000	4.6985	4.60	4.77
28 December 2007	LBIE	Buy	17,000	4.6700	4.67	4.67
31 December 2007-	LBCCA	Buy	216,000	4.8319	4.78	4.88
4 January 2008	LBCCA	Sell	27,000	4.8804	4.83	4.92
	LBIE	Sell	109,000	4.8384	4.73	4.91
7 January 2008–	LBCCA	Buy	422,000	4.6507	4.57	4.73
11 January 2008	LBCCA	Sell	30,000	4.7153	4.58	4.78
	LBIE	Sell	48,000	4.6950	4.68	4.71
14 January 2008–	LBCCA	Buy	118,000	4.7514	4.61	4.74
18 January 2008	LBCCA	Sell	716,000	4.5585	4.08	4.67
	LBFSA	Buy	200,000	4.3000	4.30	4.30
	LBIE	Sell	16,000	4.7100	4.71	4.71

## DEALINGS AND DERIVATIVE INTERESTS IN THE SHARES AND CNCB H SHARES BY LEHMAN BROTHERS ASIA LIMITED AND ITS AFFILIATES

Date of		Nature of	Number of	Volume weighted average	Lowest	Highest
dealing	Dealing Party	dealing	the Shares	price	price	price
				(HK\$)	(HK\$)	(HK\$)
21 January 2008–	LBCCA	Sell	782,000	3.9372	3.57	4.10
25 January 2008	LBFSA	Buy	400,000	3.7275	3.73	3.73
	LBIE	Buy	19,000	3.6216	3.52	3.64
	LBIE	Sell	152,000	4.3209	4.08	4.36
28 January 2008–	LBCCA	Buy	3,000	4.3700	4.37	4.37
1 February 2008	LBIE	Sell	7,000	4.3700	4.36	4.38
4 February 2008-	LBCCA	Buy	149,000	4.3271	4.24	4.39
8 February 2008	LBIE	Buy	7,000	4.1200	4.12	4.12
11 February 2008–	LBCCA	Buy	520,000	4.0727	4.01	4.16
15 February 2008	LBCCA	Sell	384,000	3.9911	3.93	4.09
18 February 2008–	LBCCA	Sell	197,000	4.0119	3.99	4.08
22 February 2008	LBIE	Sell	24,000	4.0900	4.09	4.09
25 February 2008-	LBIE	Buy	24,000	3.9733	3.94	3.99
29 February 2008	LBCCA	Sell	346,000	3.9580	3.94	3.99

Set out below are dealings for value by the following affiliates of Lehman Brothers for their own account in the Shares from 3 March 2008 to 2 May 2008 (disclosed on an aggregated daily basis):

Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Volume weighted average price (HK\$)	Lowest price (HK\$)	Highest price (HK\$)
4 March 2008	LBIE	Sell	218,000	3.9204	3.91	3.94
7 March 2008	LBCCA	Buy	90,000	3.8071	3.79	3.83
10 March 2008	LBCCA	Buy	25,000	3.7936	3.76	3.82
11 March 2008	LBCCA	Buy	90,000	3.7891	3.76	3.82
12 March 2008	LBCCA	Buy	25,000	3.8808	3.84	3.91
13 March 2008	LBCCA	Buy	90,000	3.7357	3.70	3.81
14 March 2008	LBCCA	Buy	25,000	3.7628	3.72	3.80
17 March 2008	LBCCA	Buy	91,000	3.5073	3.42	3.64
18 March 2008	LBCCA	Buy	43,000	3.3086	3.20	3.44
	LBIE	Sell	8,000	3.2400	3.24	3.24

Date of		Nature of	Number of	Volume weighted	Lauraat	Ilishaat
	Dealine Deater	Nature of		average	Lowest	Highest
dealing	Dealing Party	dealing	the Shares	price (HK\$)	price (HK\$)	price (HK\$)
				(11K <i>⊅</i> )	(11K\$)	(11K\$)
20 March 2008	LBCCA	Buy	49,000	3.2941	3.24	3.33
	LBIE	Sell	8,000	3.2800	3.28	3.28
25 March 2008	LBCCA	Buy	49,000	3.3590	3.33	3.38
26 March 2008	LBCCA	Buy	49,000	3.4651	3.42	3.55
27 March 2008	LBCCA	Buy	49,000	3.5365	3.47	3.57
28 March 2008	LBCCA	Buy	307,000	3.7782	3.60	3.92
	LBIE	Buy	16,000	3.8400	3.83	3.85
31 March 2008	LBCCA	Sell	30,000	3.9917	3.96	4.04
1 April 2008	LBCCA	Buy	34,000	4.0479	4.02	4.13
2 April 2008	LBCCA	Buy	468,000	4.3657	4.26	4.45
	LBIE	Sell	8,000	4.3963	4.36	4.44
3 April 2008	LBIE	Sell	64,000	4.4400	4.44	4.44
7 April 2008	LBCCA	Buy	35,000	4.5366	4.46	4.58
9 April 2008	LBCCA	Sell	37,000	4.5341	4.48	4.60
11 April 2008	LBIE	Sell	32,000	4.6972	4.64	4.72
17 April 2008	LBCCA	Buy	52,000	4.6463	4.59	4.70
21 April 2008	LBCCA	Sell	65,000	4.7469	4.74	4.76
	LBCCA	Buy	1,000,000	4.7500	4.75	4.75
	LBFSA	Sell	1,630,000	4.7525	4.75	4.76
23 April 2008	LBCCA	Sell	65,000	4.9320	4.88	4.98
25 April 2008	LBCCA	Sell	65,000	5.1074	5.09	5.13
29 April 2008	LBCCA	Sell	47,000	5.0991	5.04	5.14
30 April 2008	LBCCA	Sell	7,000	5.1271	5.05	5.23
2 May 2008	LBCCA	Sell	1,000	5.3000	5.30	5.30
	LBIE	Sell	40,000	5.2800	5.28	5.28

Set out below are dealings for value by the following affiliates of Lehman Brothers for their own account in the Shares from 3 May 2008 to the Latest Practicable Date (disclosed on a non-aggregated daily basis):

Date of dealing	Dealing Party		ure of Number ling the Sha	=
5 May 2008	LBCCA	Buy	1,	000 5.31
,	LBCCA	Buy	1,	000 5.32
	LBCCA	Buy	3,	000 5.33
	LBCCA	Buy	3,	000 5.34
	LBCCA	Buy	1,	000 5.35
6 May 2008	LBCCA	Buy	3,	000 5.28
	LBCCA	Buy	4,	000 5.29
	LBCCA	Buy	4,	000 5.31
	LBCCA	Buy	4,	000 5.32
	LBCCA	Buy	1,	000 5.33
	LBCCA	Buy	3,	000 5.35
15 May 2008	LBFSA	Sell	185,	000 5.08
	LBFSA	Sell	106,	000 5.09
	LBFSA	Sell	65,	000 5.10
	LBFSA	Sell	24,	000 5.11
	LBIE	Buy	48,	000 5.09
16 May 2008	LBFSA	Buy	, 10,	000 5.15
	LBIE	Buy	16,	000 5.09
	LBIE	Buy	8,	000 5.11
	LBIE	Buy	16,	000 5.13
19 May 2008	LBIE	Buy	1,	000 5.13
	LBIE	Buy	1,	000 5.14
	LBIE	Buy	2,	000 5.15
	LBIE	Buy	3,	000 5.17
	LBIE	Buy	1,	000 5.18
21 May 2008	LBFSA	Buy	180,	000 5.45
23 May 2008	LBCCA	Buy	48,	000 5.15
	LBCCA	Buy	25,	000 5.16
	LBCCA	Buy		000 5.17
	LBCCA	Buy	15,	000 5.19
	LBCCA	Buy		000 5.20
	LBCCA	Buy		
	LBCCA	Buy		
	LBCCA	Buy		
	LBCCA	Buy		000 5.27
	LBCCA	Buy		
	LBFSA	Sell	100,	000 5.31

Date of dealing	Dealing Party		ture of lling	Number of the Shares	Price per Share (HK\$)
27 May 2008	LBFSA	Buy	y	1,201,000	5.42
,	LBFSA	Buy		74,000	5.44
	LBFSA	Buy		316,000	5.45
	LBFSA	Sel	1	63,000	5.47
	LBIE	Sel	1	24,000	5.45
28 May 2008	LBFSA	Buy	y	135,000	5.63
	LBFSA	Buy	y	290,000	5.64
	LBFSA	Buy	y	634,000	5.65
	LBFSA	Sel	1	176,000	4.65
30 May 2008	LBCCA	Sel	1	2,000	5.80
	LBCCA	Sel	1	428,000	5.85
	LBFSA	Sel	1	121,000	4.83
	LBFSA	Sel	1	67,000	5.67
	LBFSA	Sel	1	262,000	5.68
	LBFSA	Sel	1	76,000	5.69
	LBFSA	Sel	1	171,000	5.70
	LBFSA	Sel	1	267,000	5.73
	LBFSA	Sel	1	507,000	5.74
	LBFSA	Sel	1	150,000	5.76
	LBFSA	Sel	1	100,000	5.85
6 June 2008	LBIE	Sel	1	179,000	5.70
11 June 2008	LBCCA	Buy	y	7,000	6.15
	LBCCA	Buy	y	9,000	6.16
	LBCCA	Buy	y	15,000	6.17
	LBFSA	Sel	1	100,000	6.40
	LBIE	Buy	y	125,000	6.23
	LBIE	Buy	y	54,000	6.22
	LBIE	Buy	y	68,000	6.23
	LBIE	Buy		4,000	6.24
12 June 2008	LBIE	Sel	1	41,000	6.20
13 June 2008	LBIE	Buy		19,000	6.23
	LBIE	Buy		16,000	6.25
	LBIE	Buy		6,000	6.27
16 June 2008	LBCCA	Sel		4,000	6.22
	LBCCA	Sel		6,000	6.23
	LBCCA	Sel		6,000	6.25
	LBCCA	Sel		19,000	6.26
	LBCCA	Sel		3,000	6.27
	LBCCA	Sel		24,000	6.28 6.20
	LBCCA LBCCA	Sel Sel		10,000 6,000	6.30 6.32
	LDCCA	561.	L	0,000	6.32

Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Price per Share (HK\$)
23 June 2008	LBFSA	Buy	369,000	5.446
21 July 2008	LBFSA	Buy	342,000	5.446
21 August 2008	LBFSA	Buy	414,000	5.446

Set out below are dealings for value by the following affiliates of Lehman Brothers Asia Limited for their own account in convertible securities and derivatives in respect of the Shares from 3 December 2007 and to the Latest Practicable Date:

Date of dealing	Party	Description of convertible of securities/ derivative	Number f convertible securities/ derivatives	Nature of dealing	Unit price/ premium per convertible security/ derivative (HK\$)	Exercise/ Conversion/ Strike price (HK\$)	Exercise period/ Conversion period/Final valuation date	Number of the Shares involved
10 December 2007	Lehman Brothers Treasury Co. BV	Notional NZD 2M LBT Note		Issuance		4.4042	22 December 2009	(Note 1)
17 January 2008	LBCCA	Note in the original notional amount of USD2.25M issued on 27 Augus 2007	st	Buy back of USD200,000 of this Note		5.5420	10 September 2008	(Note 1)
22 January 2008	LBCCA	Note in the original notional amount of USD2.25M issued on 27 Augus 2007	st	Buy back of USD100,000 of this Note		5.5420	10 September 2008	(Note 1)
5 February 2008	LBCCA	Note in the original notional amount of USD2.25M issued on 27 Augus 2007	st	Buy back of USD200,000 of this Note		5.5420	10 September 2008	(Note 1)
9 May 2008	LBCCA	Note in the original notional amount of USD2.25M issued on 27 Augus 2007	st	Buy back of USD100,000 of this Note		5.5420	10 September 2008	(Note 1)
27 May 2008	LBFSA	Accumulator	8,000	Sale	7.7790175	4.65	27 May 2008 to 27 May 2009	(Note 2)
28 May 2008	LBFSA	Accumulator	8,000	Knock out event <sup>(Note 3)</sup>		4.65	27 May 2008 to 27 May 2009	176,000
21 April 2008	LBFSA	Decumulator	9,000	Purchase	3.420731111	5.446	21 April 2008 to 21 October 2008	(Note 2)
28 May 2008	LBFSA	Accumulator	5,500	Sale	8.086596364	4.8262	28 May 2008 to 29 May 2009	(Note 2)
30 May 2008	LBFSA	Accumulator	5,500	Knock out event <sup>(Note 3)</sup>		4.8262	28 May 2008 to 29 May 2009	121,000

Notes:

- 1. These trades relate to Euro medium term notes issued by Lehman Brothers entities in respect of which the Shares constitute one of the underlying basket of shares, which shares will be physically delivered if the value of the worst performing share is less than a pre-determined valuation price or, otherwise, the notes will be cash settled if the value of the worst performing stock is greater than the pre-determined strike price at maturity date.
- 2. The number of the Shares involved (i.e. acquired by the accumulator holder or delivered by the decumulator holder) will only be determined at the end of each observation period and based on a pre-existing formula under the provisions of the accumulator/decumulator derivative within the agreed contract terms.
- 3. A knock out event is automatically triggered if the closing price of the underlying reference share reaches a pre-determined trigger price. Upon an occurrence of a knock out event, a number of the underlying reference shares will be:
  - (a) received from the derivative holder by the issuer in respect of a decumulator; or
  - (b) delivered to the derivative holder by the issuer in respect of an accumulator.

### 2. DEALINGS IN CNCB H SHARES

Set out below are dealings for value by the following affiliates of Lehman Brothers on their own account in CNCB H Shares from 3 December 2007 to 2 March 2008 (disclosed on a weekly basis):

Date of dealing	Dealing Party	Nature of dealing	Number of CNCB Shares	Volume weighted average price (HK\$)	Lowest price (HK\$)	Highest price (HK\$)
3 December 2007-	LBCCA	Buy	8,611,000	5.3957	5.3400	5.4200
7 December 2007	LBCCA	Sell	2,241,000	5.4637	5.2500	5.5400
	LBFSA	Buy	1,610,000	5.3400	5.3400	5.3400
	LBFSA	Sell	540,000	5.6464	5.3400	5.8915
	LBIE	Buy	220,000	5.3212	5.2900	5.3500
10 December 2007-	LBCCA	Sell	6,793,000	5.1973	5.0000	5.3600
14 December 2007	LBFSA	Buy	1,000,000	5.0200	5.0200	5.0200
	LBIE	Sell	740,000	5.1109	5.0000	5.3600
17 December 2007-	LBCCA	Buy	459,000	5.0403	5.0200	5.0600
21 December 2007	LBCCA	Sell	459,000	5.0396	5.0396	5.0396
	LBFSA	Buy	6,000,000	4.9958	4.9500	5.0000
	LBFSA	Sell	240,000	5.0000	5.0000	5.0000
	LBIE	Buy	20,000	5.0040	5.0000	5.0100
	LBIE	Sell	40,000	4.9000	4.9000	4.9000

Date of dealing	Dealing Party	Nature of dealing	Number of CNCB Shares	Volume weighted average price (HK\$)	Lowest price (HK\$)	Highest price (HK\$)
24 December 2007-	LBFSA	Sell	3,799,000	6.2097	4.9946	6.3500
28 December 2007	LBIE	Buy	9,425,000	4.9557	4.9000	5.0600
	LBIE	Sell	30,000,000	5.0400	5.0400	5.0400
31 December 2007-	LBCCA	Sell	10,472	4.8643	4.8500	4.8700
4 January 2008	LBCCA	Buy	10,472	4.8643	4.8500	4.8700
, ,	LBFSA	Sell	931,600	5.6842	4.8700	6.0000
	LBIE	Buy	20,995,000	4.8599	4.8429	4.9137
7 January 2008–	LBIE	Sell	80,000	4.9873	4.8800	5.0300
11 January 2008	LBCCA	Buy	1,648,000	5.0619	4.7478	5.0816
14 January 2008–	LBIE	Sell	1,112,000	4.8322	4.6700	5.0800
18 January 2008	LBFSA	Buy	1,405,000	4.9536	4.9536	4.9536
, ,	LBFSA	Sell	1,040,000	4.8029	4.7438	5.0000
	LBCCA	Buy	813,000	5.0200	5.0200	5.0200
	LBCCA	Sell	813,000	4.9743	4.9743	4.9743
21 January 2008–	LBIE	Sell	136,000	4.4614	4.3908	4.7879
25 January 2008	LBFSA	Buy	1,900,000	4.6279	4.3400	4.7500
	LBFSA	Sell	3,300,000	4.4097	4.4097	4.4097
	LBCCA	Buy	4,004,000	4.4132	4.4127	4.8750
	LBCCA	Sell	2,801,000	4.6189	4.4920	4.7212
28 January 2008–	LBCCA	Sell	2,851,000	4.5545	4.5100	4.8500
1 February 2008	LBFSA	Buy	400,000	4.4250	4.3900	4.4600
	LBFSA	Sell	5,403,500	5.8967	4.5187	6.3500
	LBIE	Buy	440,000	4.5777	4.4600	4.7200
4 February 2008–	LBFSA	Sell	2,315,000	4.5849	4.3791	5.8915
8 February 2008	LBFSA	Buy	400,000	4.4200	4.4200	4.4200
	LBIE	Buy	840,000	4.6764	4.3700	4.7800
11 February 2008–	LBFSA	Sell	2,760,000	4.2648	4.2427	4.3600
15 February 2008	LBFSA	Buy	842,000	4.5000	4.3488	4.7210
	LBIE	Buy	576,000	4.2934	4.2600	4.3450
18 February 2008–	LBFSA	Sell	250,000	4.3448	4.3448	4.3448
22 February 2008	LBFSA	Buy	500,000	4.4250	4.4250	4.4250
25 February 2008–	LBCCA	Buy	238,000	4.2468	4.2468	4.2468
29 February 2008	LBFSA	Buy	2,660,000	4.3306	4.2400	4.3420
	LBFSA	Sell	8,354,000	5.2451	4.1977	6.3500
	LBIE	Sell	64,000	4.2578	4.2325	4.3100

Set out below are dealings for value by the following affiliates of Lehman Brothers for their own account in CNCB H Shares from 3 March 2008 to 2 May 2008 (disclosed on an aggregated daily basis):

Date of dealing	Dealing Party	Nature of dealing	Number of CNCB Shares	Volume weighted average price (HK\$)	Lowest price (HK\$)	Highest price (HK\$)
3 March 2008	LBIE	Sell	24,000	4.2246	4.2100	4.2400
4 March 2008	LBFSA	Sell	885,000	4.6656	4.0833	5.8915
	LBIE	Sell	80,000	4.2100	4.2100	4.2100
5 March 2008	LBFSA	Sell	1,544,000	4.0256	4.0239	4.0260
	LBIE	Sell	16,000	4.0256	4.0200	4.0400
7 March 2008	LBIE	Sell	80,000	3.9500	3.9500	3.9500
10 March 2008	LBCCA	Sell	238,000	3.8685	3.8300	3.9200
	LBIE	Sell	32,000	3.8725	3.8300	3.9200
11 March 2008	LBFSA	Buy	71,400	5.1648	5.1648	5.1648
	LBFSA	Sell	200,000	3.9213	3.9200	3.9300
	LBIE	Sell	64,000	3.9027	3.8500	3.9400
12 March 2008	LBIE	Sell	256,000	4.0516	4.0500	4.0800
13 March 2008	LBFSA	Buy	3,400	5.1648	5.1648	5.1648
	LBIE	Sell	288,000	3.9120	3.8300	3.9400
14 March 2008	LBFSA	Sell	840,000	3.8222	3.8000	3.8700
	LBIE	Sell	24,000	3.8700	3.8700	3.8700
17 March 2008	LBCCA	Buy	500,000	3.6455	3.6455	3.6455
	LBFSA	Buy	250,000	3.5700	3.5700	3.5700
18 March 2008	LBIE	Sell	120,000	3.4780	3.4700	3.4900
20 March 2008	LBFSA	Buy	200,000	3.4500	3.4500	3.4500
25 March 2008	LBFSA	Sell	400,000	3.7650	3.7500	3.7900
27 March 2008	LBFSA	Sell	5,592,900	5.4392	4.0450	6.3500
	LBIE	Sell	24,000	3.9200	3.9200	3.9200
28 March 2008	LBCCA	Buy	944,000	4.1167	4.1007	4.1700
	LBFSA	Buy	842,000	4.1627	4.1627	4.1627
	LBFSA	Sell	192,000	4.2500	4.2500	4.2500
31 March 2008	LBCCA	Sell	200,000	4.1400	4.1400	4.1400
	LBFSA	Buy	2,008,000	4.1286	4.1300	4.1300
	LBFSA	Sell	463,600	5.8451	5.3700	6.0000

Date of dealing	Dealing Party	Nature of dealing	Number of CNCB Shares	Volume weighted average price (HK\$)	Lowest price (HK\$)	Highest price (HK\$)
1 April 2008	LBCCA	Sell	72,000	4.1536	4.1400	4.1800
	LBFSA	Buy	3,400,000	4.2093	4.1700	4.2100
	LBFSA	Sell	2,964,000	4.2100	4.2100	4.2100
2 April 2008	LBFSA	Sell	476,000	4.4126	4.4100	4.4600
3 April 2008	LBFSA	Buy	2,181,000	4.3920	4.3920	4.3920
	LBFSA	Sell	1,175,000	4.5209	4.5209	4.5209
7 April 2008	LBFSA	Sell	315,000	5.8915	5.8915	5.8915
8 April 2008	LBCCA	Sell	300,000	4.4900	4.4900	4.4900
10 April 2008	LBFSA	Buy	15,000	4.4700	4.4700	4.4700
	LBFSA	Sell	850,000	4.4827	4.4827	4.4827
11 April 2008	LBFSA	Sell	216,000	4.6800	4.6800	4.6800
	LBIE	Sell	32,000	4.6356	4.6200	4.6700
14 April 2008	LBIE	Sell	40,000	4.5473	4.5473	4.5473
16 April 2008	LBIE	Sell	24,000	4.5500	4.5500	4.5500
17 April 2008	LBCCA	Buy	10,000	4.5600	4.5600	4.5600
	LBCCA	Sell	10,000	4.6040	4.6040	4.6040
	LBFSA	Sell	250,000	4.5792	4.5792	4.5792
18 April 2008	LBFSA	Buy	1,400,000	4.5600	4.5600	4.5600
21 April 2008	LBCCA	Buy	20,000	4.6400	4.6400	4.6400
	LBCCA	Sell	196,000	4.7140	4.7140	4.7140
	LBFSA	Buy	750,000	4.7479	4.7479	4.7479
22 April 2008	LBFSA	Buy	900,000	4.7911	4.7900	4.7900
23 April 2008	LBCCA	Sell	218,000	5.0666	5.0666	5.0666
	LBFSA	Buy	4,575,000	5.1900	5.1200	5.2000
24 April 2008	LBCCA	Buy	8,000	5.2000	5.2000	5.2000
	LBCCA	Sell	8,000	5.2363	5.2400	5.2400
25 April 2008	LBCCA	Sell	218,000	5.0778	5.0778	5.0778
	LBFSA	Sell	1,012,000	5.0715	5.0500	5.0900
	LBIE	Buy	32,000	5.0781	5.0781	5.0781
28 April 2008	LBFSA	Buy	4,288,200	5.0851	5.0851	5.0851
	LBFSA	Sell	4,708,100	6.0416	5.1100	6.3500
29 April 2008	LBCCA	Sell	219,000	5.1844	5.1844	5.1844
	LBFSA	Buy	802,000	5.1775	5.1775	5.1775
	LBFSA	Sell	2,930,000	5.2067	5.1700	5.2100
30 April 2008	LBCCA	Buy	135,000	5.1288	5.1288	5.1288
	LBFSA	Sell	512,400	5.8451	5.3700	6.0000
	LBIE	Buy	32,000	5.1253	5.1253	5.1253
1 May 2008	LBFSA	Sell	2,039,000	5.1700	5.1700	5.1700
2 May 2008	LBFSA	Buy	80,000	5.3290	5.3290	5.3290

Set out below are dealings for value by the following affiliates of Lehman Brothers for their own account in CNCB H Shares from 3 May 2008 to the Latest Practicable Date (disclosed on a non-aggregated daily basis):

Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Price per Share (HK\$)
5 May 2008	LBCCA	Buy	1,000	5.2700
	LBFSA	Buy	200,000	5.4570
	LBIE	Buy	45,000	5.1600
	LBIE	Buy	14,000	5.1800
	LBIE	Buy	1,000	5.1900
	LBIE	Buy	12,000	5.2000
	LBIE	Buy	26,000	5.2100
	LBIE	Buy	48,000	5.2200
	LBIE	Buy	48,000	5.2300
	LBCCA	Sell	1,000	5.2100
	LBFSA	Sell	285,000	5.8915
6 May 2008	LBIE	Buy	51,000	5.1100
	LBIE	Buy	7,000	5.0900
	LBIE	Buy	13,000	5.1000
	LBIE	Buy	13,000	5.1100
	LBIE	Buy	10,000	5.1200
	LBFSA	Sell	1,500,000	5.1100
7 May 2008	LBFSA	Buy	200,000	4.9300
	LBFSA	Sell	426,000	4.9800
	LBFSA	Sell	342,000	4.9900
	LBFSA	Sell	700,000	5.0000
	LBFSA	Sell	18,000	5.0100
8 May 2008	LBCCA	Buy	17,000	4.8000
	LBCCA	Buy	124,000	4.8300
	LBCCA	Buy	56,000	4.8500
	LBCCA	Buy	124,000	4.8600
	LBCCA	Buy	57,000	4.8800
	LBCCA	Buy	202,000	4.8900
	LBCCA	Buy	2,000	4.9000
	LBFSA	Buy	286,000	4.8700
	LBFSA	Buy	314,000	4.8800
	LBFSA	Sell	750,000	4.8700
9 May 2008	LBFSA	Sell	100,000	4.8000
	LBFSA	Sell	150,000	4.8100
	LBFSA	Sell	200,000	4.8200
	LBFSA	Buy	114,000	5.7100

15 May 2008         LBIE         Sell         96,000         4.9400           LBFSA         Buy         60,000         4.9800           LBFSA         Buy         20,000         4.9800           16 May 2008         LBIE         Sell         16,000         5.0400           LBCCA         Buy         94,000         5.0200           LBCCA         Buy         116,000         5.0300           LBCCA         Buy         116,000         5.0400           LBCCA         Buy         116,000         5.0300           LBCCA         Buy         116,000         5.0400           LBCCA         Buy         56,000         5.0800           LBCCA         Buy         50,000         5.0800           LBCCA         Buy         50,000         5.0800           LBFSA         Buy         50,000         5.0300           LBFSA         Buy         500,000         5.0700           20 May 2008         LBFSA         Sell         700,000         4.9000           21 May 2008         LBFSA         Sell         200,000         5.0300           LBFSA         Sell         9,000         5.0100           22 May 2008	Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Price per Share (HK\$)
LBFSA         Buy         20,000         4,9900           16 May 2008         LBIE         Sell         16,000         5,0400           LBCCA         Buy         94,000         5,0200           LBCCA         Buy         49,000         5,0200           LBCCA         Buy         116,000         5,0300           LBCCA         Buy         116,000         5,0400           LBCCA         Buy         134,000         5,0500           LBCCA         Buy         66,000         5,0800           LBCCA         Buy         66,000         5,0800           LBCCA         Buy         500,000         5,0300           LBCCA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0400           LBFSA         Buy         500,000         5,0400           LBFSA         Buy         600,000         5,0700           20 May 2008         LBFSA         Sell         700,000         4,9400           21 May 2008         LBFSA         Sell         9,000         5,0700           22 May 2008         LBFSA <td>15 May 2008</td> <td>LBIE</td> <td>Sell</td> <td>96,000</td> <td>4.9400</td>	15 May 2008	LBIE	Sell	96,000	4.9400
16 May 2008         LBE         Sel         16,000         5,0400           LBCCA         Buy         94,000         5,0100           LBCCA         Buy         49,000         5,0200           LBCCA         Buy         116,000         5,0300           LBCCA         Buy         116,000         5,0400           LBCCA         Buy         134,000         5,0600           LBCCA         Buy         84,000         5,0600           LBCCA         Buy         56,000         5,0800           LBCCA         Buy         50,000         5,0300           LBFSA         Buy         500,000         5,0400           LBFSA         Buy         600,000         5,0700           20 May 2008         LBFSA         Sell         80,000         4,9400           21 May 2008         LBFSA         Sell         700,000         4,9000           LBFSA         Sell         100,000         4,9000         5,0700           22 May 2008         LBFSA         Sell         100,000         4,9000           22 May 2008         LBFSA         Sell         1,000         5,0200           LBFSA         Sell         1,000		LBFSA	Buy	60,000	4.9800
LBCCA         Buy         94,000         5,0100           LBCCA         Buy         49,000         5,0200           LBCCA         Buy         116,000         5,0300           LBCCA         Buy         116,000         5,0400           LBCCA         Buy         146,000         5,0400           LBCCA         Buy         146,000         5,0600           LBCCA         Buy         56,000         5,0800           LBCCA         Buy         6,000         5,0900           LBFSA         Buy         60,000         5,0700           LBFSA         Buy         60,000         5,0700           20 May 2008         LBFSA         Sell         70,000         4,9400           21 May 2008         LBFSA         Sell         100,000         4,9400           22 May 2008         LBFSA         Sell         20,000         5,0000           LBFSA         Sell         100,000         4,9400           22 May 2008         LBFSA         Sell         20,000         5,000           LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBFSA         Sell         1,000         5,2200		LBFSA	Buy	20,000	4.9900
LBCCA         Buy         49,000         5,0200           LBCCA         Buy         116,000         5,0300           LBCCA         Buy         116,000         5,0400           LBCCA         Buy         134,000         5,0500           LBCCA         Buy         134,000         5,0500           LBCCA         Buy         56,000         5,0800           LBCCA         Buy         6,000         5,0900           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0700           20 May 2008         LBFSA         Sell         700,000         4,9400           21 May 2008         LBFSA         Sell         20,000         5,0700           22 May 2008         LBFSA         Sell         9,000         5,0700           22 May 2008         LBFSA         Sell         9,000         5,0700           28 May 2008         LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBFSA         Sell         9,000	16 May 2008	LBIE	Sell	16,000	5.0400
LBCCA         Buy         116,000         5.0300           LBCCA         Buy         116,000         5.0400           LBCCA         Buy         134,000         5.0500           LBCCA         Buy         84,000         5.0600           LBCCA         Buy         84,000         5.0800           LBCCA         Buy         56,000         5.0800           LBCCA         Buy         6,000         5.0900           LBFSA         Buy         600,000         5.0300           LBFSA         Buy         600,000         5.0700           20 May 2008         LBFSA         Sell         800,000         4.9400           21 May 2008         LBFSA         Sell         700,000         4.9000           LBFSA         Sell         100,000         4.9000         5.0700           22 May 2008         LBFSA         Sell         1,50,000         5.0200           LBFSA         Sell         100,000         4.9000           22 May 2008         LBFSA         Sell         1,00,000         5.2200           LBFSA         Sell         1,00,000         5.2200           LBFSA         Sell         210,000         5.2300		LBCCA	Buy	94,000	5.0100
LBCCA         Buy         116,000         5.0400           LBCCA         Buy         134,000         5.0500           LBCCA         Buy         84,000         5.0600           LBCCA         Buy         56,000         5.0800           LBCCA         Buy         6,000         5.0900           LBFA         Buy         6,000         5.0900           LBFSA         Buy         600,000         5.0300           LBFSA         Buy         600,000         5.0400           LBFSA         Buy         600,000         5.0700           20 May 2008         LBFSA         Sell         800,000         4.9400           21 May 2008         LBFSA         Sell         700,000         4.9400           22 May 2008         LBFSA         Sell         9,000         5.0000           LBFSA         Sell         100,000         4.9400           22 May 2008         LBFSA         Sell         9,000         5.0000           LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         1,640,000         5.2300           LBFSA         Sell         80,000         5.2400           LBF		LBCCA	Buy	49,000	5.0200
LBCCA         Buy         134,00         5.0500           LBCCA         Buy         84,000         5.0600           LBCCA         Buy         56,000         5.0800           LBCCA         Buy         6,000         5.0900           LBCA         Buy         500,000         5.0300           LBFSA         Buy         500,000         5.0300           LBFSA         Buy         600,000         5.0700           20 May 2008         LBFSA         Sell         800,000         4.9400           21 May 2008         LBFSA         Sell         700,000         4.9000           LBFSA         Sell         200,000         5.0700           22 May 2008         LBFSA         Sell         9,000         5.0100           22 May 2008         LBFSA         Sell         9,000         5.0100           27 May 2008         LBFSA         Sell         9,000         5.0200           LBFSA         Sell         32,000         5.2300           LBFSA         Sell         1,640,000         5.2300           LBFSA         Sell         80,000         5.2300           LBFSA         Sell         80,000         5.2300 <td></td> <td>LBCCA</td> <td>Buy</td> <td>116,000</td> <td>5.0300</td>		LBCCA	Buy	116,000	5.0300
LBCCA         Buy         84,000         5,0600           LBCCA         Buy         56,000         5,0800           LBCCA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         600,000         5,0700           20 May 2008         LBFSA         Sell         800,000         4,9400           21 May 2008         LBFSA         Sell         700,000         4,9000           LBFSA         Sell         9,000         5,0100         4,9000           22 May 2008         LBFSA         Sell         9,000         5,0100           27 May 2008         LBFSA         Sell         9,000         5,0200           LBFSA         Sell         9,000         5,0200           LBFSA         Sell         1,640,000         5,2200           LBFSA         Sell         1,640,000         5,2300           LBFSA         Sell         1,640,000         5,2300           LBFSA         Sell         8,000         5,2300           LBFSA         Sell         8,000         5,2300 <td></td> <td>LBCCA</td> <td>Buy</td> <td>116,000</td> <td>5.0400</td>		LBCCA	Buy	116,000	5.0400
LBCCA         Buy         56,000         5,0800           LBCCA         Buy         6,000         5,0900           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0400           LBFSA         Buy         600,000         5,0700           20 May 2008         LBFSA         Sell         800,000         4,9400           21 May 2008         LBFSA         Sell         700,000         4,9000           LBFSA         Sell         20,000         5,0700           22 May 2008         LBFSA         Sell         20,000         4,9000           LBFSA         Sell         9,000         5,0700           27 May 2008         LBFSA         Sell         9,000         5,0700           28 May 2008         LBFSA         Sell         1,60,000         5,0800           28 May 2008         LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         80,000         5,2400           LBFSA         Sell         80,0		LBCCA	Buy	134,000	5.0500
LBCCA         Buy         6,000         5,0900           LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0400           LBFSA         Buy         600,000         5,0700           20 May 2008         LBFSA         Sell         800,000         4,9400           21 May 2008         LBFSA         Sell         700,000         4,9000           LBFSA         Sell         100,000         4,9000           LBFSA         Sell         20,000         5,0000           LBFSA         Sell         9,000         5,0000           LBFSA         Sell         9,000         5,0000           LBFSA         Sell         9,000         5,0000           LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         1,640,000         5,2300           LBFSA         Sell         80,000         5,2400           LBFSA         Sell         80,000         5,2400           LBFSA <td< td=""><td></td><td>LBCCA</td><td>Buy</td><td>84,000</td><td>5.0600</td></td<>		LBCCA	Buy	84,000	5.0600
LBFSA         Buy         500,000         5,0300           LBFSA         Buy         500,000         5,0400           LBFSA         Buy         600,000         5,0700           20 May 2008         LBFSA         Sell         800,000         4,9400           21 May 2008         LBFSA         Sell         700,000         4,9000           LBFSA         Sell         100,000         4,9000           LBFSA         Sell         9,000         5,0000           LBFSA         Sell         9,000         5,0000           LBFSA         Sell         9,000         5,0000           27 May 2008         LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBCCA         Sell         1,640,000         5,2000           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         210,000         5,2000           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         80,000         5,2400           LBFSA         Sell         80,000         5,2000		LBCCA	Buy	56,000	5.0800
LBFSA         Buy         500,000         5.0400           LBFSA         Buy         600,000         5.0700           20 May 2008         LBFSA         Sell         800,000         4.9400           21 May 2008         LBFSA         Sell         700,000         4.9000           22 May 2008         LBFSA         Sell         100,000         4.9100           22 May 2008         LBFSA         Sell         200,000         5.0000           27 May 2008         LBFSA         Sell         9,000         5.0100           27 May 2008         LBFSA         Sell         1,530,000         5.0800           28 May 2008         LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         210,000         5.2000           LBFSA         Sell         210,000         5.2000           LBFSA         Sell         80,000         5.2000           LBFSA         Sell         80,000         5.2000           LBFSA         Sell         80,000         5.2000           LBFSA         Sell         80,000         5.2000           LBFCA		LBCCA	Buy	6,000	5.0900
LBFSA         Buy         600,000         5.0700           20 May 2008         LBFSA         Sell         800,000         4.9400           21 May 2008         LBFSA         Sell         700,000         4.9000           22 May 2008         LBFSA         Sell         100,000         4.9100           22 May 2008         LBFSA         Sell         200,000         5.0000           27 May 2008         LBFSA         Sell         9,000         5.0100           27 May 2008         LBFSA         Sell         1,530,000         5.0800           28 May 2008         LBFSA         Sell         1,530,000         5.2000           28 May 2008         LBCCA         Sell         1,640,000         5.2000           LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         210,000         5.2200           LBFSA         Sell         80,000         5.2400           LBFSA         Sell         80,000         5.2300           LBFSA         Sell         80,000         5.2300           LBFSA         Sell         80,000         5.2300           LBFSA         Sell         80,000         5.2300		LBFSA	Buy	500,000	5.0300
20 May 2008         LBFSA         Sell         80,000         4,9400           21 May 2008         LBFSA         Sell         700,000         4,9000           LBFSA         Sell         100,000         4,9100           22 May 2008         LBFSA         Sell         20,000         5,0000           LBFSA         Sell         200,000         5,0000           27 May 2008         LBFSA         Sell         9,000         5,0000           28 May 2008         LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         210,000         5,2000           LBFSA         Sell         210,000         5,2000           LBFSA         Sell         80,000         5,2400           LBFSA         Sell         80,000         5,2400           LBCCA         Buy         1,000         5,2300           LBCCA         Buy         1,000         5,2300           LBCCA         Buy         1,000         5,2300           LBFSA <t< td=""><td></td><td>LBFSA</td><td>Buy</td><td>500,000</td><td>5.0400</td></t<>		LBFSA	Buy	500,000	5.0400
21 May 2008         LBFSA         Sell         700,000         4.9000           LBFSA         Sell         100,000         4.9100           22 May 2008         LBFSA         Sell         200,000         5.0000           LBFSA         Sell         200,000         5.0000           27 May 2008         LBFSA         Sell         9,000         5.0100           27 May 2008         LBFSA         Sell         1,530,000         5.0800           28 May 2008         LBCCA         Sell         32,000         5.1200           LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         210,000         5.2000           LBFSA         Sell         210,000         5.2000           LBFSA         Sell         44,000         5.2000           LBFSA         Sell         80,000         5.2400           LBCCA         Buy         2,000         5.1900           LBCCA         Buy         2,000         5.2000           LBCCA         Buy         4,000         5.2300           LBCCA         Buy         4,000         5.2300           LBCCA         Buy         1,134,000         5.3500		LBFSA	Buy	600,000	5.0700
LBFSA         Sell         100,000         4.9100           22 May 2008         LBFSA         Sell         200,000         5.0000           LBFSA         Sell         9,000         5.0100           27 May 2008         LBFSA         Sell         1,530,000         5.0800           28 May 2008         LBCCA         Sell         32,000         5.2000           LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         210,000         5.2200           LBFSA         Sell         210,000         5.2200           LBFSA         Sell         64,000         5.2300           LBFSA         Sell         64,000         5.2300           LBFSA         Sell         80,000         5.2400           LBFSA         Sell         80,000         5.2400           LBCCA         Buy         2,000         5.1800           LBCCA         Buy         1,000         5.2000           LBCCA         Buy         1,000         5.2000           LBCCA         Buy         1,000         5.2000           LBCCA         Buy         1,000         5.3000           LBFSA         Sell	20 May 2008	LBFSA	Sell	800,000	4.9400
22 May 2008         LBFSA         Sell         20,000         5,0000           LBFSA         Sell         9,000         5,0100           27 May 2008         LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBCCA         Sell         32,000         5,1200           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         210,000         5,2200           LBFSA         Sell         64,000         5,2300           LBFSA         Sell         64,000         5,2300           LBFSA         Sell         80,000         5,2400           LBFSA         Sell         80,000         5,2400           LBCCA         Buy         2,000         5,1800           LBCCA         Buy         2,000         5,1900           LBCCA         Buy         10,000         5,2000           LBCCA         Buy         10,000         5,2000           LBCCA         Buy         14,000         5,2500           29 May 2008         LBFSA         Sell         1,134,000         5,3700           LBFSA         Sell         300,000         5,3700         5,3800 <td>21 May 2008</td> <td>LBFSA</td> <td>Sell</td> <td>700,000</td> <td>4.9000</td>	21 May 2008	LBFSA	Sell	700,000	4.9000
LBFSA         Sell         9,000         5,0100           27 May 2008         LBFSA         Sell         1,530,000         5,0800           28 May 2008         LBCCA         Sell         32,000         5,1200           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         210,000         5,2200           LBFSA         Sell         64,000         5,2300           LBFSA         Sell         64,000         5,2300           LBFSA         Sell         80,000         5,2400           LBFSA         Sell         80,000         5,2400           LBCCA         Buy         2,000         5,1800           LBCCA         Buy         2,000         5,1800           LBCCA         Buy         10,000         5,2000           LBCCA         Buy         10,000         5,2000           LBCCA         Buy         14,000         5,2300           LBCCA         Buy         14,000         5,2300           LBCCA         Buy         14,000         5,2500           29 May 2008         LBFSA         Sell         1,134,000         5,3500           LBFSA         Sell		LBFSA	Sell	100,000	4.9100
27 May 2008       LBFSA       Sell       1,530,000       5.0800         28 May 2008       LBCCA       Sell       32,000       5.1200         LBFSA       Sell       1,640,000       5.2000         LBFSA       Sell       210,000       5.2300         LBFSA       Sell       64,000       5.2300         LBFSA       Sell       64,000       5.2400         LBFSA       Sell       80,000       5.2400         LBCCA       Buy       2,000       5.1800         LBCCA       Buy       2,000       5.1900         LBCCA       Buy       10,000       5.2000         LBCCA       Buy       10,000       5.2000         LBCCA       Buy       10,000       5.2000         LBCCA       Buy       14,000       5.2300         LBCCA       Buy       14,000       5.2500         29 May 2008       LBFSA       Sell       1,134,000       5.3700         LBFSA       Sell       300,000       5.3700       5.3800         LBFSA       Sell       1,807,000       5.3900         LBFSA       Sell       634,000       5.3900         LBFSA       Sell	22 May 2008	LBFSA	Sell	200,000	5.0000
28 May 2008         LBCCA         Sell         32,000         5,1200           LBFSA         Sell         1,640,000         5,2000           LBFSA         Sell         210,000         5,2200           LBFSA         Sell         210,000         5,2200           LBFSA         Sell         64,000         5,2300           LBFSA         Sell         64,000         5,2400           LBCCA         Buy         2,000         5,1800           LBCCA         Buy         2,000         5,1900           LBCCA         Buy         2,000         5,1900           LBCCA         Buy         10,000         5,2000           LBCCA         Buy         10,000         5,2000           LBCCA         Buy         14,000         5,2500           29 May 2008         LBFSA         Sell         1,134,000         5,3500           LBFSA         Sell         300,000         5,3700           LBFSA         Sell         1,807,000         5,3800           LBFSA         Sell         634,000         5,3900           LBFSA         Sell         6,34,000         5,3700           LBFSA         Sell         2,000,000<		LBFSA	Sell	9,000	5.0100
LBFSA         Sell         1,640,000         5.2000           LBFSA         Sell         210,000         5.2200           LBFSA         Sell         64,000         5.2300           LBFSA         Sell         64,000         5.2400           LBFSA         Sell         80,000         5.2400           LBCCA         Buy         2,000         5.1800           LBCCA         Buy         2,000         5.1900           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         14,000         5.2500           29 May 2008         LBFSA         Sell         1,134,000         5.3500           LBFSA         Sell         300,000         5.3700           LBFSA         Sell         1,807,000         5.3800           LBFSA         Sell         2,000,000         5.3700           LBFSA         Sell         2,000,000         5.3700           LBFSA         Sell         2,000,000         5.3700 <td>27 May 2008</td> <td>LBFSA</td> <td>Sell</td> <td>1,530,000</td> <td>5.0800</td>	27 May 2008	LBFSA	Sell	1,530,000	5.0800
LBFSA         Sell         210,000         5.2200           LBFSA         Sell         64,000         5.2300           LBFSA         Sell         80,000         5.2400           LBCCA         Buy         2,000         5.1800           LBCCA         Buy         2,000         5.1900           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         4,000         5.2300           LBCCA         Buy         10,000         5.2300           LBCCA         Buy         10,000         5.2300           LBCCA         Buy         14,000         5.2500           29 May 2008         LBFSA         Sell         1,134,000         5.3500           LBFSA         Sell         300,000         5.3700           LBFSA         Sell         1,807,000         5.3800           LBFSA         Sell         634,000         5.3900           LBFSA         Sell         2,000,000         5.3700           LBFSA         Sell         2,000,000         5.3700 </td <td>28 May 2008</td> <td>LBCCA</td> <td>Sell</td> <td>32,000</td> <td>5.1200</td>	28 May 2008	LBCCA	Sell	32,000	5.1200
LBFSASell64,0005.2300LBFSASell80,0005.2400LBCCABuy2,0005.1800LBCCABuy2,0005.1900LBCCABuy10,0005.2000LBCCABuy4,0005.2300LBCCABuy14,0005.2300LBCCABuy14,0005.2300LBCCABuy14,0005.2300LBFSASell1,134,0005.3500LBFSASell1,807,0005.3700LBFSASell1,807,0005.3900LBFSASell634,0005.3900LBFSASell2,000,0005.3700		LBFSA	Sell	1,640,000	5.2000
LBFSA         Sell         80,000         5.2400           LBCCA         Buy         2,000         5.1800           LBCCA         Buy         2,000         5.1900           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         4,000         5.2300           LBCCA         Buy         4,000         5.2500           LBCCA         Buy         14,000         5.2500           LBCCA         Buy         14,000         5.2500           LBCCA         Buy         14,000         5.3500           LBFSA         Sell         1,134,000         5.3500           LBFSA         Sell         300,000         5.3700           LBFSA         Sell         634,000         5.3900           LBFSA         Sell         2,000,000         5.3700		LBFSA	Sell	210,000	5.2200
LBCCABuy2,0005.1800LBCCABuy2,0005.1900LBCCABuy10,0005.2000LBCCABuy4,0005.2300LBCCABuy14,0005.250029 May 2008LBFSASell1,134,0005.3500LBFSASell300,0005.3700LBFSASell1,807,0005.3800LBFSASell634,0005.3900LBFSASell2,000,0005.3700		LBFSA	Sell	64,000	5.2300
LBCCA         Buy         2,000         5.1900           LBCCA         Buy         10,000         5.2000           LBCCA         Buy         4,000         5.2300           LBCCA         Buy         14,000         5.2500           29 May 2008         LBFSA         Sell         1,134,000         5.3500           LBFSA         Sell         300,000         5.3700           LBFSA         Sell         1,807,000         5.3800           LBFSA         Sell         634,000         5.3900           LBFSA         Sell         2,000,000         5.3700		LBFSA	Sell	80,000	5.2400
LBCCA         Buy         10,000         5.2000           LBCCA         Buy         4,000         5.2300           LBCCA         Buy         14,000         5.2500           29 May 2008         LBFSA         Sell         1,134,000         5.3500           LBFSA         Sell         300,000         5.3700           LBFSA         Sell         1,807,000         5.3800           LBFSA         Sell         634,000         5.3900           LBFSA         Sell         2,000,000         5.3700		LBCCA	Buy	2,000	5.1800
LBCCA         Buy         4,000         5.2300           LBCCA         Buy         14,000         5.2500           29 May 2008         LBFSA         Sell         1,134,000         5.3500           LBFSA         Sell         300,000         5.3700           LBFSA         Sell         1,807,000         5.3800           LBFSA         Sell         634,000         5.3900           LBFSA         Sell         2,000,000         5.3700		LBCCA	Buy	2,000	5.1900
LBCCA Buy 14,000 5.2500 29 May 2008 LBFSA Sell 1,134,000 5.3500 LBFSA Sell 300,000 5.3700 LBFSA Sell 1,807,000 5.3800 LBFSA Sell 634,000 5.3900 LBFSA Sell 2,000,000 5.3700		LBCCA	Buy	10,000	5.2000
29 May 2008       LBFSA       Sell       1,134,000       5.3500         LBFSA       Sell       300,000       5.3700         LBFSA       Sell       1,807,000       5.3800         LBFSA       Sell       634,000       5.3900         LBFSA       Sell       634,000       5.3700         LBFSA       Sell       2,000,000       5.3700		LBCCA	Buy	4,000	5.2300
LBFSASell300,0005.3700LBFSASell1,807,0005.3800LBFSASell634,0005.3900LBFSASell2,000,0005.3700		LBCCA	Buy	14,000	5.2500
LBFSASell1,807,0005.3800LBFSASell634,0005.3900LBFSASell2,000,0005.3700	29 May 2008	LBFSA		1,134,000	5.3500
LBFSASell634,0005.3900LBFSASell2,000,0005.3700		LBFSA	Sell	300,000	5.3700
LBFSA Sell 2,000,000 5.3700				1,807,000	5.3800
				634,000	5.3900
LRESA R11V 522.000 5.2800		LBFSA	Sell	2,000,000	5.3700
Bu 511 Buy 522,000 5.3000		LBFSA	Buy	522,000	5.3800

30 May 2008         LBCCA         Sell         18,000         5,400           LBCCA         Sell         28,000         5,4100           LBCCA         Sell         14,000         5,220           LBCCA         Sell         2,000         5,4300           LBCCA         Sell         13,000         5,4400           LBCCA         Sell         13,000         5,4400           LBCCA         Sell         20,000         5,4500           LBCCA         Sell         20,000         5,4500           LBCCA         Sell         20,000         5,4900           LBCCA         Sell         17,000         5,4600           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         2,000         5,5700           LBFSA         Buy         2,000         5,5200           LBFSA         Buy         1,921,000         5,5500           LBFSA         Buy         1,900,00         5,5700           LBFSA         Buy         1,900,00         5,5700           LBFSA         Buy         1,900,00         5,200           LBFSA         Buy         1,000         5,200      <	Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Price per Share (HK\$)
LBCCA         Sell         28,000         5,4100           LBCCA         Sell         14,000         5,4200           LBCCA         Sell         2,000         5,4300           LBCCA         Sell         11,000         5,4500           LBCCA         Sell         23,000         5,4700           LBCCA         Sell         23,000         5,4700           LBCCA         Sell         20,000         5,4900           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         20,000         5,4800           LBFSA         Buy         20,000         5,4800           LBFSA         Buy         20,000         5,5700           LBFSA         Buy         300,000         5,5200           LBFSA         Buy         19,000         5,5700           LBFSA         Buy         19,000         5,5700           LBFSA         Buy         90,000         5,2700           LBFSA         Buy         10,000         5,3700           June 2008         LBFSA         Buy         10,000         5,3700           LBFSA         Buy         10,000         5,3700         1,000 <td>30 May 2008</td> <td>LBCCA</td> <td>Sell</td> <td>18,000</td> <td>5.4000</td>	30 May 2008	LBCCA	Sell	18,000	5.4000
LBCCA         Sell         2,000         5,4300           LBCCA         Sell         13,000         5,4400           LBCCA         Sell         11,000         5,4500           LBCCA         Sell         20,000         5,4700           LBCCA         Sell         17,000         5,5500           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         200,000         5,4800           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         77,7000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         791,000         5,5500           LBFSA         Buy         790,000         5,5700           LBFSA         Buy         790,000         5,5300           LBFSA         Buy         90,000         5,2300           LBFSA         Buy         90,000         5,3300           LBFSA         Buy         9,000         5,3300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3300           LBFSA	-	LBCCA	Sell	28,000	5.4100
LBCCA         Sell         13,000         5,4400           LBCCA         Sell         11,000         5,4500           LBCCA         Sell         23,000         5,4700           LBCCA         Sell         20,000         5,4700           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         500,000         5,4700           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         300,000         5,5200           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         591,000         5,2200           LBFSA         Buy         591,000         5,2300           LBFSA         Buy         50,000         5,2300           LBFSA         Buy         50,000         5,2300           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         10,000         5,3300           LBFSA		LBCCA	Sell	14,000	5.4200
LBCCA         Sell         11,000         5,4500           LBCCA         Sell         23,000         5,4700           LBCCA         Sell         20,000         5,4900           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         500,000         5,4700           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         2,659,000         5,5200           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         770,000         5,5700           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         1,000         5,3200           LBFSA         Buy         1,000         5,3200           LBFSA		LBCCA	Sell	2,000	5.4300
LBCCA         Sell         23,000         5,4700           LBCCA         Sell         20,000         5,4900           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         2,659,000         5,5200           LBFSA         Buy         777,000         5,5400           LBFSA         Buy         777,000         5,5400           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         780,000         5,5200           LBFSA         Buy         791,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         20,000         5,2300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3900           LBFSA         Buy         1,000         5,3900           LBFSA		LBCCA	Sell	13,000	5.4400
LBCCA         Sell         20,000         5,4900           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         2,659,000         5,5200           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         791,000         5,5500           LBFSA         Buy         1,921,000         5,5500           LBFSA         Buy         591,000         5,5800           LBFSA         Buy         591,000         5,5800           LBFSA         Buy         591,000         5,2300           LBFSA         Buy         50,000         5,2300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3400           LBFSA         Buy         1,000         5,3400           LBFSA         Buy         1,000         5,3400           LBFSA		LBCCA	Sell	11,000	5.4500
LBCCA         Sell         20,000         5,4900           LBCCA         Sell         17,000         5,5500           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         2,659,000         5,5200           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         791,000         5,5500           LBFSA         Buy         591,000         5,5500           LBFSA         Buy         591,000         5,5500           LBFSA         Buy         591,000         5,3200           LBFSA         Buy         50,000         5,2200           LBFSA         Buy         1,000         5,3200           LBFSA		LBCCA	Sell	23,000	5.4700
LBCCA         Sell         17,00         5,5500           LBFSA         Buy         200,000         5,4600           LBFSA         Buy         500,000         5,4700           LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         300,000         5,5200           LBFSA         Buy         777,000         5,5400           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         777,000         5,5500           LBFSA         Buy         780,000         5,5700           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         92,000         5,3200           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         1,000         5,3200           LBFSA         Buy         1,000         5,3400           LBFSA         Buy         1,000         5,3400           LBFSA         Buy         1,000         5,3400           LBFSA		LBCCA	Sell		5.4900
LBFSA         Buy         200,000         5.4600           LBFSA         Buy         500,000         5.4700           LBFSA         Buy         2,659,000         5.4800           LBFSA         Buy         300,000         5.5200           LBFSA         Buy         777,000         5.5400           LBFSA         Buy         777,000         5.5500           LBFSA         Buy         780,000         5.5700           LBFSA         Buy         780,000         5.5700           LBFSA         Buy         92,000         5.5300           2 June 2008         LBFSA         Buy         92,000         5.2300           June 2008         LBFSA         Buy         92,000         5.2300           LBFSA         Buy         10,000         5.3200           LBFSA         Buy         10,000         5.3200           LBFSA         Buy         1,000         5.3200<		LBCCA	Sell		5.5500
LBFSA         Buy         500,000         5.4700           LBFSA         Buy         2,659,000         5.4800           LBFSA         Buy         300,000         5.5200           LBFSA         Buy         777,000         5.5400           LBFSA         Buy         777,000         5.5500           LBFSA         Buy         780,000         5.5700           LBFSA         Buy         780,000         5.5700           LBFSA         Buy         92,000         5.3290           LBFSA         Buy         92,000         5.3200           LBFSA         Buy         92,000         5.2300           June 2008         LBFSA         Buy         92,000         5.2300           LBFSA         Buy         10,000         5.3200           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3200           LBFSA         Buy         1,000         5.3200           LBFSA         Buy         1,000         5.3200           LBFSA         Buy         1,000         5.3200           LBFSA         Buy         1,000         5.3700		LBFSA	Buy		5.4600
LBFSA         Buy         2,659,000         5,4800           LBFSA         Buy         300,000         5,5200           LBFSA         Buy         777,000         5,5400           LBFSA         Buy         1,921,000         5,5500           LBFSA         Buy         780,000         5,5700           LBFSA         Buy         591,000         5,5800           2 June 2008         LBFSA         Buy         591,000         5,3200           LBFSA         Buy         50,000         5,3200           LBFSA         Buy         50,000         5,2300           LBFSA         Buy         50,000         5,2300           LBFSA         Buy         1,000         5,3200           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3700           LBFSA         Buy         1,000         5,3700           LBFSA         Buy         1,000         5,3700           LBFSA         Buy         1,000         5,2500					5.4700
LBFSA         Buy         300,00         5,5200           LBFSA         Buy         777,000         5,5400           LBFSA         Buy         1,921,000         5,5500           LBFSA         Buy         780,000         5,5700           LBFSA         Buy         780,000         5,5700           LBFSA         Buy         591,000         5,5800           2 June 2008         LBFSA         Buy         591,000         5,3200           LBFSA         Sell         126,000         5,3200           LBFSA         Buy         50,000         5,2100           LBFSA         Buy         10,000         5,3200           LBFSA         Buy         1,000         5,4200           LBFSA         Buy         1,000         5,2500					
LBFSA         Buy         777,000         5,5400           LBFSA         Buy         1,921,000         5,5500           LBFSA         Buy         780,000         5,5700           LBFSA         Buy         591,000         5,5800           2 June 2008         LBFSA         Buy         591,000         5,3290           LBFSA         Buy         50,000         5,2100           LBFSA         Buy         50,000         5,2300           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         1,000         5,3700           LBFSA         Buy         1,000         5,3700           LBFSA         Buy         1,000         5,2500           LBFSA         Buy         1,000         5,2500 <t< td=""><td></td><td>LBFSA</td><td>•</td><td></td><td></td></t<>		LBFSA	•		
LBFSA         Buy         1,921,000         5,5500           LBFSA         Buy         780,000         5,5700           LBFSA         Buy         591,000         5,5800           2 June 2008         LBFSA         Buy         92,000         5,3290           LBFSA         Sell         126,000         5,3700           3 June 2008         LBFSA         Buy         50,000         5,2100           LBFSA         Buy         250,000         5,2300           LBFSA         Buy         1,000         5,3300           LBFSA         Buy         1,000         5,3700           LBFSA         Buy         1,000         5,2500           LBFSA         Buy         1,000         5,2500           LBCCA         Sell         31,000         5,2500					
LBFSA         Buy         780,000         5.5700           2 June 2008         LBFSA         Buy         591,000         5.5800           2 June 2008         LBFSA         Buy         92,000         5.3290           LBFSA         Sell         126,000         5.3700           3 June 2008         LBFSA         Buy         50,000         5.2100           LBFSA         Buy         250,000         5.2300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.3200           LBFSA         Buy         1,000         5.2500           LBCCA         Sell         31,000 <td></td> <td></td> <td>•</td> <td>-</td> <td></td>			•	-	
LBFSA         Buy         591,000         5.5800           2 June 2008         LBFSA         Buy         92,000         5.3290           LBFSA         Sell         126,000         5.3700           3 June 2008         LBFSA         Buy         50,000         5.2100           LBFSA         Buy         250,000         5.2300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         1,000         5.4200           LBFSA         Buy         1,000         5.4200           LBFSA         Buy         1,000         5.2500           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         34,000         5.2800			•		
2 June 2008       LBFSA       Buy       92,000       5.3290         LBFSA       Sell       126,000       5.3700         3 June 2008       LBFSA       Buy       50,000       5.2100         LBFSA       Buy       250,000       5.2300         LBFSA       Buy       1,000       5.3200         LBFSA       Buy       1,000       5.3200         LBFSA       Buy       1,000       5.3300         LBFSA       Buy       1,000       5.3300         LBFSA       Buy       1,000       5.3300         LBFSA       Buy       1,000       5.3400         LBFSA       Buy       1,000       5.3700         LBFSA       Buy       1,000       5.3900         LBFSA       Buy       1,000       5.3700         LBFSA       Buy       1,000       5.3900         LBFSA       Buy       1,000       5.3700         LBFSA       Buy       1,000       5.4570         LBCCA       Sell       7,000       5.2700         LBCCA       Sell       31,000       5.2800         LBCCA       Sell       19,000       5.2900         LBCCA			,		
LBFSA         Sell         126,000         5.3700           3 June 2008         LBFSA         Buy         50,000         5.2100           LBFSA         Buy         250,000         5.2300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         10,000         5.3300           LBFSA         Buy         10,000         5.3700           LBFSA         Buy         10,000         5.4200           LBFSA         Buy         210,000         5.4570           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         34,000         5.2800	2 June 2008				
3 June 2008         LBFSA         Buy         50,000         5,2100           LBFSA         Buy         250,000         5,2300           LBFSA         Buy         1,000         5,3200           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         10,000         5,3300           LBFSA         Buy         10,000         5,3400           LBFSA         Buy         17,000         5,3700           LBFSA         Buy         10,000         5,3900           LBFSA         Buy         10,000         5,3900           LBFSA         Buy         10,000         5,4200           LBFSA         Buy         10,000         5,4200           LBFSA         Buy         210,000         5,4570           LBCCA         Sell         31,000         5,2500           LBCCA         Sell         31,000         5,2600           LBCCA         Sell         31,000         5,2800           LBCCA         Sell         19,000         5,2900           4 June 2008         LBCCA         Buy         7,000         5,2800           LBCCA         Buy         75,000         5,2800	,,		,		
LBFSA         Buy         250,000         5.2300           LBFSA         Buy         1,000         5.3200           LBFSA         Buy         10,000         5.3300           LBFSA         Buy         10,000         5.3300           LBFSA         Buy         1,000         5.3300           LBFSA         Buy         1,000         5.3700           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         10,000         5.3200           LBFSA         Buy         10,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2800           LBCCA         Sell         9,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2700           LBCCA         Buy         7,000         5.2800           LBCCA         Buy         75,000         5.2800 <t< td=""><td>3 June 2008</td><td></td><td></td><td></td><td></td></t<>	3 June 2008				
LBFSA         Buy         1,000         5.3200           LBFSA         Buy         10,000         5.3300           LBFSA         Buy         1,000         5.3400           LBFSA         Buy         17,000         5.3700           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         10,000         5.4200           LBFSA         Buy         10,000         5.4200           LBFSA         Buy         210,000         5.4200           LBFSA         Buy         210,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2700           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         <	,		5		
LBFSA         Buy         1,000         5.3400           LBFSA         Buy         17,000         5.3700           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         10,000         5.3400           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         1,000         5.4200           LBFSA         Buy         210,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800		LBFSA			5.3200
LBFSA         Buy         17,000         5.3700           LBFSA         Buy         10,000         5.3900           LBFSA         Buy         1,000         5.4200           LBFSA         Buy         210,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2800           LBCCA         Sell         19,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBCCA         Buy         20,000         5.3700		LBFSA	Buy	10,000	5.3300
LBFSA         Buy         10,000         5.3900           LBFSA         Buy         1,000         5.4200           LBFSA         Buy         210,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2800           LBCCA         Buy         75,000         5.3400           LBCCA         Buy         20,000         5.3700		LBFSA	Buy	1,000	5.3400
LBFSA         Buy         1,000         5.4200           LBFSA         Buy         210,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         608,000         5.2700           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           LBCCA         Sell         19,000         5.2900           LBCCA         Buy         7,000         5.2900           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBFSA         Buy         20,000         5.3700		LBFSA	Buy	17,000	5.3700
LBFSA         Buy         210,000         5.4570           LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         608,000         5.2700           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           LBCCA         Sell         19,000         5.2900           LBCCA         Buy         7,000         5.2900           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBFSA         Buy         20,000         5.3700					
LBCCA         Sell         7,000         5.2100           LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         34,000         5.2700           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBFSA         Buy         20,000         5.3700					
LBCCA         Sell         31,000         5.2500           LBCCA         Sell         31,000         5.2600           LBCCA         Sell         608,000         5.2700           LBCCA         Sell         608,000         5.2800           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           LBCCA         Buy         7,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBFSA         Buy         20,000         5.3700					
LBCCA         Sell         31,000         5.2600           LBCCA         Sell         608,000         5.2700           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBFSA         Buy         20,000         5.3700					
LBCCA         Sell         608,000         5.2700           LBCCA         Sell         34,000         5.2800           LBCCA         Sell         19,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2700           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBFSA         Buy         20,000         5.3700					
LBCCA         Sell         34,000         5.2800           4 June 2008         LBCCA         Sell         19,000         5.2900           4 June 2008         LBCCA         Buy         7,000         5.2700           LBCCA         Buy         75,000         5.2800           LBCCA         Buy         75,000         5.3400           LBCCA         Buy         20,000         5.3400					
LBCCASell19,0005.29004 June 2008LBCCABuy7,0005.2700LBCCABuy75,0005.2800LBCCABuy75,0005.3400LBFSABuy20,0005.3700					
4 June 2008       LBCCA       Buy       7,000       5.2700         LBCCA       Buy       75,000       5.2800         LBCCA       Buy       75,000       5.3400         LBFSA       Buy       20,000       5.3700					
LBCCABuy75,0005.2800LBCCABuy75,0005.3400LBFSABuy20,0005.3700	4 June 2008				
LBCCABuy75,0005.3400LBFSABuy20,0005.3700	+ june 2000				
LBFSA Buy 20,000 5.3700					
		LBFSA	Buy	39,000	5.3900

Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Price per Share (HK\$)
5 June 2008	LBCCA	Buy	12,000	5.3300
	LBFSA	Buy	490,000	5.3100
	LBFSA	Buy	160,000	5.3500
	LBFSA	Buy	181,000	5.3600
	LBFSA	Buy	146,000	5.4100
	LBFSA	Buy	653,000	5.4400
	LBFSA	Buy	421,000	5.4500
	LBFSA	Buy	162,000	5.4700
	LBFSA	Buy	266,000	5.4800
	LBFSA	Buy	121,000	5.4900
	LBCCA	Sell	24,000	5.2700
	LBCCA	Sell	31,000	5.2800
	LBCCA	Sell	41,000	5.3000
	LBCCA	Sell	6,000	5.3100
	LBCCA	Sell	13,000	5.3200
	LBCCA	Sell	26,000	5.3300
	LBCCA	Sell	14,000	5.3500
	LBCCA	Sell	37,000	5.3600
	LBCCA	Sell	1,000	5.3700
	LBCCA	Sell	31,000	5.4000
	LBCCA	Sell	12,000	5.4400
	LBCCA	Sell	58,000	5.4500
	LBCCA	Sell	14,000	5.4600
	LBCCA	Sell	12,000	5.4800
6 June 2008	LBCCA	Sell	32,000	5.4800
	LBCCA	Sell	2,000	5.4900
	LBCCA	Sell	30,000	5.5100
	LBCCA	Sell	34,000	5.5200
	LBCCA	Sell	65,000	5.5300
	LBCCA	Sell	44,000	5.5400
	LBFSA	Sell	38,000	5.5000
	LDFJA	5011	30,000	9.3000

Date of dealing	Dealing Party	Nature of dealing	Number of the Shares	Price per Share (HK\$)
10 June 2008	LBFSA	Buy	200,000	5.2300
,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	LBFSA	Buy	865,000	5.2400
	LBCCA	Sell	103,000	5.2000
	LBCCA	Sell	128,000	5.2100
	LBCCA	Sell	243,000	5.2400
	LBCCA	Sell	289,000	5.2600
	LBFSA	Sell	611,000	5.2200
	LBFSA	Sell	76,000	5.2300
	LBFSA	Sell	487,000	5.2400
	LBFSA	Sell	98,000	5.2500
	LBFSA	Sell	1,209,000	5.2600
	LBFSA	Buy	10,000,000	5.3400
11 June 2008	LBFSA	Buy	47,474	6.2024
	LBFSA	Buy	118,566	6.2370
	LBFSA	Buy	172,354	6.5636
12 June 2008	LBFSA	Buy	273,330	6.3366
	LBFSA	Sell	45,000	4.8700
23 June 2008	LBFSA	Buy	208,500	6.4399
26 June 2008	LBFSA	Sell	50,000	4.6700
30 June 2008	LBFSA	Sell	114,000	5.3700
2 July 2008	LBFSA	Buy	96,000	5.3290
3 July 2008	LBFSA	Buy	210,000	5.4570
10 July 2008	LBFSA	Sell	60,000	4.7100
24 July 2008	LBFSA	Sell	50,000	5.0000
31 July 2008	LBFSA	Sell	132,000	5.3700
4 August 2008	LBFSA	Buy	92,000	5.3290
7 August 2008	LBFSA	Sell	50,000	5.0300
8 August 2008	LBFSA	Sell	14,000,000	5.6600
21 August 2008	LBFSA	Sell	50,000	4.5200
1 September 2008	LBFSA	Sell	14,200,000	5.1065
1 September 2008	LBFSA	Sell	132,000	5.3700
2 September 2008	LBFSA	Buy	84,000	5.3290
4 September 2008	LBFSA	Sell	70,000	4.2700
10 September 2008	LBFSA	Buy	20,000	5.3290

Set out below are dealings for value by the following affiliates of Lehman Brothers Asia Limited for their own account in convertible securities, options and derivatives in respect of CNCB H Shares from 3 December 2007 and ending on the Latest Practicable Date:

Date of dealing	Party	Description of convertible securities/ option/ derivative	Number of convertible securities/ options/ derivatives	Nature of dealing	Unit price/ premium per convertible security/ option/ derivative (HK\$)	Exercise/ Conversion/ Strike price (HK\$)	Exercise period/ Conversion period/Final valuation date	Number of CNCB Shares involved
2 April 2008	LBCCA	Note in the original notional amount of USD1.9M issued on 2 November 2007		Buy back of USD300,000 of this Note		4.9203	12 November 2008	(Note 1)
9 September 2008	LBFSA	Note in the original notional amount of US\$3,800,000 issued on 16 November 2007		Buy back of USD100,000 of this Note		4.9563	16 November 2009	(Note 1)
10 September 2008	LBFSA	Note in the original notional amount of US\$3,800,000 issued on 16 November 2007		Buy back of USD700,000 of this Note		4.9563	16 November 2009	(Note 1)
7 December 2007	LBFSA	Call Option	10,000,000	Sale	0.634125	5.34	7 December 2007 to 10 June 2008	10,000,000
7 December 2007	LBFSA	Put Option	10,000,000	Sale	0.634125	5.34	7 December 2007 to 10 June 2008	10,000,000
21 December 2007	LBFSA	Call Option	10,000,000	Sale	0.575	5.25	21 December 2007 to 21 August 2008	10,000,000
1 April 2008	LBFSA	Call Option	18,527,000	Purchase	0.61045	4.21	1 April 2008 to 1 April 2009	18,527,000
1 April 2008	LBFSA	Put Option	18,527,000	Purchase	0.61045	4.21	1 April 2009 1 April 2008 to 1 April 2009	18,527,000
1 April 2008	LBFSA	Put Option	18,500,000	Sale	0.626	4.21	1 April 2009 1 April 2008 to 1 April 2009	18,500,000
1 April 2008	LBFSA	Call Option	18,500,000	Sale	0.6458	4.21	1 April 2009 1 April 2008 to 1 April 2009	18,500,000
18 April 2008	LBFSA	Call Option	8,500,000	Sale	0.627	4.56	18 April 2009 20 April 2009	8,500,000
18 April 2008	LBFSA	Put Option	8,500,000	Sale	0.627	4.56	18 April 2008 to 20 April 2009	8,500,000
25 April 2008	LBFSA	Put Option	15,315,000	Purchase	0.1905	4.572	25 April 2008 to 25 July 2008	15,315,000
29 April 2008	LBFSA	Put Option	7,550,000	Sale	0.1805	4.653	29 April 2008 to 30 July 2008	7,550,000
29 April 2008	LBFSA	Call Option	7,500,000	Purchase	0.17226	5.742	29 April 2008 to 29 July 2008	7,500,000
27 May 2008	LBFSA	Call Option	8,500,000	Purchase	0.65278	5.08	27 May 2008 to 29 April 2009	8,500,000
27 May 2008	LBFSA	Put Option	8,500,000	Purchase	0.65278	5.08	27 May 2008 to 29 April 2009	8,500,000
30 May 2008	LBIE	Call Option	14,200,000	Sale	0.31191	5.79658	30 May 2008 to 1 September 2008	14,200,000
30 May 2008	LBIE	Call Option	14,200,000	Purchase	0.10765	6.62466	30 May 2008 to 1 September 2008	14,200,000
30 May 2008	LBIE	Put Option	14,200,000	Purchase	0.20426	5.10651	30 May 2008 to 1 September 2008	14,200,000
1 February 2008	LBFSA	Decumulator	18,000	Purchase	0.666405	4.721	1 February 2008 to 2 May 2008	(Note 2)

Date of dealing	Party	Description of convertible securities/ option/ derivative	Number of convertible securities/ options/ derivatives	Nature of dealing	Unit price/ premium per convertible security/ option/ derivative (HK\$)	Exercise/ Conversion/ Strike price (HK\$)	Exercise period/ Conversion period/Final valuation date	Number of CNCB Shares involved
13 February 2008	LBFSA	Decumulator	18,000	Knock out Event <sup>(Note 3)</sup>		4.721	1 February 2008 to 2 May 2008	342,000
11 February 2008	LBFSA	Decumulator	3,400	Purchase	5.133529442	5.1648	11 February 2008 to 11 February 2009	(Note 2)
13 March 2008	LBFSA	Decumulator	3,400	Knock out Event (Note 3)		5.1648	1 February 2008 to 11 February 2009	3,400
2 April 2008	LBFSA	Decumulator	4,000	Purchase	6.3149	5.329	2 April 2008 to 2 April 2009	(Note 2)
10 September 2008	LBFSA	Decumulator	4,000	Knock out Event <sup>(Note 3)</sup>		5.329	2 April 2008 to 2 April 2009	20,000
3 April 2008	LBFSA	Decumulator	10,000	Purchase	6.476785	5.457	3 April 2008 to 3 April 2009	(Note 2)
3 July 2008	LBFSA	Decumulator	10,000	Knock out Event <sup>(Note 3)</sup>		5.457	3 April 2008 to 3 April 2009	210,000
25 April 2008	LBFSA	Decumulator	6,000	Purchase	3.63196	5.71	25 May 2008 to 27 October 2008	(Note 2)
9 May 2008	LBFSA	Decumulator	6,000	Knock out Event <sup>(Note 3)</sup>		5.71	25 May 2008 to 27 October 2008	114,000
28 May 2008	LBFSA	Decumulator	30,370	Purchase	5.121326309	6.3366	28 May 2008 to 27 May 2009	(Note 2)
12 June 2008	LBFSA	Decumulator	30,370	Knock out Event <sup>(Note 3)</sup>		4.87	28 May 2009 28 May 2008 to 27 May 2009	273,330
29 May 2008	LBFSA	Accumulator	5,000	Sale	5.2724	4.3955	29 May 2009 29 May 2008 to 29 May 2009	(Note 2)
29 May 2008	LBFSA	Decumulator	6,782	Purchase	7.39771159	6.2024	29 May 2009 29 May 2008 to 29 May 2009	(Note 2)
11 June 2008	LBFSA	Decumulator	6,782	Knock out Event <sup>(Note 3)</sup>		6.2024	29 May 2009 29 May 2008 to 29 May 2009	47,474
29 May 2008	LBFSA	Decumulator	24,622	Purchase	5.293920072	6.5636	29 May 2008 to 29 May 2009	(Note 2)
11 June 2008	LBFSA	Decumulator	24,622	Knock out Event <sup>(Note 3)</sup>		4.95	29 May 2008 to 29 May 2009	172,354
29 May 2008	LBFSA	Decumulator	13,900	Purchase	5.293920144	6.4399	29 May 2008 to 29 May 2009	(Note 2)
23 June 2008	LBFSA	Decumulator	13,900	Knock out Event <sup>(Note 3)</sup>		4.8	29 May 2008 to 29 May 2009	208,500
29 May 2008	LBFSA	Decumulator	16,938	Purchase	2.721599953	6.237	29 May 2008 to 28 November 2009	(Note 2)
11 June 2008	LBFSA	Decumulator	16,938	Knock out Event <sup>(Note 3)</sup>		4.95	29 May 2008 to 28 November 2009	118,566

						Number of CNCB
Date of dealing	Party	Description of option	Nature of dealing	Notional amount	Expiration Date	H Shares involved
15 January 2008	LBFSA	Put Option	Purchase	USD10,000,000	14 April 2008	(Note 4)

Notes:

- 1. These trades relate to Euro medium notes issued by Lehman Brothers entities in respect of which the Shares constitute one of the underlying basket of shares, which shares will be physically delivered if the value of the worst performing share is less than a pre-determined valuation price or, otherwise, the notes will be cash settled if the value of the worst performing stock is greater than the pre-determined strike price at maturity date.
- 2. The number of the CNCB H Shares involved (i.e. acquired by the accumulator holder or delivered by the decumulator holder) will only be determined at the end of each observation period and based on a pre-existing formula under the provisions of the accumulator/decumulator derivative within the agreed contract terms.
- 3. A knock out event is automatically triggered if the closing price of the underlying reference share reaches a pre-determined trigger price. Upon an occurrence of a knock out event, a number of the underlying reference shares will be:
  - (a) received from the derivative holder by the issuer in respect of a decumulator; or
  - (b) delivered to the derivative holder by the issuer in respect of an accumulator.
- 4. This trade relates to a put option contract in respect of which CNCB H Shares constitutes one of the underlying basket of shares, which will be cash settled if the final price of the best performing share is equal to or smaller than its pre-determined price on the expiration date or, otherwise, no payment is made if the final price of the best performing share is higher than its pre-determined price on the expiration date.

### 3. DERIVATIVE INTERESTS IN THE SHARES

Set out below are the derivative interests in the Company of Lehman Brothers and its affiliates as at the Latest Practicable Date:

Security	Duration	Position created daily	Total position created as of Latest Practicable Date
Decumulator	a period of 6 months commencing on 21 April 2008, subject to the occurrence of a knock-out event which will result in an automatic termination of the contract.	a long position of 9,000 Shares is created on each exchange business day when the daily trading price of the Shares at close is equal to or lower than HK\$5.446 per Share. However, the daily long position will be doubled to 18,000 Shares if the daily trading price at close is above HK\$5.446 per Share.	288,000

### 4. DERIVATIVE INTERESTS IN CNCB H SHARES

Set out below are the derivative interests in CNCB of Lehman Brothers and its affiliates as at the Latest Practicable Date:

Security	Quantity held	Exercise Price	Exercise Period	Exercise Date/ Maturity Date	Shares deliverable on exercise/at maturity
Put Option	18,500,000	HK\$4.21	1 April 2008 to 1 April 2009	1 April 2009	18,500,000
Call Option	18,500,000	HK\$4.21	1 April 2008 to 1 April 2009	1 April 2009	18,500,000
Call Option	18,527,000	HK\$4.21	1 April 2008 to 1 April 2009	1 April 2009	18,527,000
Put Option	18,527,000	HK\$4.21	1 April 2008 to 1 April 2009	1 April 2009	18,527,000
Call Option	8,500,000	HK\$4.56	18 April 2008 to 20 April 2009	20 April 2009	8,500,000
Put Option	8,500,000	HK\$4.56	18 April 2008 to 20 April 2009	20 April 2009	8,500,000
Call Option	8,500,000	HK\$5.08	27 May 2008 to 29 April 2009	29 April 2009	8,500,000
Put Option	8,500,000	HK\$5.08	27 May 2008 to 29 April 2009	29 April 2009	8,500,000

### DEALINGS AND DERIVATIVE INTERESTS IN THE SHARES AND CNCB H SHARES BY LEHMAN BROTHERS ASIA LIMITED AND ITS AFFILIATES

Security	Duration	Position created daily	Total position created as of the Latest Practicable Date
Accumulator	a period of 12 months commencing from 31 October 2007, subject to the occurrence of a knock- out event which will result in an automatic termination of the contract.	a short position of 6,000 CNCB H Shares is created on each exchange business day.	54,000
Accumulator	a period of 12 months commencing from 29 May 2008, subject to the occurrence of knock-out event which will result in an automatic termination of the contract.	a short position of 5,000 CNCB H Shares is created on each exchange business day when the daily trading price of the CNCB H Shares at close is equal to or greater than HK\$4.3955 per CNCB H Share. However, the daily long position will be doubled to 10,000 shares if the daily trading price at close is less than HK\$4.3955 per CNCB H Share.	60,000

## 5. CERTAIN DEALINGS IN THE SHARES SUBJECT OF PANEL CONSIDERATION

On 23 July 2008, the Takeovers and Mergers Panel of the SFC convened to consider a matter which was particularly novel, important and difficult. The point in issue relates to purchases entered into by the trading arm of Lehman Brothers on 11 June 2008 and 13 June 2008 during the offer period in the ordinary course of Lehman Brothers' business.

The purchases totalled 286,100 Shares and HK\$6.27 per Share was the highest price paid by Lehman Brother and its affiliates for these purchases. To put these purchases in context, the number of the Shares traded between 11 and 16 June 2008 amounted to approximately 190 million Shares. The lowest daily volume during this period was over 26 million Shares. Neither the Offeror nor BBVA had any knowledge that these purchases were taking place.

The matter put before the Takeovers and Mergers Panel was to consider whether the requirement under Rule 23.1(b) of the Takeovers Code should be complied with.

Rule 23.1(b) has the effect on a securities exchange offer of introducing a full cash alternative at the highest price paid in the event of purchases by the offeror or persons acting in concert with it during the offer period. If this Rule were to apply to the Proposal, the purchases made by Lehman Brothers and its affiliates would result in the obligation of a full cash alternative of HK\$6.27 being required for every Scheme Share cancelled.

For the reasons stated below, the Takeovers and Mergers Panel decided that it was appropriate to exercise its discretion under section 2.1 of the Introduction to the Takeovers Code to waive the requirements of Rule 23.1(b):

- the size of the purchases, which are unconnected with the offer, were very small relative to the size of the offer and to the total volume of the Shares traded at the material times;
- (ii) given the negligible impact that these purchases had on the traded prices or volume, such purchases also had a negligible impact on the public shareholders so that the even-handedness and equality of their treatment under the offer had not been compromised to any significant degree;
- (iii) the imposition of the requirement for a cash alternative would have a substantial and adverse impact on the offeror, greatly increasing the cash component of its proposal and changing the terms and possible outcome of that proposal, in circumstances where it had not purchased the Shares itself and had no knowledge of the purchases made by Lehman Brothers and its associates on or after 11 June 2008 at the time they were made; and
- (iv) were the decision be made under Rule 36 that the primary obligation for the offer on Lehman Brothers and its affiliates, the remedy would be disproportionate to the scale of the purchases.

### 1. **RESPONSIBILITY STATEMENT**

This document includes materials given in compliance with the Takeovers Code for the purpose of providing information with regard to the Proposal, CITIC Group, the Offeror, BBVA and the Company.

The directors of CITIC Group jointly and severally accept full responsibility for the accuracy of the information contained in this document other than that relating to the Company and that set out in Appendix III for which its responsibility is restricted to the correctness and fairness of the reproduction or the presentation of such information as published by CNCB, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document other than those expressed by the Company have been arrived at after due and careful consideration and there are no facts not contained in this document the omission of which would make any statement in this document misleading.

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this document other than that relating to the Company or CITIC Group and that set out in Appendix III for which its responsibility is restricted to the correctness and fairness of the reproduction or the presentation of such information as published by CNCB, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document other than those expressed by the Company and CITIC Group have been arrived at after due and careful consideration and there are no facts not contained in this document the omission of which would make any statement in this document misleading.

The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this document other than that relating to CITIC Group or the Offeror or CNCB or BBVA or Lehman Brothers and its associates, and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document other than those expressed by CITIC Group or the Offeror or CNCB or BBVA or Lehman Brothers and its associates have been arrived at after due and careful consideration and there are no facts not contained in this document the omission of which would make any statement in this document misleading.

### 2. MARKET PRICES OF THE SHARES AND THE CNCB H SHARES

- (a) The lowest and highest closing prices of the Shares as quoted on the Hong Kong Stock Exchange during the period commencing six months before 3 June 2008 up to the Latest Practicable Date were HK\$3.27 per Share on 18 March 2008 and HK\$6.52 per Share on 24 July 2008.
- (b) The lowest and highest closing prices of the CNCB H Shares as quoted on the Hong Kong Stock Exchange during the period commencing six months before 3 June 2008 up to the Latest Practicable Date were HK\$3.51 per CNCB H Share on 20 March 2008 and HK\$5.56 per CNCB H Share on 30 May 2008.

(c) The table below sets out the closing prices of the Shares and the CNCB H Shares on the Hong Kong Stock Exchange on the last business day of each of the calendar months commencing six months immediately preceding 3 June 2008 up to the Latest Practicable Date:

		CNCB
	the Shares	H Shares
	HK\$	HK\$
24 D 1 2005	4.07	1.00
31 December 2007	4.87	4.89
31 January 2008	4.26	4.47
29 February 2008	3.97	4.32
31 March 2008	3.98	4.11
30 April 2008	5.19	5.16
30 May 2008	5.85	5.56
Last Trading Day (2 June 2008)	5.70	5.44
30 June 2008	5.95	4.37
31 July 2008	6.36	4.98
29 August 2008	6.30	4.51
Latest Practicable Date (12 September 2008)	5.80	3.82

### 3. DISCLOSURE OF INTERESTS

## (a) Interests of the directors and the chief executives of the Company in the securities of the Group

As at the Latest Practicable Date, the interests and short positions of the directors and the chief executives of the Company in the Shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") in the Listing Rules, or which were required to be entered on the register required to be kept by the Company pursuant to Section 352 of the SFO, were as follows:

(i) Long positions in the Shares and underlying Shares

Name of Director	Capacity/ Nature of interest	of the Shares	Approximate percentage of issued Shares (Note 1)	Number of the Shares underlying the Options granted	Approximate percentage of issued Shares (Note 1)	Number of the Shares underlying the MEPB granted (Note 2)	Approximate % of issued Shares (Note 1)
Mr. Kong Dan	Beneficial Owner	-	-	4,800,000	0.08%	-	-
Mr. Chang Zhenming	Beneficial Owner	-	-	2,560,000	0.04%	-	-
Mr. Dou Jianzhong	Beneficial Owner	-	-	2,640,000	0.05%	600,000	0.01%
Mrs. Chan Hui Dor Lam Doreen	Beneficial Owner	2,974,689	0.05%	2,220,000	0.04%	2,000,000	0.03%
Mr. Chen Xiaoxian	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Fan Yifei	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Feng Xiaozeng	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Rafael Gil-Tienda	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Ju Weimin	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Lam Kwong Siu	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Liu Jifu	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Lo Wing Yat Kelvin	Beneficial Owner	-	-	1,120,000	0.02%	-	-
Mr. Roger Clark Spyer	Beneficial Owner	-	-	560,000	0.01%	572,000	0.01%
Mr. Tsang Yiu Keung Paul	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Wang Dongming	Beneficial Owner	-	-	320,000	0.01%	-	-
Mr. Zhao Shengbiao	Beneficial Owner	2,174,114	0.04%	320,000	0.01%	-	-

#### Note:

- 1. The percentage is calculated based on the total number of the issued Shares of 5,759,172,916 as at Latest Practicable Date.
- 2. The Company has a Medium-term Equity Linked Performance Bonus scheme ("MEPB") pursuant to which MEPB holders will receive cash benefit, but not the Shares, upon the exercise of their rights in accordance with the terms of the MEPB during the specified period. The amount of cash benefit to be received will be determined by reference to the price of a Share at different specified dates.
- (ii) Long positions in shares of associated corporation of the Company

Name of director	Name of associated corporation	Capacity	Number of ordinary shares held	Approximate percentage of issued share capital (Note)
Mr. Lo Wing Yat Kelvin	CIAM Group Limited	Beneficial owner	35,000	0.01%

*Note:* The percentage is calculated based on the total number of the issued share of CIAM Group Limited of 400,633,217 ordinary shares as at the Latest Practicable Date.

*(iii)* Long position (in respect of equity derivatives) in underlying shares of associated corporations of the Company

Share options, being unlisted physically settled equity derivatives, for the subscription of the ordinary shares of the following associated corporations (within the meaning of Part XV of the SFO) were granted by the respective associated corporations to the following directors of the Company:

	Name of associated	Number of shares	
Name of director	corporations	involved	Exercisable period
Mr. Kong Dan	CITIC Capital Holdings	30,000	02/03/2007 - 01/03/2010
	Limited ("CCHL")	25,000	04/04/2008 - 03/04/2011
		25,000	11/12/2009 - 10/12/2012
	CITIC Resources Holdings Limited	20,000,000	07/03/2008 - 06/03/2012
Mr. Chang Zhenming	CCHL	125,000	11/12/2009 - 10/12/2012
Mr. Dou Jianzhong	CCHL	15,000	02/03/2007 - 01/03/2010
		10,000	04/04/2008 - 03/04/2011
		10,000	11/12/2009 - 10/12/2012
Mrs. Chan Hui Dor	CCHL	15,000	02/03/2007 - 01/03/2010
Lam Doreen		10,000	04/04/2008 - 03/04/2011
Mr. Ju Weimin	CCHL	15,000	11/12/2009 - 10/12/2012
Mr. Wang Dongming	CCHL	15,000	02/03/2007 - 01/03/2010
		10,000	04/04/2008 - 03/04/2011
		10,000	11/12/2009 - 10/12/2012

Save as disclosed above, as at the Latest Practicable Date, neither the chief executive nor any of the directors of the Company had any interest or short position in the Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or the Model Code, or which were required to be entered on the register required to be kept by the Company pursuant to Section 352 of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code.

*(ii)* 

### (b) Interests of substantial shareholders in the Shares

As at the Latest Practicable Date, so far as was known to any of the directors of the Company, the following persons had or were deemed to have interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

*(i)* Long positions in the Shares

Name	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of issued Shares (Note 1)	
CITIC Group	Interest of controlled corporations (Note 2)	3,176,395,029	55.15%	
	Beneficial owner (Note 3)	835,717,967	14.51%	
	Interest of any parties to an agreement to acquire interests in a particular listed corporation required to be disclosed under Section 317(1)(a) and Section 318 of the SFO ( <i>Note 3</i> )	835,717,967	14.51%	
BBVA	Beneficial owner (Note 5)	1,727,661,985	29.99%	
	Other (Note 6)	3,176,395,029	55.15%	
Short positions in the Shares				

Name	Capacity	Number of Shares held	Approximate percentage of issued Shares (Note 1)
CITIC Group	Interest of controlled corporation (Note 4)	891,944,018	15.49%
BBVA	Beneficial owner (Note 3)	835,717,967	14.51%

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Notes:

- 1. The percentage is based on the issued share capital of the Company of 5,759,172,916 Shares as at the Latest Practicable Date.
- 2. These interests are owned by the Offeror, a wholly-owned subsidiary of CITIC Group.
- 3. The long position of CITIC Group and the short position of BBVA represent the Shares which may be acquired by CITIC Group in the exercise of its pre-emptive rights over the Shares owned by BBVA pursuant to the share purchase agreement dated 22 November 2006 entered into between CITIC Group and BBVA.
- 4. The short position represents 50% of the New Shares which may be transferred by the Offeror to BBVA pursuant of the Framework Agreement.
- 5. These interests represent the Shares owned by BBVA and 50% of the New Shares which may be acquired by BBVA from the Offeror pursuant to the Framework Agreement.
- 6. The long position represents the Shares which may be acquired by BBVA in the exercise of its pre-emptive rights over the Shares owned by CITIC Group pursuant to the share purchase agreement dated 22 November 2006 entered into between CITIC Group and BBVA.

Save as disclosed above, as at the Latest Practicable Date, there was no person, so far as was known to any of the directors, who had any interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be disclosed herein pursuant to the Takeovers Code.

### (c) Certain interests of the Company, its directors and other parties

As at the Latest Practicable Date, save as disclosed in paragraph (a) above of this section 3:

- (i) the Company owned 5,855,002,200 CNCB H Shares, representing approximately 15.00% of the issued capital of CNCB. Save as aforesaid, neither the Company nor any of its directors was interested in any shares in CITIC Group, the Offeror, CNCB or BBVA or any convertible securities, warrants, options or derivatives in respect of such shares or had dealt in the same during the period commencing six months before 3 June 2008 and ending on the Latest Practicable Date;
- (ii) none of the subsidiaries of the Company, the pension funds of the Company or any of its subsidiaries, the advisers to the Company (as specified in class (2) of the definition of "associate" in the Takeovers Code) and fund managers connected with the Company owned or controlled any shares in CITIC Group, the Offeror, CNCB or BBVA or any convertible securities, warrants, options or derivatives in respect of the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA;

- (iii) except CITIC Group, the Offeror and the concert parties in respect of the Proposal, the Framework Agreement and the Stock Borrowing, neither the Company nor any of its associates (by virtue of classes (1) to (4) of the definition of "associate" in the Takeovers Code) had any arrangement in relation to the shares in CITIC Group, the Offeror, CNCB or BBVA or any convertible securities, warrants, options or derivatives in respect of the shares in CITIC Group, the Offeror, CNCB or BBVA of the kind referred to in Note 8 to Rule 22 of the Takeovers Code; and
- (iv) none of the Company or its directors had borrowed or lent any Shares or CNCB Shares save for any borrowed Shares or CNCB Shares which have been either on-lent or sold.

## (d) Certain interests of the Offeror, its directors and parties acting in concert with it

As at the Latest Practicable Date, save for interests of certain persons who are directors of the Company as disclosed in the paragraph (a) above of this section 3:

- (i) CITIC Group (through the Offeror) was interested in 3,176,395,029 Shares, representing approximately 55.15% of the issued capital of the Company. CITIC Group held 24,329,608,919 CNCB A Shares, representing approximately 62.33% of the issued capital of CNCB. Save as aforesaid, neither CITIC Group nor the Offeror was interested in any other Shares or the CNCB Shares or any convertible securities, warrants, options or derivatives in respect of the Shares or the CNCB Shares;
- (ii) none of the directors of the Offeror was interested in any Shares or CNCB Shares or any convertible securities, warrants, options or derivatives in respect of the shares in the Company, the Offeror or CNCB;
- (iii) none of the concert parties was interested in any Shares or CNCB Shares or any convertible securities, warrants, options or derivatives in respect of the shares in the Company, the Offeror or CNCB except that:
  - BBVA was interested in 835,717,967 Shares, representing approximately 14.51% of the issued capital of the Company, and 1,885,311,281 CNCB H Shares, representing approximately 4.83% of the issued capital of CNCB;
  - (ii) Lehman Brothers and its affiliates, as concert parties, had a long position of 3,802,000 Shares, representing approximately 0.07% of the issued capital of the Company and a short position in respect of 218,000 Shares and, through interests in derivative products, a long position in respect of 288,000 Shares. In addition, these concert parties also had a long position in respect of 964,724 CNCB H Shares, a short position in respect of 584,000 CNCB H Shares and,

through interests in derivative products, a long position in respect of 54,027,000 CNCB H Shares and a short position of 54,141,000 CNCB H Shares;

- (iv) no person had irrevocably committed themselves to the Offeror to accept or reject the Proposal;
- (v) except the Proposal itself, the Framework Agreement and the Stock Borrowing, none of CITIC Group, the Offeror, BBVA, their respective associates and the concert parties had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with any other person; and
- (vi) none of CITIC Group, the Offeror, BBVA and the concert parties had borrowed or lent any Shares or CNCB Shares save for any borrowed Shares or CNCB Shares which have been either on-lent or sold, except that Lehman Brothers and its affiliates had lent to third parties 4,000 Shares and 64,610,000 CNCB H Shares and had borrowed from third parties 350,000 Shares and 64,663,276 CNCB H Shares.

### (e) Information regarding the share capital of the Company

As at the Latest Practicable Date:

- (a) the authorized share capital of the Company was HK\$8,000 million comprising 8,000 million Shares;
- (b) the issued share capital of the Company was HK\$5,759,172,916 comprising 5,759,172,916 Shares;
- (c) the Company had the following outstanding options and convertible securities:-
  - Options issued by the Company over 1,052,000, 1,232,000, 1,608,000, 4,908,000, and 25,364,000 Shares with respective exercise prices of HK\$3.54, HK\$3.775, HK\$2.925, HK\$4.275 and HK\$6.57 per Share;
  - (ii) outstanding Convertible Bonds in the principal amount of US\$1 million, convertible into the Shares at a price of HK\$4.269 per Share and, if so converted, would result in the issue of an aggregate of 1,816,116 Shares.
- (d) the Company had issued 1,852,000 Shares since 31 December 2007, being the end of the last financial year of the Company pursuant to the exercise of the vested Options.

Each of the Shares ranks pari passu in all respects, including as to dividends, voting rights and capital.

## 4. DEALINGS IN THE SECURITIES OF THE COMPANY, CITIC GROUP, THE OFFEROR, CNCB OR BBVA

During the period commencing six months before 3 June 2008 and ending on the Latest Practicable Date:

- (a) except for the exercise of the Options in respect of 40,000 Shares at an exercise price of HK\$4.275 per Share on 8 July 2008 by Mr. Zhao Shengbiao, none of the Company, CITIC Group, the Offeror and any of their respective directors had dealt for value in the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA or any convertible securities, warrants, options or derivatives in respect of the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA;
- (b) no subsidiary of the Company or pension fund of the Company or of a subsidiary of the Company or adviser to the Company (as specified in class (2) of the definition of "associate" in the Takeovers Code) or fund managers connected with the Company had dealt for value in the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA or any convertible securities, warrants, options or derivatives in respect of the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA; and
- (c) except for the dealings by Lehman Brothers and its affiliates set out in Appendix IV to this document, none of the concert parties had dealt for value in the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA or any convertible securities, warrants, options or derivatives in respect of the Shares or the shares in CITIC Group, the Offeror, CNCB or BBVA.

### 5. ARRANGEMENTS IN CONNECTION WITH THE OFFER

- (a) Save for the Proposal itself, there is no agreement or arrangement or understanding (including any compensation arrangement) between CITIC Group, the Offeror, BBVA or any concert person on the one part and any of the directors, recent directors, the shareholders of the Company other than BBVA or recent shareholders of the Company on the other part having any connection with or dependence upon the Scheme of Arrangement.
- (b) There is no agreement or arrangement to which CITIC Group or the Offeror is party and which relates to the circumstances in which it may or may not invoke or seek to invoke a condition to the Proposal.

(c) Save for the transfer of 50% of the New Shares by the Offeror to BBVA upon the Scheme of Arrangement becoming effective and, subject to regulatory approvals, the possible injection of the Company into CNCB, neither CITIC Group nor the Offeror has any intention to transfer, charge or pledge any securities in the Company acquired pursuant to the Scheme of Arrangement to any other person, nor has any of them any agreement, arrangement or understanding with any third party to do so.

### 6. ARRANGEMENTS AFFECTING DIRECTORS OF THE COMPANY

As at the Latest Practicable Date:

- (a) Mrs. Chan Hui Dor Lam Doreen and Mr. Zhao Shengbiao, both directors of the Company, intended in respect of the Shares they owned to vote in favour of the Scheme of Arrangement. All of the directors of the Company holding Options intended either to exercise their Options or to accept the Option Offer. No other directors of the Company own any other Shares or any convertible securities, warrants, options or derivative in respect of the Shares;
- (b) none of the directors of the Company will be given any benefit as compensation for loss of office or otherwise in connection with the Scheme of Arrangement;
- (c) save for the Option Offer, there is no agreement or arrangement between any of the directors and any other person which is conditional on or dependent upon the outcome of the Scheme of Arrangement or otherwise connected with the Scheme of Arrangement;
- (d) no material contract has been entered into by the Offeror in which any director has a material personal interest; and
- (e) none of the directors had entered into any service contract with the Company or any of its subsidiaries or associated companies which are fixed term contracts having more than 12 months to run irrespective of notice period, or which had been entered into or amended within six months before 3 June 2008, being the commencement date of the offer period, or which is a continuous contract with a notice period of 12 months or more.

### 7. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration or claim of material importance and no litigation or claim of material importance is known to the directors to be pending or threatened by or against the Company or any of its subsidiaries.

### 8. MATERIAL CONTRACTS

Save for the following contracts, no material contracts other than contracts entered into in the ordinary course of business had been entered into by any member of the Group within two years preceding 3 June 2008 and up to the Latest Practicable Date:–

- (a) the subscription agreement entered into between the Company and BBVA dated22 November 2006 for the subscription of Shares by BBVA;
- (b) the memorandum of understanding entered into between the Company and BBVA on 22 November 2006;
- (c) the subscription agreement entered into among CITIC Group, CNCB and the Company dated 22 November 2006 for the subscription of certain CNCB H Shares by the Company;
- (d) the memorandum of understanding entered into among CITIC Group, CNCB and the Company on 22 November 2006;
- (e) the share transfer and subscription agreement dated 4 December 2006 entered into between the Company, CITIC International Assets Management Limited and Asset Managers Co., Ltd., Ithmaar Bank B.S.C. and Mega Rider Offshore Limited (as investors) in relation to the purchase and subscription of shares in CITIC International Assets Management Ltd. by the investors;
- (f) the loan facility agreement dated 19 December 2007 entered into between the Company as borrower and Barclays Bank plc as agent for the lenders; and
- (g) the loan facility agreement dated 23 April 2007 entered into between the Company as borrower and The Hongkong and Shanghai Banking Corporation Limited as lender.

### 9. EXPERTS

The following are the qualifications of each of the experts who have been named in this document or provided their report or advice which are contained in this document:

Name	Qualification
KPMG	Certified public accountants
Lehman Brothers	licensed to conduct Type 1 (dealing in securities), Type 2 (dealing in futures contracts), Type 4 (advising on securities) and Type 6 (advising on corporate finance) regulated activities under the SFO

#### Name

### Qualification

Somerley Limited licensed to conduct Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

### 10. CONSENT

KPMG, Lehman Brothers and Somerley Limited have given and have not withdrawn their respective written consents to the issue of this document with the inclusion in this document of the text of their respective letters, reports or opinions, as the case may be, and references to their names in the form and context in which they respectively appear.

### 11. GENERAL

- (a) The registered office of the Company is situate at Suites 2701–9, 27th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong.
- (b) The registered office of CITIC Group is situate at Capital Mansion, 6 Xinyuan Nanlu, Chaoyang District, Beijing 100004, the PRC and its correspondence address in Hong Kong is 32nd Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong. The chairman of CITIC Group is Mr. Kong Dan; the vice chairmen are Mr. Chang Zhenming and Mr. Wang Chuan; the executive directors are Mr. Jing Shuping, Mr. Yung Chi Kin, Mr. Mi Zengxin, Mr. Dou Jianzhong, Mr. Li Shilin, Mr. Wen Jinping, Mr. Wang Jiong, Mr. Zhao Jingwen and Mr. Chen Xiaoxian; and the directors are Mr. Guo Ketong, Mr. Pu Jian, Mr. Wang Dongming, Mr. Guo Zhirong, Mr. Qiu Yiyong, Mr. Wang Jianzhi, Mr. Hong Bo, Mr. Ren Qinxin, Mr. Sun Xiaowen, Mr. Zhang Jijing, Mr. Luo Ning and Mr. Sun Xinguo.
- (c) The registered office of the Offeror is situate at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and its correspondence address in Hong Kong is c/o Suites 2701–9, 27th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong. The directors of the Offeror are Mr. Chang Zhenming, Mr. Dou Jianzhong and Mr. Ju Weimin.
- (d) The registered office of BBVA is situate at 4 Plaza de San Nicolás, Bilbao, Vizcaya, Spain and its correspondence address in Hong Kong is 33/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. The directors of BBVA are González Rodríguez, Francisco, Goirigolzarri Tellaeche, José Ignacio, Alfaro Drake, Tomás, Alvarez Mezquiriz, Juan Carlos, Bermejo Blanco, Rafael, Breeden, Richard C., Bustamante y de la Mora, Ramón, Fernández Rivero, José Antonio, Ferrero Jordi, Ignacio, Knörr Borrás, Román, Loring Martínez de Irujo, Carlos, Maldonado Ramos, José, Medina Fernández, Enrique and Rodríguez Vidarte, Susana.

### APPENDIX V

- (e) The registered office of Lehman Brothers is situate at 1907–9 1913–8 19/F, 2201 2210–7 22/F, 25/F–26/F, 2706–14 27/F Two International Finance Centre, 8 Finance Street, Central, Hong Kong.
- (f) The registered office of Somerley Limited is situate at 10/F, The Hong Kong Club Building, 3A Chater Road, Central, Hong Kong.
- (g) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited which is situate at Shops 1712–1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (h) The English language text of this document and the accompanying forms of proxy shall prevail over the Chinese language text.

#### 12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection from 9:30 a.m. to 5:30 p.m., Monday to Friday at (i) the registered office of the Company at Suites 2701-9, 27th Floor, CITIC Tower, 1 Tim Mei Avenue, Central, Hong Kong; (ii) the website of the Company at www.citicifh.com; and (iii) the website of SFC at www.sfc.hk from the date when this document is published until the Effective Date or the date on which the Scheme of Arrangement is withdrawn or lapses, whichever is the earliest:

- (a) the memorandum and articles of association of the Company;
- (b) the articles of association of CITIC Group;
- (c) the memorandum and articles of association of the Offeror;
- (d) the annual report containing the audited consolidated financial statements of the Company for each of the two years ended 31 December 2006 and 2007;
- (e) the announcement dated 21 August 2008 made by the Company containing the unaudited consolidated results of the Group for the six months ended 30 June 2008;
- (f) the annual report containing the audited consolidated financial statements of CITIC Group for each of the two years ended 31 December 2006 and 2007;
- (g) the prospectus of CNCB dated 16 April 2007;
- (h) the annual report containing the audited consolidated financial statements of CNCB for the year ended 31 December 2007;
- the announcement dated 20 August 2008 made by CNCB containing its unaudited consolidated financial statements for the six months ended 30 June 2008;

## APPENDIX V

- (j) the letter from the board of directors of the Company, the text of which is set out on pages 10 to 16 of this document;
- (k) the letter from the Independent Board Committee, the text of which is set out on pages 17 to 18 of this document;
- (l) the letter of advice from the Independent Financial Adviser, the text of which is set out on pages 19 to 67 of this document;
- (m) a full list of all dealings in the Shares and CNCB H Shares by Lehman Brothers and its associates from 3 December 2007 to the Latest Practicable Date;
- (n) the material contracts referred to in section 8 above headed "Material Contracts" in this Appendix V;
- the written consents referred to in section 10 above headed "Consent" in this Appendix V;
- (p) the Stock Borrowing Agreement;
- (q) the SOPA; and
- (r) the Framework Agreement.

HCMP No. 1686/08

#### IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION COURT OF FIRST INSTANCE MISCELLANEOUS PROCEEDINGS NO. 1686 OF 2008

In the Matter of

## CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED 中信國際金融控股有限公司

and

In the Matter of the COMPANIES ORDINANCE, Chapter 32 of the Laws of the Hong Kong Special Administrative Region

### SCHEME OF ARRANGEMENT under Section 166 of the Companies Ordinance, Chapter 32 of the Laws of the Hong Kong Special Administrative Region

between

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED 中信國際金融控股有限公司

and

the holders of the Scheme Shares (as hereinafter defined)

#### PRELIMINARY

(A) In this Scheme of Arrangement, unless inconsistent with the subject or context, the following expressions shall have the meanings respectively set opposite thereto:

"BBVA"

Banco Bilbao Vizcaya Argentaria, S.A., a company incorporated in the Kingdom of Spain;

"CNCB"	中信銀行股份有限公司 (China CITIC Bank Corporation Limited), a company established under the laws of the People's Republic of China;
"CNCB H Share(s)"	overseas listed foreign share(s) of RMB1.00 each in the capital of CNCB, all of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited;
"Companies Ordinance"	Companies Ordinance, Chapter 32 of the Laws of Hong Kong;
"Company"	CITIC International Financial Holdings Limited 中信國際金融控股有限公司, a company incorporated under the laws of Hong Kong with limited liability and the shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited;
"Court"	High Court of Hong Kong;
"Effective Date"	the date on which this Scheme of Arrangement, if approved, becomes effective in accordance with clause 7 of this Scheme of Arrangement;
"holder(s)"	registered holder(s) of the Shares, including any person entitled by transmission to be registered as such and joint holders;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Offeror"	Gloryshare Investments Limited, a company incorporated in the British Virgin Islands with limited liability;
"Record Time"	4:00 p.m. Hong Kong time on the day on which The Stock Exchange of Hong Kong Limited is open for trading and immediately preceding the Effective Date;
"Scheme of Arrangement"	this scheme of arrangement under Section 166 of the Companies Ordinance in its present form or with or subject to any modification thereof or addition thereto or condition approved or imposed by the Court;

"Scheme Share(s)"	Share(s) in issue at the Record Time other than those beneficially owned by the Offeror or BBVA;
"Share(s)"	ordinary share(s) of HK\$1.00 each in the capital of the Company; and
"HK\$"	Hong Kong dollars, the lawful currency of Hong Kong.

- (B) The authorized capital of the Company is HK\$8,000,000,000 divided into 8,000,000,000 Shares, 5,759,172,916 of which have been issued and are fully paid or credited as fully paid.
- (C) The primary purpose of this Scheme of Arrangement is that the Company shall be wholly-owned by the Offeror and BBVA and that the holders of the Scheme Shares shall cease to be shareholders of the Company.
- (D) Of the Shares in issue, the 4,012,112,996 Shares which are not Scheme Shares at the date of this Scheme of Arrangement are beneficially owned and registered as follows:-
  - (1) the Offeror is the beneficial owner of 3,176,395,029 Shares, 3,082,279,336 of which are registered in its own name and the balance of 94,115,693 are registered in the name of HKSCC Nominees Limited; and
  - (2) BBVA is the beneficial owner of 835,717,967 Shares, all of which are registered in the name of HKSCC Nominees Limited.
- (E) Each of the Offeror and BBVA has undertaken to the Company that in relation to such Shares beneficially owned by each of them respectively, the relevant Shares would remain so beneficially owned and registered until the Scheme of Arrangement had become effective, been withdrawn or lapsed.
- (F) Further, the Offeror has undertaken to the Company that:
  - (i) in respect of any option granted by the Company for the subscription of the Shares which would remain unexercised four days before the Record Time, the Offeror would, subject to this Scheme of Arrangement becoming effective, make a cash offer to the holders of all such options for the surrender of their rights in respect of the options to the Company for cancellation and, failing the acceptance of such offer, indemnify the Company for the payment to the holders of the consideration for the cancellation of their options in such amount as determined by the Company; and
  - (ii) in respect of any outstanding convertible bonds issued by the Company which had not been converted into the Shares four days before the Record Time, the Offeror would, subject to this Scheme of Arrangement becoming effective, make a cash offer to the bondholders for the acquisition of the bonds and, failing the acceptance of such offer, indemnify the Company for the redemption of the bonds.

- (G) In addition, as at 12 September 2008, being the latest practicable date prior to the date of this Scheme of Arrangement, Lehman Brothers Asia Limited, the financial adviser to the Offeror in respect of this Scheme of Arrangement, and certain of its associated companies had a long position of 3,802,000 Shares and a short position of 218,000 Shares and, through their interests in derivative products, a long position in respect of 288,000 Shares. Lehman Brothers Asia Limited and such associated companies have undertaken to the Company that in relation to all of the Shares either legally or beneficially owned by them respectively as at the date of the meeting convened by direction of the High Court for the approval of this Scheme of Arrangement, such Shares would neither be represented nor voted at the meeting.
- (H) The Offeror and BBVA have agreed to appear by Counsel at the hearing of the petition to sanction this Scheme of Arrangement and to undertake to the Court to be bound thereby and to execute and do and procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by each of them for the purpose of giving effect to this Scheme of Arrangement.

#### THE SCHEME

#### PART I Cancellation of the Scheme Shares

- 1. On the Effective Date:
  - (a) the authorized and issued share capital of the Company shall be reduced by cancelling and extinguishing the Scheme Shares;
  - (b) subject to and forthwith upon such reduction of capital taking effect, the authorized share capital of the Company shall be increased to its former amount of HK\$8,000,000,000 by the creation of such number of new Shares as is equal to the number of the Scheme Shares cancelled; and
  - (c) the Company shall apply the credit arising in its books of account as a result of the reduction of capital referred to in sub-clause (a) of this Clause 1 in paying up in full at par the new Shares to be created as aforesaid, which new Shares shall be allotted and issued, credited as fully paid, to the Offeror or such parties as the Offeror may direct.

#### PART II

## Consideration for cancellation of the Scheme Shares

- 2. In consideration of the cancellation and extinguishment of the Scheme Shares, the Offeror shall:
  - (a) transfer or cause to be transferred to the holders of the Scheme Shares (as appearing on the register of members of the Company at the Record Time) one CNCB H Share, credited as fully paid; and
  - (b) pay or cause to be paid to such holders of the Scheme Shares the sum of HK\$2.16 in cash (subject to the deduction of half of the amount of the stamp duty payable on effecting the transfer referred to in sub-clause (a) of this Clause 2);

for every Scheme Share held and so in proportion for any greater number of the Scheme Shares then held.

### PART III Transfers and Payments

- 3. The CNCB H Shares to be transferred to the holders of the Scheme Shares pursuant to sub-clause (a) of Clause 2 of this Scheme of Arrangement shall be free from all liens, charges and incumbrances and shall form one class with and rank *pari passu* in all respects with the existing CNCB H Shares.
- 4. Not later than ten days after the Effective Date, the Offeror shall effect or cause to effect, as of the Effective Date, the transfer of the CNCB H Shares and the payments pursuant to sub-clauses (a) and (b) respectively of Clause 2 of this Scheme of Arrangement and by delivery of the certificates for the CNCB H Shares and the cheques in accordance with Clause 5 of this Scheme of Arrangement.
- 5. (a) Not later than ten days after the Effective Date, the Offeror shall deliver or cause to be delivered the shares certificates in respect of the CNCB H Share transferred and the cheques in respect of the sums payable both pursuant to Clause 2 of this Scheme of Arrangement to the persons respectively entitled thereto by sending such certificates and cheques through the post (by airmail, where appropriate) in pre-paid envelopes addressed to such persons entitled thereto unless indicated otherwise in writing before the Effective Date to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806 1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in the following manner:
  - (i) in the case of each sole holder of the Scheme Shares, to the registered address of such holder as appearing on the register of members of the Company at the Record Time; and

- (ii) in the case of joint holders, to the registered address of that one of the joint holders whose name then stands first on the register of members of the Company at the Record Time in respect of the joint holding.
- (b) All such share certificates and cheques shall be posted at the risk of the addressees and neither the Offeror nor the Company nor any of their officers or agents shall be responsible for any loss or delay whatsoever in the transmission.
- (c) All share certificates shall be issued in the names of the holders of the Scheme Shares (as appearing on the register of members of the Company at the Record Time) in accordance with sub-clause (a) of Clause 2 of this Scheme of Arrangement and all cheques shall be made payable to the order of the person to whom, in accordance with the sub-clause (a) of this Clause 5, the envelope containing the same is addressed and the encashment of any such cheque shall be a good discharge to the Offeror for the monies represented thereby.
- (d) (i) On or after the day being six calendar months after the posting of the share certificates and the cheques pursuant to sub-clause (a) of this Clause 5, the Offeror shall have the right to cause the cancellation of any such share certificate which has been returned or to cancel or countermand payment of any such cheque which has not then been cashed or has been returned uncashed and retransfer the relevant CNCB H Shares to the Offeror itself as trustee for the person entitled thereto who shall place all dividends and other distributions derived from such CNCB H Shares and all monies represented by the cheque in a deposit or custodian account, as the case may be, in the Offeror's name with a licensed bank in Hong Kong selected by the Company.
  - (ii) The Offeror shall hold such shares and monies or other distributions until the expiration of six years from the Effective Date and shall, prior to such date, retransfer the CNCB H Shares and make payments or effect transfer from the deposit or custodian account of the sums payable pursuant to Clause 2 of this Scheme of Arrangement and any distributions from such CNCB H Shares to the persons who satisfy the Offeror that they are respectively entitled thereto and that the cheques referred to in sub-clause (a) of this Clause 5 of which they are payees have not been cashed.
  - (iii) Any retransfer of shares or payments so effected by the Offeror hereunder shall include any accretion on the shares and interest accrued on the sums to which the respective persons are entitled pursuant to Clause 2 of this Scheme of Arrangement, such interest to be calculated at the annual rate prevailing from time to time at the licensed bank in which the monies are deposited, subject (where applicable) to deduction of any interest or withholding or any other tax or any other deduction required by law and all expenses and costs in effecting the transfer and payment.

- (iv) The Offeror shall exercise its absolute discretion in determining whether or not it is satisfied that any person is so entitled and a certificate of the Offeror to the effect that any particular person is so entitled or is not so entitled, as the case may be, shall be conclusive and binding upon all persons claiming an interest in the relevant shares or monies.
- (v) Upon the expiry of six years from the Effective Date, the Offeror shall be released from any further obligation to effect the transfer of the shares or make any payment under this sub-clause (d) and any CNCB H Shares remain registered in the Offeror's name together with the balance, if any, of the sums standing to the credit of the deposit account or any other distributions in the custodian account referred to in paragraph (i) of this sub-clause (d) including accrued interest subject, where applicable, to the deduction of any interest or withholding on any other tax or any other deduction required by law and subject further to the deduction of all expenses shall be transferred to and for the benefit of the Offeror.
- (e) The preceding sub-clauses of this Clause 5 shall take effect subject to any prohibition or condition imposed by law.

#### PART IV General

- 6. With effect from the Effective Date:-
  - (a) all certificates representing the Scheme Shares shall cease to have effect as documents or evidence of title for such Scheme Shares and every holder thereof shall be bound, at the request of the Company, to deliver up such certificates to the Company or to any person appointed by the Company to receive the same for cancellation;
  - (b) all instruments of transfer validly subsisting at the Record Time in respect of the transfer of any number of the Scheme Shares shall cease to be valid for all purposes as instruments of transfer; and
  - (c) all mandates or relevant instructions in force at the Record Time relating to any of the Scheme Shares shall cease to be valid and effective mandates or instructions.
- 7. This Scheme of Arrangement shall become effective as soon as an office copy of the order of the Court sanctioning this Scheme of Arrangement under Section 166 of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong, and confirming, under Section 60 of the same Ordinance, the reduction of capital provided for in this Scheme of Arrangement, together with a minute relating to the share capital of the Company and containing the particulars required by Section 61 of such Ordinance, shall have been duly registered by the Registrar of Companies.

- 8. Unless this Scheme of Arrangement shall have become effective on or before 31 December 2008 or such later date, if any, as the Court may allow, this Scheme of Arrangement shall lapse.
- 9. The Offeror and the Company may jointly consent for and on behalf of all concerned to any modification of, or addition to, this Scheme of Arrangement or to any condition which may be approved or imposed by the Court.
- 10. All costs, charges and expenses of and incidental to this Scheme of Arrangement and of carrying this Scheme of Arrangement into effect shall be borne by the Offeror.

Dated the 16 day of September 2008

### NOTICE OF COURT MEETING

HCMP No. 1686/08

#### IN THE HIGH COURT OF THE HONG KONG SPECIAL ADMINISTRATIVE REGION COURT OF FIRST INSTANCE MISCELLANEOUS PROCEEDINGS NO. 1686 OF 2008

In the Matter of CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED 中信國際金融控股有限公司 and In the Matter of the COMPANIES ORDINANCE, Chapter 32 of the Laws of the Hong Kong Special Administrative Region

#### NOTICE OF COURT MEETING

NOTICE IS HEREBY GIVEN that, by an Order dated 9 September 2008 made in the above matters, the Court has directed a Meeting to be convened of the holders of the ordinary shares of HK\$1.00 each in the capital of CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED 中信國際金融控股有限公司 (the "Company") other than those of such shares beneficially owned by Gloryshare Investments Limited or Banco Bilbao Vizcaya Argentaria, S.A. for the purpose of considering and, if thought fit, approving (with or without modification) a Scheme of Arrangement proposed to be made between the Company and the aforementioned holders of its ordinary shares of HK\$1.00 each and that the Meeting will be held at K-2 Suite, Pacific Place Conference Centre 5/F, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 16 October 2008, at 10:00 a.m. at which place and time all such holders of the ordinary shares of HK\$1.00 each in the capital of the Company are requested to attend.

A copy of the Scheme of Arrangement and a copy of the Explanatory Statement required to be furnished pursuant to Section 166A of the abovementioned Ordinance are incorporated in the composite document of which this Notice forms part.

The abovementioned holders of the ordinary shares of HK\$1.00 each in the capital of the Company may vote in person at the Meeting or they may appoint not more than two persons, whether a member of the Company or not, as their proxy or proxies to attend and vote in their stead. A pink form of proxy for use at the Meeting is enclosed herewith.

# NOTICE OF COURT MEETING

It is requested that forms appointing proxies, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or other authority, be lodged at the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806 – 1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the Meeting, but if forms are not so lodged they may be handed to the Chairman of the Meeting at the Meeting.

In the case of joint holders of a share, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the vote(s) of the other joint holder(s) and, for this purpose, seniority will be determined by the order in which the names stand on the Register of Members of the Company in respect of the relevant joint holding.

For the purpose of determining the entitlement to attend and vote at the Meeting, all properly executed instruments of transfer, together with the relevant share certificates, must be lodged by the transferee with the share registrar of the Company not later than 4:00 p.m. on Tuesday, 14 October 2008.

By the same Order, the Court has appointed Tsang Yiu Keung Paul, or failing him, Lo Wing Yat Kelvin or, failing him, Roger Clark Spyer to act as the Chairman of the Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent approval of the Court.

Dated 16 September 2008

Jones Day 29th Floor Edinburgh Tower The Landmark 15 Queen's Road Central Hong Kong Solicitors for CITIC International Financial Holdings Limited

# NOTICE OF EXTRAORDINARY GENERAL MEETING



中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED (incorporated in Hong Kong with limited liability) (Stock Code: 183)

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting of CITIC International Financial Holdings Limited will be held at K-2 Suite, Pacific Place Conference Centre, 5/F, One Pacific Place, 88 Queensway, Hong Kong on Thursday, 16 October 2008 at 10:30 a.m. (or so soon thereafter as the Meeting of certain holders of the ordinary shares of HK\$1.00 each in the capital of the Company convened by the directions of the High Court of the Hong Kong Special Administrative Region shall have been concluded or adjourned) for the purposes of considering and, if thought fit, passing the following resolutions the first one of which will be proposed as a Special Resolution and the remaining one will be proposed as an Ordinary Resolution:

#### SPECIAL RESOLUTION

- 1. **"THAT**:
  - (a) the Scheme of Arrangement dated 16 September 2008 between the Company and the holders of the Scheme Shares (as defined in the Scheme of Arrangement) in the form of the print which has been produced to this Meeting and for the purposes of identification signed by the Chairman of this Meeting, with any modification thereof or addition thereto or condition approved or imposed by the High Court of the Hong Kong Special Administrative Region be and is hereby approved;
  - (b) for the purposes of giving effect to the Scheme of Arrangement, on the Effective Date (as defined in the Scheme of Arrangement):
    - the authorized and issued capital of the Company be reduced by cancelling and extinguishing the Scheme Shares;
    - (ii) subject to and forthwith upon such reduction of capital taking effect, the authorized capital of the Company be increased to its former amount of HK\$8,000,000,000 by the creation of such number of new ordinary shares of HK\$1.00 each in the capital of the Company as is equal to the number of the Scheme Shares cancelled; and
    - (iii) the Company shall apply the credit arising in its books of account as a result of the reduction of the capital referred to in subparagraph (i) above in paying up in full at par such number of new ordinary shares of HK\$1.00 each in the capital of the Company to be created as aforesaid, which new shares shall be allotted and issued, credited as fully paid, to Gloryshare Investments Limited."

## NOTICE OF EXTRAORDINARY GENERAL MEETING

#### **ORDINARY RESOLUTION**

#### 2. **"THAT**:

the transfer of such number of the overseas listed foreign shares ("CNCB H Shares") of RMB1.00 each in the capital of China CITIC Bank Corporation Limited ("CNCB") by Gloryshare Investments Limited ("GIL") to Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") pursuant to a framework agreement dated 3 June 2008 entered into between CITIC Group, GIL and BBVA which would result in BBVA holding 10.07% of the issued shares of RMB1.00 each in the capital of CNCB immediately after such transfer at the sale price per CNCB H Share (being the higher of (i) HK\$5.10; and (ii) the highest closing price per CNCB H Share as quoted on The Stock Exchange of Hong Kong Limited during the period commencing 3 June 2008 and ending on the date on which the Scheme of Arrangement referred to in the Special Resolution set out in the Notice convening this Meeting becomes effective, subject to a maximum price of HK\$5.86 per CNCB H Share), be and is hereby approved".

> By order of the Board CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED Kyna Y. C. Wong Company Secretary

Hong Kong, 16 September 2008

Registered Office: Suites 2701-9, 27th Floor, CITIC Tower 1 Tim Mei Avenue Central Hong Kong

# NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- 1. Every member entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote in his stead provided that if more than one person is authorized, the proxy or authorization must specify the number of the shares in respect of which each such person is so authorized. The proxy need not be a member of the Company.
- 2. A white form of proxy for use at the Meeting is enclosed. To be valid, the white form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power of attorney or authority, must be completed, signed and deposited at the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at Rooms 1806 1807, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Meeting or any adjournment thereof.
- 3. Delivery of an instrument appointing a proxy shall not preclude a shareholder from attending and voting in person at the Meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.
- 4. Where two or more persons are registered as the holder of any share, the Company shall be at liberty to treat the person whose name stands first in the register of members as one of the joint holders of any share as solely entitled to attend or vote at the Meeting, but any one of such joint holders may be appointed the proxy of the persons entitled to vote on behalf of such joint holders, and as such proxy to attend and vote at the Meeting of the Company, but if more than one of such joint holders be present at any meeting personally or by proxy, that one so present whose name stands first in the register of member in respect of such shares shall alone be entitled to vote in respect thereof.