

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability under the Companies Ordinance)

(Stock Code: 183)

ANNOUNCEMENT OF 2004 FINAL RESULTS

The Board of Directors of CITIC International Financial Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2004 as follows:-

(A) CONSOLIDATED INCOME STATEMENT

	The Group		
	2004	2003	Variance
	HK\$'000	HK\$'000	%
Interest income	2,241,410	2,523,226	-11.17
Interest expense	-767,953	-961,655	-20.14
Net interest income	1,473,457	1,561,571	-5.64
Fees and commission income	461,307	416,276	10.82
Fees and commission expense	-26,880	-39,000	-31.08
Other operating income	248,551	82,012	203.07
Non-interest income	682,978	459,288	48.70
Operating income	2,156,435	2,020,859	6.71
Operating expenses	-1,117,485	-1,015,485	10.04
Operating profit before provisions	1,038,950	1,005,374	3.34
Charge for bad and doubtful debts	-78,065	-513,781	-84.81
Operating profit	960,885	491,593	95.46
Net profit/(loss) on disposal of tangible fixed assets	11,862	-16,017	174.06
Net surplus on revaluation of investment properties	7,555	24,461	-69.11
Net profit on disposal of held-to-maturity securities	-	124,823	N/A
Provision written back on held-to-maturity securities	9,682	169	5,628.99
Impairment loss on goodwill	-9,502	-	N/A
Impairment loss on other premises	-	-27,617	N/A
Share of profits less losses of associates	75,978	174,672	-56.50
Profit from ordinary activities before taxation	1,056,460	772,084	36.83
Income tax	-155,491	-115,318	34.84
Profit from ordinary activities after taxation	900,969	656,766	37.18
Minority interests	370	-188	296.81
Profit attributable to shareholders	901,339	656,578	37.28
Dividends attributable to the year			
Interim dividend declared and paid during the year	210,759	95,465	
Final dividend proposed after the balance sheet date	239,636	200,960	
	450,395	296,425	
Earnings per share			
Basic (Note 2)	28.24 ¢	21.00 ¢	
Diluted (Note 3)	25.70 ¢	20.84 ¢	
Interim dividend per share	6.60 ¢	3.00 ¢	
Proposed final dividend per share	7.50 ¢	6.30 ¢	
Total dividends per share	14.10 ¢	9.30 ¢	

(B) CONSOLIDATED BALANCE SHEET

	The Group		
	As at	As at	Variance
	31 Dec 2004	31 Dec 2003	%
	HK\$'000	HK\$'000	
Assets			
Cash and short-term funds	8,345,790	7,511,643	11.10
Placements with banks and other financial institutions maturing after one month	364,307	646,373	-43.64
Trade bills less provisions	246,081	452,489	-45.62
Certificates of deposit	1,366,315	2,059,100	-33.65
Other investments in securities	3,968,263	2,511,606	58.00
Advances to customers and other accounts less provisions	43,323,300	41,073,517	5.48
Held-to-maturity securities and investment securities	22,294,833	22,454,176	-0.71
Interest in associates	1,312,357	490,444	167.59
Goodwill	1,007,749	1,077,587	-6.48
Deferred tax assets	93,562	87,477	6.96
Tangible fixed assets	1,247,460	1,553,045	-19.68
Total assets	83,570,017	79,917,457	4.57
Liabilities			
Deposits and balances of banks and other financial institutions	3,555,852	3,486,079	2.00
Deposits from customers	55,451,727	56,847,606	-2.46
Certificates of deposit issued	6,959,690	4,711,175	47.73
Debt securities issued	2,322,798	-	N/A
Convertible bonds issued	1,399,384	1,397,364	0.14
Current taxation	6,446	17,071	-62.24
Deferred tax liabilities	8	15	-46.67
Other accounts and provisions	1,287,861	1,376,464	-6.44
Total liabilities	70,983,766	67,835,774	4.64
Capital resources			
Share capital	3,194,153	3,189,835	0.14
Reserves	5,116,202	4,621,935	10.69
Shareholders' funds	8,310,355	7,811,770	6.38
Minority interests	-	191	N/A
Loan capital	4,275,896	4,269,722	0.14
Total capital resources	12,586,251	12,081,683	4.18
Total liabilities and capital resources	83,570,017	79,917,457	4.57

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	The Group	
	<u>2004</u>	<u>2003</u>
	<u>HK\$'000</u>	<u>HK\$'000</u>
Shareholders' equity at 1 January	<u>7,811,770</u>	
- As previously reported		7,426,293
- Prior year adjustment in respect of deferred taxation		<u>(53,066)</u>
- As restated		<u>7,373,227</u>
Exchange differences	<u>283</u>	<u>(916)</u>
Net gains/(losses) not recognised in the income statement	<u>283</u>	<u>(916)</u>
Profit attributable to shareholders	<u>901,339</u>	<u>656,578</u>
Dividends paid during the year	<u>(411,897)</u>	<u>(490,095)</u>
Movements in share capital:		
Shares issued under the Old Option Scheme	4,318	9,052
Shares issued under scrip dividends	-	145,470
Net share premium received	<u>4,542</u>	<u>118,454</u>
	<u>8,860</u>	<u>272,976</u>
Shareholders' equity at 31 December	<u>8,310,355</u>	<u>7,811,770</u>

Notes:

- (1) The financial information in this financial results announcement does not constitute statutory financial statements.

The financial information relating to the financial year ended 31 December 2004 included in this preliminary final results announcement does not constitute the Group's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 will be available from the Company's registered office. The external auditors expressed an unqualified opinion on those financial statements in their report dated 10 March 2005.

- (2) The calculation of basic earnings per share is based on profit attributable to shareholders of \$901,339,000 (2003: \$656,578,000) and on the weighted average of 3,192,157,892 (2003: 3,126,742,217) ordinary shares in issue during the year.
- (3) The calculation of diluted earnings per share is based on adjusted profit attributable to shareholders of \$904,834,000 (2003: \$656,811,000) and on the weighted average number of ordinary shares of 3,521,197,208 (2003: 3,151,682,576) after adjusting for the effects of all dilutive potential ordinary shares.

SUPPLEMENTARY FINANCIAL INFORMATION
UNAUDITED SUPPLEMENTARY FINANCIAL INFORMATION

(1) Summary of financial position

	The Group		
	As at	As at	Variance
	31 Dec 2004	31 Dec 2003	
	HK\$'000	HK\$'000	%
Loans and advances	42,921,282	40,643,233	5.60
Loans loss provisions	1,058,893	1,236,975	-14.40
Total assets	83,570,017	79,917,457	4.57
Average interest earning assets	70,297,381	73,471,951	-4.32
Total deposits	62,411,417	61,558,781	1.39
Shareholders' funds	8,310,355	7,811,770	6.38
<i>Financial ratios</i>			
Loans to deposits	68.77%	66.02%	
Loans to total assets	51.36%	50.86%	
General provisions coverage	1.22%	1.34%	
Property lending	35.57%	38.57%	
Cost to income (before goodwill)	49.02%	47.29%	
Cost to income (after goodwill)	51.82%	50.25%	
Return on assets	1.10%	0.84%	
Return on shareholders' funds	11.18%	8.65%	

(2) Operating profit

The operating profit for the year is stated after taking account of the following:

(a) Other revenue

	The Group		
	2004	2003	Variance
	HK\$'000	HK\$'000	
			%
Dividend income			
Listed investments	488	357	36.69
Unlisted investments	10,289	13,105	-21.49
Rental income less outgoings	9,893	13,736	-27.98
	20,670	27,198	-24.00

(b) Other net income

	The Group		
	2004	2003	Variance
	HK\$'000	HK\$'000	
			%
Net gain on other investments in securities	100,893	15,409	554.77
Net gain arising from dealing in foreign currencies	54,468	7,590	617.63
Net gain arising from other dealing activities	22,583	14,058	60.64
Profit on disposal of a subsidiary	865	-	N/A
Others	49,072	17,757	176.35
	227,881	54,814	315.74
Total	248,551	82,012	203.07

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(3) Income tax in the consolidated income statement

	The Group		Variance %
	<u>2004</u> HK\$'000	<u>2003</u> HK\$'000	
Current tax - Provision for Hong Kong Profits Tax			
Tax for the year	156,377	94,709	65.11
Over-provision in respect of prior years	<u>(1,253)</u>	<u>(1,501)</u>	-16.52
	<u>155,124</u>	<u>93,208</u>	66.43
Current tax - Overseas			
Tax for the year	<u>2,145</u>	<u>5,177</u>	-58.57
Deferred tax			
Origination and reversal of temporary differences	(6,092)	(2,073)	193.87
Effect of increase in tax rate on deferred tax balances at 1 January	-	(7,319)	N/A
	<u>(6,092)</u>	<u>(9,392)</u>	-35.14
Share of associates' taxation	<u>4,314</u>	<u>26,325</u>	-83.61
Total income tax expense	<u>155,491</u>	<u>115,318</u>	34.84

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(4) Advances to customers and other accounts less provisions

	The Group		
	As at	As at	Variance
	31 Dec 2004	31 Dec 2003	
	HK\$'000	HK\$'000	%
Advances to customers	42,672,715	40,186,173	6.19
Specific provisions for bad and doubtful debts	(537,056)	(690,501)	-22.22
General provisions for bad and doubtful debts	(519,351)	(541,903)	-4.16
	41,616,308	38,953,769	6.84
Advances to banks and other financial institutions	20,000	40,000	-50.00
Accrued interest and other accounts less provisions	1,686,992	2,079,748	-18.88
	43,323,300	41,073,517	5.48

(5) Reserves

	The Group		
	As at	As at	Variance
	31 Dec 2004	31 Dec 2003	
	HK\$'000	HK\$'000	%
Share premium	1,835,948	1,831,406	0.25
Other property revaluation reserve	11,945	11,945	-
Capital reserve	2,818	2,818	-
General reserve	100,000	100,000	-
Exchange differences	(314)	(597)	-47.40
Retained profits	3,165,805	2,676,363	18.29
Total	5,116,202	4,621,935	10.69
Proposed dividends, not provided for	239,636	200,960	19.25

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(6) Advances to customers - By industry sectors

	The Group					
	As at 31 Dec 2004		As at 31 Dec 2003		Variance	
	HK\$'000	%	HK\$'000	%	%	
Loans for use in Hong Kong						
<i>Industrial, commercial and financial</i>						
- Property development	350,668	0.82	327,555	0.81	7.06	
- Property investment	4,313,945	10.11	4,252,571	10.58	1.44	
- Financial concerns	2,702,487	6.33	2,695,514	6.71	0.26	
- Stockbrokers	39,835	0.09	20,519	0.05	94.14	
- Wholesale and retail trade	2,000,654	4.69	2,347,275	5.84	-14.77	
- Manufacturing	3,372,328	7.90	3,506,532	8.73	-3.83	
- Transport and transport equipment	5,404,016	12.67	4,551,838	11.33	18.72	
- Others	3,690,455	8.65	3,761,929	9.36	-1.90	
<i>Individuals</i>						
- Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	19,394	0.05	23,979	0.06	-19.12	
- Loans for the purchase of other residential properties	10,512,764	24.64	10,920,086	27.17	-3.73	
- Credit card advances	538,041	1.26	426,249	1.06	26.23	
- Others	1,161,561	2.72	1,462,017	3.64	-20.55	
Trade finance	2,287,943	5.36	2,088,069	5.20	9.57	
Loans for use outside Hong Kong	6,278,624	14.71	3,802,040	9.46	65.14	
	<u>42,672,715</u>	<u>100.00</u>	<u>40,186,173</u>	<u>100.00</u>	6.19	

(7) Advances to customers - by geographical areas

The 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.

	The Group					
	As at 31 Dec 2004			As at 31 Dec 2003		
	Advances to customers	Overdue loans and advances	Non-performing loans	Advances to customers	Overdue loans and advances	Non-performing loans
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	34,431,875	1,314,119	1,235,995	32,971,478	1,920,762	1,889,711
Mainland China	5,899,197	596,904	596,904	4,738,547	568,987	570,993
USA	714,454	50,620	50,620	611,329	51,754	51,754
Others	1,627,189	363	363	1,864,819	109,531	103,750
	<u>42,672,715</u>	<u>1,962,006</u>	<u>1,883,882</u>	<u>40,186,173</u>	<u>2,651,034</u>	<u>2,616,208</u>

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(8) Non-performing advances to customers

Non-performing advances to customers are advances on which interest is being placed in suspense or on which interest accrual has ceased:

	The Group				
	Total amount of loans on which interest is placed in suspense		Market value of collateral held	Specific provisions made	Amount of interest suspense
	HK\$'000	%*	HK\$'000	HK\$'000	HK\$'000
At 31 December 2004	1,883,882	4.41	1,550,423	460,587	383,689
At 31 December 2003	2,616,208	6.51	2,018,580	657,620	389,638

* Based on total advances to customers

There were no advances to banks and other financial institutions on which interest is being placed in suspense or on which interest accrual has ceased as at 31 December 2004 and 31 December 2003, nor were there any specific provisions made for them on these two days.

The specific provisions were made after taking into account the value of collateral in respect of such advances.

(9) Overdue advances to customers (net of suspended interest)

The gross amount of advances, net of accrued interest that has been capitalised but accrued to a suspense account, which have been overdue for periods of:

	The Group			
	As at 31 Dec 2004		As at 31 Dec 2003	
	HK\$'000	%*	HK\$'000	%*
- 6 months or less but over 3 months	90,905	0.21	165,835	0.41
- 1 year or less but over 6 months	213,538	0.50	307,408	0.76
- over 1 year	1,657,563	3.89	2,177,791	5.42
Total	1,962,006	4.60	2,651,034	6.59

Secured overdue advances	1,449,690	1,742,648
Unsecured overdue advances	512,316	908,386
	1,962,006	2,651,034

Market value of collateral held against the secured overdue advances	1,607,051	2,104,234
--	-----------	-----------

Specific provisions made	473,671	580,629
--------------------------	---------	---------

* Based on total advances to customers

There were no advances to banks and other financial institutions which were overdue for over 3 months as at 31 December 2004 and 31 December 2003.

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(10) Reconciliation between overdue loans and advances and non-performing loans

	The Group	
	As at	As at
	31 Dec 2004	31 Dec 2003
	HK\$'000	HK\$'000
Advances to customers overdue for more than 3 months	1,962,006	2,651,034
Less: Amount overdue for more than 3 months and on which interest is still being accrued	(142,832)	(247,895)
Add: Amount overdue for 3 months or less, or not yet overdue and on which interest is being placed in suspense or on which interest accrual has ceased	11,047	84,187
Add: Rescheduled advances on which interest is being placed in suspense or on which interest accrual has ceased	53,661	128,882
Advances to customers on which interest is being placed in suspense or on which interest accrual has ceased	1,883,882	2,616,208

(11) Other overdue assets

	The Group	
	As at	As at
	31 Dec 2004	31 Dec 2003
	HK\$'000	HK\$'000
The gross amount of trade bills which has been overdue for :		
- 6 months or less but over 3 months	2,565	-
- 1 year or less but over 6 months	-	1,162
	2,565	1,162
Held-to-maturity securities which have been overdue for :		
- 1 year or less but over 6 months	-	69,409
- Over 1 year	15,549	15,526
	15,549	84,935

(12) Rescheduled loans

	The Group			
	As at 31 Dec 2004		As at 31 Dec 2003	
	HK\$'000	%*	HK\$'000	%*
Rescheduled loans	226,093	0.53	517,916	1.29

* Based on total advances to customers

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2004 and 31 December 2003.

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(13) Repossessed assets

	The Group	
	As at	As at
	31 Dec 2004	31 Dec 2003
	HK\$'000	HK\$'000
Included in advances to customers and other accounts	309,332	436,993

(14) Off-balance sheet exposures

(a) Contingent liabilities and commitments

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

	The Group	
	As at	As at
	31 Dec 2004	31 Dec 2003
	HK\$'000	HK\$'000
Direct credit substitutes	943,362	1,096,253
Trade-related contingencies	1,165,944	1,635,365
Other commitments:		
- with an original maturity of under 1 year or which are unconditionally cancellable	10,576,584	10,387,731
- with an original maturity of 1 year and over	588,078	734,808
	13,273,968	13,854,157

(b) 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:

	The Group					
	As at 31 Dec 2004			As at 31 Dec 2003		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	2,637,254	-	2,637,254	1,059,391	-	1,059,391
Swaps	7,447,460	3,504,209	10,951,669	12,416,034	4,966,108	17,382,142
Options purchased	241,068	-	241,068	172,189	-	172,189
Options written	238,249	-	238,249	142,182	-	142,182
Interest rate contracts						
Forwards and futures	427,590	-	427,590	2,173,677	-	2,173,677
Swaps	3,570,070	11,615,697	15,185,767	3,060,615	8,992,439	12,053,054
Options purchased	1,671,487	-	1,671,487	1,853,448	-	1,853,448
Options written	1,849,231	-	1,849,231	2,031,079	-	2,031,079
Equity contracts						
Options purchased	-	1,083	1,083	-	12,044	12,044
Options written	-	1,083	1,083	-	12,044	12,044
	18,082,409	15,122,072	33,204,481	22,908,615	13,982,635	36,891,250

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(14) Off-balance sheet exposures (continued)

(c) The replacement costs and credit risk weighted amounts of the above off-balance sheet exposures of the Group are as follows. The Group did not enter into any bilateral netting arrangements during the year and accordingly these amounts are shown on a gross basis.

	The Group			
	As at 31 Dec 2004		As at 31 Dec 2003	
	Replacement cost	Credit risk weighted amount	Replacement cost	Credit risk weighted amount
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contingent liabilities and commitments	N/A	1,072,223	N/A	1,414,021
Exchange rate contracts	119,532	66,096	120,536	71,464
Interest rate contracts	325,439	105,037	459,238	133,659
Equity contracts	1	46	50	599
	444,972	1,243,402	579,824	1,619,743

(15) Segmental 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.

(a) Business segments

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

Commercial banking business:	It mainly comprises banking business, which includes retail banking, wholesale banking and treasury activities.
Asset management:	It mainly comprises direct investment and distressed assets management.
Investment banking:	It mainly comprises merchant banking, fund management and securities brokerage and dealing.
Unallocated:	It mainly comprises the premises and any items which cannot be reasonably allocated to specific business segments.

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(15) Segmental reporting (continued)

(a) Business segments (continued)

2004	The Group					Consolidated HK\$'000
	Commercial banking HK\$'000	Asset management HK\$'000	Investment banking HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	
Net interest income	1,456,353	12,417	-	4,687	-	1,473,457
Other operating income	600,994	60,359	-	21,625	-	682,978
Operating income	2,057,347	72,776	-	26,312	-	2,156,435
Segment result	944,583	79,945	-	(63,643)	-	960,885
Net profit/(loss) on disposal of tangible fixed assets	19,755	-	-	(7,893)	-	11,862
Net surplus on revaluation of investment properties	7,555	-	-	-	-	7,555
Provision written back on held-to-maturity securities	9,682	-	-	-	-	9,682
Impairment loss on goodwill	(9,502)	-	-	-	-	(9,502)
Share of (loss)/profit of associates	(6,094)	-	82,072	-	-	75,978
Profit/(loss) from ordinary activities before taxation	965,979	79,945	82,072	(71,536)	-	1,056,460
Income tax	(149,583)	(54)	(6,269)	415	-	(155,491)
Profit/(loss) from ordinary activities after taxation	816,396	79,891	75,803	(71,121)	-	900,969
Minority interests	-	-	-	370	-	370
Profit/(loss) attributable to shareholders	816,396	79,891	75,803	(70,751)	-	901,339
Depreciation for the year	149,070	87	-	(2,758)	-	146,399
Charge/(write back) for bad and doubtful debts	100,540	(22,475)	-	-	-	78,065
Amortisation of goodwill for the year	1,056	-	6,528	52,752	-	60,336
Segment assets	80,101,502	1,335,287	-	1,038,641	(217,770)	82,257,660
Interest in associates	191,450	-	1,120,907	-	-	1,312,357
Total assets	80,292,952	1,335,287	1,120,907	1,038,641	(217,770)	83,570,017
Segment liabilities	70,036,532	14,064	-	1,399,608	(466,438)	70,983,766
Capital expenditure incurred during the year	62,784	719	195,866	500	-	259,869
2003	The Group					
	Commercial banking HK\$'000	Asset management HK\$'000	Investment banking HK\$'000	Unallocated HK\$'000	Inter-segment elimination HK\$'000	Consolidated HK\$'000
Net interest income	1,547,284	11,380	-	2,907	-	1,561,571
Other operating income	399,608	54,535	-	5,145	-	459,288
Operating income	1,946,892	65,915	-	8,052	-	2,020,859
Segment result	555,488	9,923	-	(73,818)	-	491,593
Net (loss)/profit on disposal of tangible fixed assets	(21,818)	-	-	5,801	-	(16,017)
Net surplus on revaluation of investment properties	7,835	-	-	16,626	-	24,461
Net profit on disposal of held-to-maturity securities	123,948	-	-	875	-	124,823
Provision written back/(made) on held-to-maturity securities	1,135	-	-	(966)	-	169
Impairment loss on other premises	(4,751)	-	-	(22,866)	-	(27,617)
Share of profits less losses of associates	95,102	-	79,570	-	-	174,672
Profit/(loss) from ordinary activities before taxation	756,939	9,923	79,570	(74,348)	-	772,084
Income tax	(103,214)	(7)	(11,825)	(272)	-	(115,318)
Profit/(loss) from ordinary activities after taxation	653,725	9,916	67,745	(74,620)	-	656,766
Minority interests	-	-	-	(188)	-	(188)
Profit/(loss) attributable to shareholders	653,725	9,916	67,745	(74,808)	-	656,578
Depreciation for the year	125,537	55	-	(2,149)	-	123,443
Charge for bad and doubtful debts	473,638	38,042	-	2,101	-	513,781
Amortisation of goodwill for the year	-	-	-	59,786	-	59,786
Segment assets	77,219,893	1,258,759	410	2,514,990	(1,567,039)	79,427,013
Interest in associates	195,306	-	295,138	-	-	490,444
Total assets	77,415,199	1,258,759	295,548	2,514,990	(1,567,039)	79,917,457
Segment liabilities	68,208,002	18,584	-	1,397,364	(1,788,176)	67,835,774
Capital expenditure incurred during the year	47,312	450	-	2,918	-	50,680

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(15) Segmental reporting (continued)

(b) 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.

2004

	<u>Hong Kong</u> HK\$'000	<u>Mainland China</u> HK\$'000	<u>USA</u> HK\$'000	<u>Others</u> HK\$'000	<u>Inter-segment elimination</u> HK\$'000	<u>Consolidated</u> HK\$'000
Operating income from external customers	2,105,057	16,684	45,380	-	(10,686)	2,156,435
Total assets	82,997,057	690,143	1,742,424	466,479	(2,326,086)	83,570,017
Capital expenditure incurred during the year	<u>245,075</u>	<u>8,008</u>	<u>6,786</u>	<u>-</u>	<u>-</u>	<u>259,869</u>

2003

	<u>Hong Kong</u> HK\$'000	<u>Mainland China</u> HK\$'000	<u>USA</u> HK\$'000	<u>Others</u> HK\$'000	<u>Inter-segment elimination</u> HK\$'000	<u>Consolidated</u> HK\$'000
Operating income from external customers	1,978,831	3,882	43,689	-	(5,543)	2,020,859
Total assets	78,513,770	413,576	1,911,002	354,100	(1,274,991)	79,917,457
Capital expenditure incurred during the year	<u>37,876</u>	<u>11,408</u>	<u>1,396</u>	<u>-</u>	<u>-</u>	<u>50,680</u>

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(16) Capital adequacy ratio

	The Group	
	<u>As at 31 Dec 2004</u>	<u>As at 31 Dec 2003</u>
Unadjusted capital adequacy ratio*	<u>15.24%</u>	<u>18.41%</u>

* The unadjusted capital adequacy ratio is computed on the consolidated basis covering the Company and certain of its subsidiaries as required by the Hong Kong Monetary Authority (the "HKMA") for its regulatory purposes, and is in accordance with the Third Schedule to the Hong Kong Banking Ordinance.

(17) Capital base after deductions

	The Group	
	<u>As at 31 Dec 2004</u> HK\$'000	<u>As at 31 Dec 2003</u> HK\$'000
Core capital		
Paid up ordinary share capital	3,194,153	3,189,835
Share premium	1,835,948	1,831,406
Reserves	2,580,129	2,198,658
Deduct: Goodwill	<u>(1,007,749)</u>	<u>(1,067,029)</u>
Total core capital	<u>6,602,481</u>	<u>6,152,870</u>
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	8,362	8,362
General provisions for doubtful debts	521,837	546,474
Perpetual subordinated debt	1,943,589	1,940,783
Term subordinated debt	<u>932,923</u>	<u>1,397,364</u>
Total eligible supplementary capital	<u>3,406,711</u>	<u>3,892,983</u>
Total capital base before deductions	<u>10,009,192</u>	<u>10,045,853</u>
Deductions from total capital base	<u>(1,295,680)</u>	<u>(596,936)</u>
Total capital base after deductions	<u>8,713,512</u>	<u>9,448,917</u>

SUPPLEMENTARY FINANCIAL INFORMATION (CONTINUED)

(18) Currency risk

The information concerning the foreign currency exposures of the Group arising from trading, non-trading and structural positions is disclosed as follows. The net options position reported is calculated in accordance with the methods set out in the banking return "Foreign Currency Position" (MA(BS)6) submitted to the HKMA.

Equivalent in HK\$'000	The Group							
	As at 31 Dec 2004				As at 31 Dec 2003			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	28,674,000	757,264	4,981,384	34,412,648	26,366,749	598,834	5,558,178	32,523,761
Spot liabilities	(30,836,628)	(134,181)	(4,656,405)	(35,627,214)	(24,441,071)	(14,114)	(5,324,368)	(29,779,553)
Forward purchases	7,309,008	-	2,629,869	9,938,877	9,986,595	-	2,378,099	12,364,694
Forward sales	(5,848,312)	-	(2,943,565)	(8,791,877)	(8,239,058)	-	(2,621,242)	(10,860,300)
Net options position	693	-	(693)	-	23,051	-	128,193	151,244
Net long position	<u>(701,239)</u>	<u>623,083</u>	<u>10,590</u>	<u>(67,566)</u>	<u>3,696,266</u>	<u>584,720</u>	<u>118,860</u>	<u>4,399,846</u>

The net options position is calculated using the model user approach (2003: worst case approach).

MANAGEMENT DISCUSSION AND ANALYSIS

1.0 Review of Operations

The Hong Kong economy saw improvement in 2004. Boosted by a rebounding property market, growth in domestic consumption and an influx of tourists, longstanding deflationary pressures finally eased. Meanwhile, improvements in unemployment and bankruptcies, coupled with sustained robust growth in external trade and strengthening corporate confidence in business outlook, all contributed towards the improvement in the operating environment for the financial industry. However, this was offset by lingering sluggish credit demand and narrowing net interest margins caused by intense competition among banks. This in turn led to upward pressures on operating costs.

Faced with the vagaries in the economic environment, CITIC International Financial Holdings Limited (the “**Group**”) was rigorous in its determination to identify and capture opportunities brought about by both the economic recovery in 2004 and the Closer Economic Partnership Arrangement (“**CEPA**”). As a result, the Group is pleased to report record profits on the back of favourable performance by all of its subsidiaries.

2.0 Business Performance

2.1 *Profit*

The Group’s operating profit before provisions for the year ended 31 December 2004 was HK\$1,039 million, representing a rise of 3.3% over 2003. The growth in profit was attributed mainly to the substantial growth in non-interest income to HK\$683 million, or an increase of 48.7% over 2003. An improvement in asset quality and write-backs of provisions led to a sharp fall in charges for bad and doubtful debts by 84.8%, which resulted in a 95.5% increase in operating profit after provision to HK\$961 million. Unlike 2003 when the disposal of held-to-maturity securities realised a profit of HK\$125 million, no similar activity took place during 2004. Share of profits and losses of associates was amplified this year with the Group’s increased stake in CITIC Capital Markets Holdings Limited (“**CCMH**”) from 25% to 50%; however, CCMH’s core contribution was offset by the underperformance of the H-share and red chip portfolio of the CITIC Capital Active Partner Fund Limited, resulting in net profit arising from associates fell 56.5% to HK\$76 million in 2004. However, after taking into account net profits arising from the disposal of tangible fixed assets, revaluation surplus on investment properties, provision written back on held-to-maturity securities, taxation and minority interests, the Group reported a record strong performance, with net profit attributable to shareholders rising a significant 37.3% to HK\$901 million for the year.

2.2 *Net Interest Income*

As a result of pressures on loan yields arising from intense industry competition, the Group’s interest income for 2004 suffered and dropped by 11.2%. Nevertheless, helped by the persistent low level of the Hong Kong Interbank Offer

Rate (“HIBOR”), the Group was able to enjoy a substantial reduction in interest expenses of 20.1%. As a result, net interest income registered only a slight decrease, down by 5.6% over 2003 to HK\$1,473 million. Add to that the enhancement in the Group’s asset and liability management as well as improvements in funding mix, net interest margin contracted slightly by 3 basis points to 2.1%.

2.3 *Non-Interest Income*

The Group’s non-interest income grew substantially by 48.7% over 2003 to HK\$683 million. This was derived mainly from retail banking fees and commissions (including wealth management services), fee income from corporate loans, income from investments, profits from foreign currency dealings, and commissions from trade bills. The proportion of non-interest income to operating income rose to 31.7%, up from 22.7% in 2003.

2.4 *Operating Expenses*

Operating expenses in 2004 reached HK\$1,117 million, a 10.0% increase over 2003, due mainly to a 19.4% increase in staff costs and a one-time HK\$47 million accelerated depreciation charge due to a change in accounting estimates on computer software and equipment. The sharp rise in staff costs was due to newly acquired subsidiary, changes in staff mix and sales and performance incentive plans. It should be noted, however, that with rigorous cost control measures by the Group, savings were achieved in numerous expense items; premises and equipment expenses before depreciation, in particular, fell 22.0% compared to 2003. Overall, the cost to income ratio (after goodwill) stood at 51.8%.

2.5 *Charge for Bad and Doubtful Debts*

The Group lent conservatively and strived to maintain its asset quality. With the rebound in both the Hong Kong economy and property market, net specific provisions for retail and corporate loans registered a sharp decline of 84.6% and 67.5%, respectively, over 2003. Total specific provisions were reduced by over HK\$363 million in 2004. Coupled with a HK\$25 million net release in general provisions, the charge for bad and doubtful debts saw a sharp decline of 84.8% to HK\$78 million in 2004. The year’s general provision coverage was 1.22 %.

2.6 *Final Dividend*

The Board of Directors proposed a final dividend of HK\$0.075 per share. Together with an interim dividend of HK\$0.066 per share, the total dividend for 2004 reached HK\$0.141 per share. The year’s total dividend pay-out ratio was 50.0%.

3.0 *Asset Quality*

3.1 *Asset, Loan, and Deposit Sizes*

At the end of December 2004, the Group’s total assets reached HK\$83.6 billion, representing an increase of 4.6% from 2003 year-end. Total loans rose 5.6% from the end of 2003 to HK\$42.9 billion, due mainly to a rise in loans for use outside Hong Kong, transport and transport equipment, and trade finance. Total deposits

grew by 1.4% from 2003 year-end to HK\$62.4 billion, of which HK\$55.5 billion were customer deposits, representing a 2.5% decline from the end of 2003.

3.2 *Asset Quality Indicators*

During the year, the Group has substantially improved its asset quality indicators, resolving HK\$1,078 million in problem loans. As at the end of 2004, non-performing loans dropped by HK\$732 million compared to the corresponding period last year. The non-performing loan (“NPL”) ratio fell to 4.4% from 6.5% at the end of 2003. The loan loss coverage ratio improved from 47.1% at 2003 year-end to 56.1%, while the coverage ratio was 91.6%.

3.3 *Financial Position*

At the end of December 2004, the Group’s unadjusted capital adequacy ratio was 15.2%. The loans to deposits ratio was 68.8%, and the loans to total assets ratio was 51.4%.

CITIC International Financial Holdings asset quality indicators		
	31 December 2004	31 December 2003
Unadjusted capital adequacy	15.2%	18.4%
Loans to deposits	68.8%	66.0%
Loans to total assets	51.4%	50.9%
Coverage	91.6%	94.1%
Loan loss coverage	56.1%	47.1%
General provision coverage	1.22%	1.34%
NPL	4.4%	6.5%

4.0 **Core Business Development**

4.1 *Commercial Banking Business – CITIC Ka Wah Bank Limited*

4.1.1 Operating Environment

Boosted by the individual travel scheme and CEPA, the Hong Kong economy continued to improve. To take advantage of the improving trends in unemployment and bankruptcies, and the rebound in the property market, CITIC Ka Wah Bank Limited (“CKWB”) embarked on an aggressive growth strategy to expand its retail banking revenue streams, and re-entered the retail lending market in the second quarter of 2004 by launching a comprehensive range of mortgage plans, personal loans and loan products for small- and medium-sized enterprise (“SMEs”). At the same time, CKWB continued to pursue its strategy to capture the tremendous business opportunities afforded by the gradual opening of the Mainland market. Following its entry into the market in the Pearl River Delta region through the acquisition of China International Finance Company Limited (Shenzhen) (“CIFIC”) in 2003, CKWB began another chapter in its Greater China business development plan with the opening of its first Mainland branch in Shanghai in December 2004, which will serve as its platform for developing business in the Yangtze River Delta.

4.12 Business Performance

4.121 Earnings

For the year ended 31 December 2004, CKWB's operating profit before provisions was HK\$1,045 million, representing a 1.6% increase over 2003. During the year, non-interest income recorded a substantial rise of 50.4% to HK\$601 million. Due to improvement in asset quality and write-backs in provisions, charges for bad and doubtful debts dropped substantially by 78.8%, leading to a 70.1% surge in operating profit after provision to HK\$945 million. Unlike 2003, when the disposal of held-to-maturity securities realised a profit of HK\$124 million, no similar activity took place during 2004; coupled with the fact that the performance of the CITIC Capital Active Partner Fund Limited was affected by the less than satisfactory performance of H-shares and red chip stocks, net loss arising from associates exceeded HK\$6 million. However, after taking into account net profits arising from the disposal of tangible fixed assets, revaluation surplus on its investment properties, provision written back on held-to-maturity securities and taxation, CKWB reported a strong growth in net profit attributable to shareholders of 24.9% over 2003 to HK\$816 million for the year.

4.122 Net interest income

As a result of pressures on loan yields arising from intense industry competition, CKWB's interest income for 2004 suffered and dropped by 11.2%. Nevertheless, given the enhancement in its asset and liability management, and the relaunch of the "NOW Account", which effectively lowered its funding costs, CKWB was able to achieve a reduction in interest expenses of 19.7% compared to 2003. The year's net interest income registered a small decrease of 5.9% to HK\$1,456 million. Net interest margin narrowed 4 basis points to 2.09% from 2003.

4.123 Non-Interest Income

During the year, CKWB recorded a strong performance in its non-interest income which rose 50.4% over 2003 to HK\$601 million. The proportion of non-interest income in operating profit rose substantially to nearly 30% in 2004, compared to 20.5% in 2003. Retail Banking Group registered a sharp rise of 34.3% in fees and commission income in 2004. Add to that the contribution from wealth management services, retail banking fees and commission income amounted to HK\$232 million, accounting for 38.5% of total non-interest income. Its Wholesale Banking Group successfully completed 21 syndicated loan facilities in 2004, for eight of which it acted as sole arranger. As a result, fee income from corporate loans rose 5.6% over 2003 to HK\$138 million. Add to that the contribution from trade bills and wholesale banking fee income amounted to HK\$180 million, representing 30.0% of total non-interest income.

4.124 Operating expenses

Operating expenses rose 10.3% during the period to HK\$1,012 million, due mainly to a 17.6% increase in staff costs and a one-time HK\$47 million write-off in accelerated depreciation charge due to a change in accounting estimates on computer software and equipment. The sharp rise in staff costs was due to a newly acquired subsidiary, and a change in staff mix and sales and performance incentive plans. However, the rigorous efforts to control costs helped to achieve savings in numerous expense items; premises and equipment expenses before

depreciation, in particular, fell 22.3% compared to 2003. The year's cost to income ratio (after goodwill) stood at 49.2%.

4.125 Charge for bad and doubtful debts

Benefiting from Hong Kong's economic recovery, net specific provisions for retail and corporate loans fell sharply by 84.6% and 57.2%, respectively. Total specific provisions were reduced by HK\$300 million in 2004. Coupled with a HK\$25 million net release in general provisions, CKWB's charge for bad and doubtful debts declined sharply by 78.8% to HK\$101 million in 2004. The general provision coverage was 1.23%.

4.13 Asset Quality

4.131 Asset, loan, and deposit sizes

At the end of December 2004, total assets of CKWB reached HK\$80.3 billion, an increase of 3.7% over 2003 year-end figures. Total loans rose 5.6% to HK\$42.3 billion, due mainly to a rise in loans for use outside Hong Kong, transport and transport equipment, and trade finance. Total deposits dropped slightly by 0.8% from 2003 year-end to HK\$62.6 billion, of which customer deposits fell 4.7% to HK\$55.6 billion.

In 2004, CKWB issued HK\$3,952 million worth of certificates of deposit. During the year, matured certificates of deposit totalled HK\$1,713 million. At the end of December 2004, issued certificates of deposit totalled HK\$6,960 million.

In November 2004, CKWB successfully issued a US\$300 million five-year senior fixed-rate Eurobond. The offering was priced at a spread of 82 basis points over US Treasuries of a similar maturity. Through the offering, CKWB secured relatively inexpensive long-term funding for general corporate uses. In order to match the interest rate tenor of CKWB's asset, the fixed rate coupon was swapped to floating rate through an interest rate swap and achieved a credit spread of 38 basis points over LIBOR.

4.132 Asset quality indicators

During the year, CKWB employed three additional senior executives on its credit and risk management team, which helped to enhance its efforts to improve asset quality. As at the end of 2004, CKWB's credit card charge-off ratio was 3.1%, while its mortgage delinquency ratio was 0.35%. During the year, CKWB resolved HK\$1,055 million in problem loans. NPLs dropped by HK\$709 million compared to 2003 year-end. The NPL ratio fell significantly to 3.3% from 5.3% at 2003 year-end. The loan loss coverage ratio improved from 50.5% to 65.2%, while the coverage ratio was 88.9%.

4.133 Financial position

At the end of December 2004, CKWB's unadjusted capital adequacy ratio was 16.5%. The loans to deposits ratio was 67.6%. The loans to total assets ratio was 52.7%. The average liquidity ratio was 47.9%.

CITIC Ka Wah Bank asset quality indicators		
	31 December 2004	31 December 2003
Unadjusted capital adequacy	16.5%	16.3%
Loans to deposits	67.6%	63.5%
Loans to total assets	52.7%	51.8%
Average liquidity	47.9%	49.2%
Coverage	88.9%	92.9%
Loan loss coverage	65.2%	50.5%
General provision coverage	1.23%	1.36%
NPL	3.3%	5.3%
Mainland loans to total customer advances	13.6%	11.8%

4.14 Business Development

To assist customers in capturing the tremendous business opportunities arising from CEPA, CKWB launched China-related services, ‘RMB + China Linked Services’, in the first quarter of 2004. Additionally, in light of improving trends in unemployment and bankruptcies as a result of Hong Kong’s economic recovery, CKWB re-entered the retail lending market in the second quarter of 2004. CKWB launched a brand new DollarSmart personal instalment loan and cash card revolving loan, a comprehensive range of mortgage plans, and commercial property mortgage plans. The enhanced “NOW Account” and several high-yield deposit products were also launched in order to meet the changing needs of its customers.

New Products and Services Launched in 2004	
Month	New Products and Services
January	<ul style="list-style-type: none"> • “HOPE Educator” life insurance plan • Credit Card Acquisition Campaign
February	<ul style="list-style-type: none"> • RMB+ China-Linked Services • CEPA Desk Service • Enhanced Currency-Linked Deposit • Credit Card – up to five times “Gen-X” bonus points programme
March	<ul style="list-style-type: none"> • Principal-Protected Currency-Linked Deposit • Credit Card Acquisition Campaign • Credit Card Spending Promotion to redeem fabulous gifts at discounted instalment price
April	<ul style="list-style-type: none"> • Acted as placing bank for HK Link 2004 Limited Retail Bond • “WARMTH” Retirement with Annuity Option • Credit Card “Statement Balance IFFI” Programme
May	<ul style="list-style-type: none"> • DollarSmart Personal Instalment Loan • Fixed-Rate Mortgage Loan • Credit Card “Non-Conventional IFFI” Programme • Credit Card May Spending Promotion • Customer Member-Get-Member Mortgage Loan Referral Programme
June	<ul style="list-style-type: none"> • Comprehensive Range of Mortgage Plans • Relaunch of “NOW Account” • Acted as placing bank for The Hong Kong Mortgage

	<ul style="list-style-type: none"> Corporation Limited Retail Bond CIFC launched Export Account Receivable Discounting with Recourse to Export Insurance Agency
July	<ul style="list-style-type: none"> HKD Callable Step-up Certificates of Deposit Mortgage Loan Promotion (super gift plan) Acted as placing bank for the HKSAR Retail Bond Credit Card July Spending Promotion
August	<ul style="list-style-type: none"> 95% Mortgage Insurance Programme Travel Insurance Plan
September	<ul style="list-style-type: none"> USD Callable Step-up Certificates of Deposit Commercial Property Mortgage Promotion Cross-border Interacting Trade Settlement and Financing “BRIGHT” insurance plan Credit Card September Spending Promotion
October	<ul style="list-style-type: none"> Step-up Time Deposit Business NOW Dollar\$mart Cash Card Revolving Loan Credit Card Macau Travel Programme and Octopus Automatic Add-value Service Enrolment Reward Programme
November	<ul style="list-style-type: none"> Dollar\$mart Tax Loan Credit Card “Tax Instalment Plan” Credit Card Christmas and New Year Offers
December	<ul style="list-style-type: none"> Fixed Price Equity-Linked Investment Offers The “Link REIT” Refund Cheque Deposit / Investment Offer The “Pacifica” Preferential Mortgage Plan Credit Card “Double Bonus Point” Tax Payment Offers

During the year, CKWB actively launched several credit card acquisition campaigns and card spending promotions. As a result, the credit card business showed encouraging results. As at the end of 2004, the number of CKWB credit cards in issuance met the annual target of 160,000 cards, and card receivables rose by 26.2% from 2003 to HK\$538 million.

With respect to corporate lending, CKWB’s Wholesale Banking Group successfully completed 21 syndicated loan facilities in 2004, for eight of which it acted as sole arranger. These included a HK\$1.2 billion loan for China Insurance H.K. (Holdings) Company Limited a US\$120 million loan for Road King Infrastructure Finance Limited, a HK\$800 million loan for Guangzhou Heidelberg YueXiu Cement Company Limited, a HK\$580 million loan for Stone Pole Limited, a US\$36 million loan for Jiangxu Shukang Packing Materials / Jiangsu Hengchuang Packing Materials, a HK\$120 million loan for Egana Jewellery & Pearls Limited, a HK\$105 million loan for Shanghai Allied Cement Holdings, and a HK\$100 million loan for Topsearch International Holdings. The loan facility for Road King Infrastructure Finance Limited also marked the first time that CKWB had worked jointly with CCMH. Subsequently, during the same year, CKWB also participated in a loan facility of RMB240 million and HK\$40 million, arranged by CCMH for Dongguan Mission Hills Golf Club.

4.15 China Banking

In December 2004, CKWB opened its first Mainland branch in Shanghai, focusing on establishing a corporate and retail client base in the Yangtze River Delta. The opening of the Shanghai branch marked an important milestone in CKWB's Mainland market development. With the approval from the China Banking Regulatory Commission, the Shanghai branch is permitted to offer foreign currency banking services to various types of customers in Mainland China. Serving as an important platform and engine for CKWB's business expansion in Mainland China, the Shanghai branch had already turned a profit in 2004 and is expected to be able to apply for a Renminbi licence in 2006 at the earliest.

CIFC continued to be profitable in 2004. Having fulfilled the requirement for two consecutive years of profitable operation, CIFC has already filed application for a Renminbi licence. Meanwhile, CKWB has also filed an application to set up a branch in Macau, and is currently waiting for regulatory approval.

Separately, CKWB continued its efforts to deepen collaboration with CITIC Industrial Bank ("**CIB**"). Since early 2000, with the help of CIB in providing lending and product services, CKWB has been able to arrange Renminbi loans for its corporate clients, mainly through referrals to CIB. In 2004, CKWB and CIB furthered the relationship by participating jointly in a total of five syndicated loans and club deals.

4.16 Awards

CKWB was awarded a Certificate of Merit in the 2004 HKMA Quality Award organised by The Hong Kong Management Association. CKWB was the only bank that received the Quality Award in 2004, in recognition of its achievement in implementing quality management. In community services, CKWB was again awarded the "Caring Company Logo" by the Hong Kong Council of Social Service for its enduring efforts in caring for the community.

4.2 ***Asset Management Business – CITIC International Assets Management Limited ("CIAM")***

4.21 Business Performance

CIAM began independent operation in late 2002 and was able to deliver a profit the following year. Since then, CIAM has continued its diligence in selecting investments, managing its asset portfolio with flexibility and timeliness, and strengthening its fee income business. In 2004, it recorded an operating profit of over HK\$57 million, a 19.8% increase over 2003. Together with a decline in overall provisions for the year, which led to a net write-back of over HK\$22 million, CIAM's profit before tax for the full year surged 705.6% to over HK\$79 million compared to 2003.

4.22 Problem Loans / Assets

During 2004, CIAM successfully recovered HK\$22.86 million worth of problem loans, resulting in a reduction in the book value of aggregate NPLs to just over HK\$503 million. Additionally, it realised a gain of HK\$25 million from the disposal of a portion of its swapped assets. Thanks to its continuous efforts over

the past two years, CIAM was able to reduce the aggregate NPL amount by 24.8% compared to 2002 year-end. Its flexible, innovative and entrepreneurial approach helped it strengthen its provisioning for non-performing loans and assets, paving the way for further asset and revenue generation, as well as for new business development in the future, so that it may leverage on its track record and critical strengths to grow its business in the management of distressed assets and direct investments.

4.23 Direct Investment / Structured Loans

Since 2003, CIAM has been continuously leveraging on its competitive edge and the skill sets of its professional staff to seize market opportunities and progressively diversify its business. Apart from offering corporate finance, investment and advisory services for ordinary profits, it also actively funded HK\$200 million in various projects in Hong Kong and China. Having built a basket of direct investments / structure loans portfolio with a total value of HK\$270 million, CIAM can now rely on a solid foundation for future growth. Certain individual projects have already attained fairly good returns, while the remaining projects will start to mature in 2005, with prospects to generate medium-to-long-term returns.

4.24 Cooperation With Other Investment Institutions

CIAM's co-invested companies with other investment institutions, Shenzhen Torch Venture Capital Management Co. Ltd. and Guocheng Century Venture Capital Co. Ltd., were successively funded during 2004, and began to operate actively to seek prudent investment opportunities. Investments were made in three corporations which totalled RMB17 million; a further three to four projects have been earmarked for investment in 2005, requiring RMB20 million to RMB30 million. Meanwhile, CIAM is in active discussions with a number of overseas investors to jointly set up investment vehicles in order to broaden its investment portfolio, as well as its target partners and customers.

4.3 *Investment Banking Business – CITIC Capital Markets Holdings Limited (“CCMH”)*

4.31 Business Performance

At the Extraordinary General Meeting held in April 2004, a resolution was passed to allow the Group increase its stake in CCMH from 25% to 50%, with effect from 29 April 2004. Subsequently, on 17 June 2004, CITIC Frontier China Research Limited (“CFCR”) became a wholly-owned subsidiary of CCMH, which enlarged the scope of services provided by CCMH to its customers.

CCMH's net profit after tax registered a 32.0% decline in 2004 to HK\$183 million from HK\$269 million in 2003. The fall in profit was due mainly to the inclusion in the 2003 results of an exceptional investment gain of over HK\$100 million by one of the funds managed by CCMH. Although the fund in question continued to outperform industry benchmarks in 2004, its contribution to profit did not match the magnitude it reached in 2003. After netting out this factor, all of CCMH's other core businesses reported healthy growth in revenues and profits in 2004.

4.32 Investment Banking

On the corporate finance and equity capital markets fronts, CCMH acted as the sole sponsor and bookrunner for the HK\$1.3 billion listing of Weichai Power Co., Ltd. in March 2004. The issue was well-received by the market, with overwhelming over-subscriptions and a strong post-listing share price performance. In December, CCMH acted as the joint sponsor and joint lead manager for the HK\$1 billion listing of Beijing Media Corporation. These successful deals helped to lay a solid foundation for CCMH to excel in the Hong Kong initial public offering arena, and will continue to complement the development of our other services in secondary market placements, corporate finance, and mergers and acquisitions advisory. The year 2004 was also a fruitful one for CCMH's debt capital market business, in which it successfully deployed various innovative and flexible structures to arrange total loans for its clients of close to HK\$7 billion.

4.33 Asset Management

CCMH's asset management business grew steadily in 2004, with total assets under management reaching close to US\$500 million at the end of the year. Several new funds were launched during the year, including a fund of funds focusing on global emerging markets in Latin America, Eastern Europe and Asia; an equity fund focusing on Greater China stock markets and targeting Korea investors; and a private equity fund aimed at extracting values from investing in Japanese manufacturing companies with prospective benefits from the relocation of their manufacturing bases to lower-cost sites in China. All of CCMH's funds achieved satisfactory investment returns and outperformed industry benchmarks during the year.

4.34 Securities Brokerage

Significant inroads were made in the further expansion of CCMH's brokerage clientele. CFR's quality and insightful stock market research products helped secure a number of reputable institutional clients during 2004. It also enhanced its capability to serve retail clients, with the opening of additional retail brokerage outlets during the year. As a result, CCMH continued to grow its market share on the turnover of the Stock Exchange of Hong Kong.

5.0 *Future Development*

As the financial flagship of the CITIC Group outside Mainland China, the Group will continue to leverage on the support of our parent, and its deep understanding of both the Hong Kong and China markets in order to further its business expansion on the Mainland. The Group is committed to enhancing and expanding its foothold on the Mainland, and to further strengthening its synergistic collaboration with other CITIC financial institutions. Meanwhile, it will continue to strengthen its credit and risk management with a view to further enhancing its asset quality. To keep pace with market opportunities, it will continuously strive for innovation so as to fully capitalise on the tremendous business opportunities arising from China's accession to the World Trade Organisation.

FINAL DIVIDEND

At the annual general meeting to be held on Thursday, 19 May 2005 (“**Annual General Meeting**”), the Directors will propose a final dividend of HK\$0.075 per share which, together with the interim dividend of HK\$0.066 per share paid on 15 September 2004, will constitute a total dividend of HK\$0.141 per share for the year 2004. Shareholders whose names are on the Register of Members at the close of business on Thursday, 19 May 2005 will be entitled to the proposed final dividend. The dividend warrants will be sent to Shareholders by ordinary mail on or about Thursday, 26 May 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 17 May 2005 to Thursday, 19 May 2005, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:00 p.m. on Friday, 13 May 2005.

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

The Company had not redeemed any of its listed securities during the year ended 31 December 2004. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company’s listed securities during the year.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

The Company had complied throughout the year with the “Code of Best Practice” as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules except that there is no specific term for the appointment of independent non-executive directors.

By Order of the Board
CITIC International Financial Holdings Limited
Dou Jianzhong
Director and Chief Executive Officer

Hong Kong, 10 March 2005

As at the date of this announcement, the Board of the Company comprises Mr. Kong Dan (Chairman), Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Chen Xiaoxian, Mr. Rafael Gil-Tienda**, Mr. Ju Weimin, Mr. Kong Siu Chee Kenneth, Mr. Lam Kwong Siu**, Mr. Liu Jifu, Mr. Lo Wing Yat Kelvin, Mr. Tsang Yiu Keung Paul**, Mr. Wang Dongming, Mr. Yang Chao, Mr. Zhang Enzhao, Mr. Zhao Shengbiao. (** *Independent Non-executive Directors*)

Remark: A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange will be subsequently published on the website of the Stock Exchange in due course.