



中信國際金融控股有限公司

CITIC INTERNATIONAL FINANCIAL HOLDINGS LIMITED

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

(Stock Code: 183)

ANNOUNCEMENT OF 2005 FINAL RESULTS

The Board of Directors of CITIC International Financial Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2005. This financial report, which has been reviewed by the Group's Audit Committee, is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKAS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

(A) CONSOLIDATED INCOME STATEMENT

	2005	2004	Variance
	HK\$'000	(restated) HK\$'000	%
Interest income	3,007,372	2,241,410	34.17
Interest expense	(1,908,115)	(767,953)	148.47
Net interest income	1,099,257	1,473,457	(25.40)
Fee and commission income	439,662	461,307	(4.69)
Fee and commission expense	(12,837)	(26,880)	(52.24)
Net fee and commission income	426,825	434,427	(1.75)
Net trading income	343,466	177,944	93.02
Net income from financial instruments designated at fair value through profit or loss	22,481	-	N/A
Net hedging expense	(679)	-	N/A
Other operating income	79,301	69,198	14.60
Operating income	1,970,651	2,155,026	(8.56)
Operating expenses	(1,094,688)	(1,117,485)	(2.04)
	875,963	1,037,541	(15.57)
Impairment losses written back on loans and advances	57,544	-	N/A
Charge for bad and doubtful debts	-	(78,065)	N/A
Impairment losses written back on held-to-maturity investments	6,306	-	N/A
Impairment losses on available-for-sale securities	(7,817)	-	N/A
Provision written back on held-to-maturity investments	-	9,682	N/A
Impairment losses written back on properties	1,517	-	N/A
Impairment losses on goodwill	-	(9,502)	N/A
Impairment losses written back/(charged)	57,550	(77,885)	(173.89)
Operating profit	933,513	959,656	(2.72)
Loss on disposal of associates	(6,352)	-	N/A
Net profit on disposal of tangible fixed assets	240,222	11,862	1,925.14
Revaluation gain on investment properties	2,140	7,555	(71.67)
Share of profits less losses of associates	46,123	75,659	(39.04)
Profit before taxation	1,215,646	1,054,732	15.26
Income tax	(112,206)	(151,177)	(25.78)
Profit for the year	1,103,440	903,555	22.12
Attributable to:			
Equity shareholders of the Company	1,103,395	903,925	22.07
Minority interests	45	(370)	(112.16)
Profit for the year	1,103,440	903,555	22.12
Dividends payable to equity shareholders of the Company attributable to the year:			
Interim dividend declared and paid during the year	361,358	210,759	
Final dividend proposed after the balance sheet date	191,872	239,636	
	553,230	450,395	
Earnings per share			
Basic	34.51¢	28.32¢	
Diluted	32.38¢	25.77¢	
Interim dividend per share	11.30¢	6.60¢	
Proposed final dividend per share	6.00¢	7.50¢	
Total dividends per share	17.30¢	14.10¢	

(B) CONSOLIDATED BALANCE SHEET

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Assets			
Cash and balances with banks and other financial institutions	1,161,309	1,488,919	(22.00)
Placements with banks and other financial institutions	5,265,044	6,822,355	(22.83)
Trade bills	406,364	246,081	65.13
Trading assets	6,473,029	–	N/A
Securities designated at fair value through profit or loss	1,139,908	–	N/A
Other investment in securities	–	4,043,467	N/A
Advances to customers and other accounts	44,108,183	43,323,300	1.81
Available-for-sale securities	5,945,960	–	N/A
Held-to-maturity investments	17,194,283	23,930,181	(28.15)
Investment securities	–	39,841	N/A
Interest in associates	1,291,180	1,334,442	(3.24)
Tangible fixed assets			
– Investment property	64,994	64,850	0.22
– Other property and equipment	936,474	1,182,610	(20.81)
Goodwill	1,007,749	1,007,749	–
Deferred tax assets	42,201	93,562	(54.90)
Total assets	85,036,678	83,577,357	1.75
Equity and liabilities			
Deposits and balances of banks and other financial institutions	4,157,446	3,555,852	16.92
Deposits from customers	54,415,279	55,451,727	(1.87)
Trading liabilities	661,137	–	N/A
Certificates of deposit issued	7,467,961	6,959,690	7.30
Debt securities issued	2,245,435	2,322,798	(3.33)
Convertible bonds issued	1,289,817	1,399,384	(7.83)
Current taxation	50,478	6,446	683.09
Deferred tax liabilities	45,466	8	568,225.00
Other liabilities	895,455	1,283,553	(30.24)
Loan capital	4,352,351	4,275,896	1.79
Total liabilities	75,580,825	75,255,354	0.43
Equity			
Share capital	3,197,859	3,194,153	0.12
Reserves	6,257,458	5,127,850	22.03
Total equity attributable to equity shareholders of the Company	9,455,317	8,322,003	13.62
Minority interests	536	–	N/A
Total equity	9,455,853	8,322,003	13.62
Total equity and liabilities	85,036,678	83,577,357	1.75

(C) CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	2005		2004 (restated)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total equity at 1 January:				
As previously reported:				
– attributable to equity shareholders of the Company	8,310,355		7,811,770	
– minority interests	–		191	
	<u>8,310,355</u>		<u>7,811,961</u>	
Prior period adjustments arising from changes in accounting policies	11,648		4,754	
As restated, before opening balance adjustments	<u>8,322,003</u>		<u>7,816,715</u>	
Opening balance adjustments arising from changes in accounting policies	638,816		–	
At 1 January, after prior period and opening balance adjustments		<u>8,960,819</u>		<u>7,816,715</u>
Net income recognised directly in equity:				
Exchange differences on translation of:				
– financial statements of overseas branches, subsidiaries and associates	3,371		283	
– related borrowings	(329)		–	
– on disposal of an associate	627		–	
	<u>3,669</u>		<u>283</u>	
Surplus on revaluation of other premises upon reclassification to investment properties, net of deferred tax		6,785		–
Cash flow hedge				
– effective portion of changes in fair value	9,364		–	
– transfer to deferred tax	(1,639)		–	
	<u>7,725</u>		<u>–</u>	
Changes in fair value				
– of available-for-sale securities	(59,442)		–	
– to deferred tax	10,403		–	
	<u>(49,039)</u>		<u>–</u>	
Share of associates				
– share option reserve	6,500		–	
– fair value reserve	2,894		–	
	<u>9,394</u>		<u>–</u>	
Net profit for the year:				
As previously reported:				
– attributable to equity shareholders of the Company			901,339	
– minority interests			(370)	
			<u>900,969</u>	
Prior year adjustments arising from changes in accounting policies			2,586	
Net profit for the year (2004: as restated)		<u>1,103,440</u>		<u>903,555</u>
Total recognised income and expense for the year (2004: as restated)		<u>1,081,974</u>		<u>903,838</u>
Attributable to:				
– equity shareholders of the Company	1,081,929		904,208	
– minority interests	45		(370)	
	<u>1,081,974</u>		<u>903,838</u>	
Dividends paid during the year		<u>(601,197)</u>		<u>(411,897)</u>
Minority interests attributable to subsidiaries acquired/disposed during the year		<u>491</u>		<u>179</u>
Movements in equity arising from capital transactions:				
Shares issued under share option scheme	3,706		4,318	
Net share premium received	4,264		4,542	
Equity settled share-based transactions, net of tax (2004: as restated)	5,796		4,308	
		<u>13,766</u>		<u>13,168</u>
Total equity at 31 December		<u>9,455,853</u>		<u>8,322,003</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 2005 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 2005 will be available from the website of the Stock Exchange of Hong Kong Limited and the Company's registered office.

(2) The financial report is prepared on a basis consistent with the accounting policies and methods adopted in the 2004 annual accounts except for the changes in accounting policies made thereafter in adopting certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA which have first been implemented in the 2005 annual accounts. Details of these changes in accounting policies are set out in Note (3).

(3) **Changes in accounting policies**

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) **Restatement of prior periods and opening balances**

The following tables disclose the adjustments that have been made in accordance with the transitional provisions of the respective HKFRSs to each of the line items in the consolidated income statement and consolidated balance sheet as previously reported for the year ended 31 December 2004. The changes in certain accounting policies were adopted by way of opening balance adjustments on the balances as at 1 January 2005.

Effect on the consolidated financial statements

Consolidated income statement for the year ended 31 December 2004

	2004	Effect of new		2004
	(as previously reported)	policy (increase/(decrease) in profit for the year)		(as restated)
	HK\$'000	HKAS 28 (note 3(d)) HK\$'000	HKAS 1 & 30 (note 3(i)) HK\$'000	HK\$'000
Interest income	2,241,410	-	-	2,241,410
Interest expense	(767,953)	-	-	(767,953)
Net interest income	1,473,457	-	-	1,473,457
Fee and commission income	461,307	-	-	461,307
Fee and commission expense	(26,880)	-	-	(26,880)
Net fee and commission income	434,427	-	-	434,427
Net trading income	-	-	177,944	177,944
Other operating income	248,551	(1,409)	(177,944)	69,198
Operating income	2,156,435	(1,409)	-	2,155,026
Operating expenses	(1,117,485)	-	-	(1,117,485)
	1,038,950	(1,409)	-	1,037,541
Charge for bad and doubtful debts	(78,065)	-	-	(78,065)
Provision written back on held-to-maturity investments	9,682	-	-	9,682
Impairment loss on goodwill	(9,502)	-	-	(9,502)
	(77,885)	-	-	(77,885)
Operating profit	961,065	(1,409)	-	959,656
Net profit on disposal of tangible fixed assets	11,862	-	-	11,862
Revaluation gain on investment properties	7,555	-	-	7,555
Share of profits less losses of associates	75,978	4,287	(4,606)	75,659
Profit before taxation	1,056,460	2,878	(4,606)	1,054,732
Income tax	(155,491)	(292)	4,606	(151,177)
Profit for the year	900,969	2,586	-	903,555
Attributable to:				
Equity shareholders of the Company	901,339	2,586	-	903,925
Minority interests	(370)	-	-	(370)
Profit for the year	900,969	2,586	-	903,555
Earnings per share				
Basic	28.24¢	0.08¢	-	28.32¢
Diluted	25.70¢	0.07¢	-	25.77¢

Consolidated balance sheet as at 31 December 2004

	2004	Effect of new policy				2004
	(as previously reported)	(increase/(decrease) in total assets and total liabilities)				(as restated)
	HK\$'000	HKFRS 2 (note 3(e)) HK\$'000	HKAS 28 (note 3(d)) HK\$'000	HKAS 1 & 30 (note 3(i)) HK\$'000	Sub-total HK\$'000	HK\$'000
Assets						
Cash and short-term funds	8,345,790	-	-	(6,856,871)	(6,856,871)	1,488,919
Placements with banks and other financial institutions	364,307	-	-	6,458,048	6,458,048	6,822,355
Trade bills	246,081	-	-	-	-	246,081
Certificates of deposit held	1,366,315	-	-	(1,366,315)	(1,366,315)	-
Other investments in securities	3,968,263	-	(14,745)	89,949	75,204	4,043,467
Advances to customers and other accounts	43,323,300	-	-	-	-	43,323,300
Held-to-maturity investments	22,254,992	-	-	1,675,189	1,675,189	23,930,181
Investment securities	39,841	-	-	-	-	39,841
Interest in associates	1,312,357	-	22,085	-	22,085	1,334,442
Goodwill	1,007,749	-	-	-	-	1,007,749
Tangible fixed assets	1,247,460	-	-	-	-	1,247,460
Deferred tax assets	93,562	-	-	-	-	93,562
Total assets	83,570,017	-	7,340	-	7,340	83,577,357
Equity and Liabilities						
Deposits and balances of banks and other financial institutions	3,555,852	-	-	-	-	3,555,852
Deposits from customers	55,451,727	-	-	-	-	55,451,727
Certificates of deposit issued	6,959,690	-	-	-	-	6,959,690
Debt securities issued	2,322,798	-	-	-	-	2,322,798
Convertible bonds issued	1,399,384	-	-	-	-	1,399,384
Current taxation	6,446	-	-	-	-	6,446
Deferred tax liabilities	8	-	-	-	-	8
Other liabilities	1,287,861	(4,308)	-	-	(4,308)	1,283,553
Loan capital	4,275,896	-	-	-	-	4,275,896
Total liabilities	75,259,662	(4,308)	-	-	(4,308)	75,255,354
Equity						
Share capital	3,194,153	-	-	-	-	3,194,153
Reserves	5,116,202	4,308	7,340	-	11,648	5,127,850
Total equity attributable to equity shareholders of the Company	8,310,355	4,308	7,340	-	11,648	8,322,003
Minority interests	-	-	-	-	-	-
Total equity	8,310,355	4,308	7,340	-	11,648	8,322,003
Total equity and liabilities	83,570,017	-	7,340	-	7,340	83,577,357

(b) **Estimated effect of changes in accounting policies on the current year**

The following tables provide estimates of the extent to which each of the line items in the consolidated income statement and consolidated balance sheet for the year ended 31 December 2005 is higher or lower than it would have been had the previous policies still been applied in the year, where it is practicable to make such estimates.

Effect on the consolidated financial statements

Estimated effect on the Consolidated Income Statement for the year ended 31 December 2005

	Effect of new policy (increase/(decrease) in profit for the year)			Total HK\$'000
	HKFRS 2 (note 3(e)) HK\$'000	HKFRS 3 (note 3(f)) HK\$'000	HKAS 32 & 39* (note 3(c)) HK\$'000	
	Interest income	-	-	
Interest expense	-	-	80,564	80,564
Net interest income	-	-	(106,113)	(106,113)
Net fee and commission income	-	-	10,161	10,161
Net trading income	-	-	64,524	64,524
Net income from financial instruments designated at fair value through profit or loss	-	-	52,447	52,447
Net hedging income	-	-	(679)	(679)
Operating income	-	-	20,340	20,340
Operating expenses	(2,699)	59,280	-	56,581
Profit before taxation	(2,699)	59,280	20,340	76,921

* In respect of the year ended 31 December 2005, it is not practicable to estimate the extent to which the profit for the year would have been higher or lower had the previous policy on impairment of financial assets still been applied.

Estimated effect on the Consolidated Balance Sheet as at 31 December 2005

	Effect of new policy (increase/(decrease) in total assets and total liabilities)				Total HK\$'000
	HKFRS 2 (note 3(e)) HK\$'000	HKFRS 3 & HKAS 36 (note 3(f)) HK\$'000	HKAS 32 & 39* (note 3(c)) HK\$'000	HKAS 40 (note 3(g)) HK\$'000	
	Assets				
Trading assets	-	-	4,300,413	-	4,300,413
Securities designated at fair value through profit or loss	-	-	1,042,277	-	1,042,277
Other investments in securities	-	-	(3,953,518)	-	(3,953,518)
Advances to customers and other accounts	-	-	(211,560)	-	(211,560)
Available-for-sale securities	-	-	6,017,754	-	6,017,754
Held-to-maturity investments	-	-	(6,309,110)	-	(6,309,110)
Investment securities	-	-	(39,841)	-	(39,841)
Interest in associates	-	-	(4,271)	-	(4,271)
Tangible fixed assets	-	-	-	-	-
- Investment property	-	-	-	7,939	7,939
Goodwill	-	59,280	-	-	59,280
Total	-	59,280	842,144	7,939	909,363
Equity and Liabilities					
Trading liabilities	-	-	845,863	-	845,863
Certificates of deposit issued	-	-	(153,530)	-	(153,530)
Debt securities issued	-	-	(73,520)	-	(73,520)
Convertible bonds issued	-	-	106,105	-	106,105
Current taxation	-	-	38,291	-	38,291
Deferred tax liabilities	-	-	67,788	1,154	68,942
Other liabilities	(7,404)	-	(230,269)	-	(237,673)
Loan capital	-	-	87,033	-	87,033
Total	(7,404)	-	687,761	1,154	681,511
Equity					
Reserves	7,404	59,280	154,383	6,785	227,852
Total equity attributable to equity shareholders of the Company	7,404	59,280	154,383	6,785	227,852
Total	-	59,280	842,144	7,939	909,363

* In respect of the year ended 31 December 2005, it is not practicable to estimate the extent to which the net assets would have been higher or lower had the previous policy on impairment of financial assets still been applied.

Estimated effect on net income recognized directly in consolidated equity for the year ended 31 December 2005:

	Effect of new policy (increase/(decrease) in equity)		Total HK\$'000
	HKAS 32 & 39 (note 3(c)) HK\$'000	HKAS 40 (note 3(g)) HK\$'000	
	Attributable to equity shareholders of the Company	(41,314)	
Minority interests	-	-	-
Total equity	(41,314)	6,785	(34,529)

Estimated effect on amounts recognized as capital transactions with owners of the Group for the year ended 31 December 2005:

	Effect of new policy (increase/(decrease) in equity)		Total HK\$'000
	HKFRS 2 (note 3(e)) HK\$'000	HKAS 39 (note 3(c)) HK\$'000	
	Attributable to equity shareholders of the Company	5,796	
Minority interests	-	-	-
Total equity	5,796	-	5,796

(c) **Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)**

With effect from 1 January 2005, in order to comply with HKAS 32, the Group has provided additional disclosures of terms, conditions, accounting policies, risk and fair values of financial instruments throughout the notes to the financial statements. In order to comply with HKAS 39, the Group has changed its accounting policies relating to financial instruments, further details of the changes are as follows:

(i) *Financial instruments*

In prior years, all financial assets were carried at cost or amortized cost net of impairment provisions for diminution in value, except for other investments (under Benchmark treatment of SSAP 24) which were held at fair value. Gains and losses from change in fair value were recognized in the income statement in respect of other investments. Provisions were recognized as an expense in the income statement and written back to income statement when circumstances and events that led to the write-down cease to exist.

In prior years, all financial liabilities except for trading securities short positions were carried at cost or amortized cost. Trading securities short positions were carried at fair value and any changes in fair value were recognized through the income statement.

With effect from 1 January 2005, and in accordance with HKAS 39, financial instruments are recognized according to the following categories (i) fair value through profit or loss, (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale and (v) other financial liabilities.

Fair value through profit or loss

This category comprises financial assets and liabilities held for trading, and those designated at fair value through profit or loss upon initial recognition, but exclude 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 are accounted for as trading instruments.

Financial instruments designated at fair value through profit or loss primarily consist of securities with embedded derivatives that the characteristics and risks of the embedded derivatives are not closely related to the host contracts.

Financial assets and liabilities under this category are carried at fair value. 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 customer and placements with banks and financial institutions.

Loans and receivables are carried at amortized cost using the effective interest method, less impairment losses, if any.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity where the Group has the positive intention and ability to hold to maturity, other than those that the Group, upon initial recognition, designates as fair value through profit or loss or as available for sale.

Held-to-maturity investments are carried at amortized cost using the effective interest method less impairment losses, if any.

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.

Investments in equity instruments 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 instruments are carried at cost less impairment losses, if any.

Available-for-sale financial assets are carried at fair value. Unrealized gains and losses arising from changes in the fair value are recognized directly in the fair value reserve, except for foreign exchange gains and losses on monetary items such as debt securities which are recognized in the income statement.

When the available-for-sale financial assets are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the equity are treated as gains or losses on disposal.

Other financial liabilities

Financial liabilities, other than trading liabilities and those designated at fair value through profit or loss, are measured at amortized cost using the effective interest 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 amortized cost basis until extinguished on conversion or maturity of the bonds. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in shareholders' equity.

(ii) Derivatives and hedge accounting

In prior years, derivatives mainly included derivatives arising from futures, forward, swap and option transactions undertaken by the Group in the foreign exchange, interest rate and equity markets. Netting was applied where a legal right of set-off exists.

The accounting for these instruments was dependent upon whether the transactions were undertaken for trading purposes or as part of the management of asset and liability portfolios.

Derivatives used for trading purposes

Trading transactions included transactions undertaken for market making, to service customers' needs and for proprietary purposes, as well as any related hedges.

Transactions undertaken for trading purposes were marked to market and the net present value of the gain or loss arising was recognized in the income statement as dealing gains/losses.

The fair value of derivatives that were not exchange-traded was estimated at the amount that the Group would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

Derivatives used for asset and liability management purposes

Derivatives used for this purpose were accounted for as hedge and were valued on an equivalent basis to the underlying assets, liabilities or net positions which they were hedging. Any profit or loss was recognized on the same basis as that arising from the related assets, liabilities or net positions.

Any gain or loss on termination of hedging derivatives was deferred and amortized to the income statement over the original life of the terminated contract. Where the underlying asset, liability or position was sold or terminated, the hedging derivative was immediately marked to market through the income statement.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to derivative and hedge accounting respectively.

All derivatives are initially recognised at fair value and carried as assets when the fair value is positive and as liabilities when the fair value is negative. Subsequent changes in fair value are recognised depending on the intended use of the derivatives as follows:

Derivatives designated as hedges will apply hedge accounting provided certain qualifying criteria are met. There are two types of hedges:

- Fair value hedge, a hedge against the fair value of recognised assets or liabilities. This will be accounted for with the changes in fair value of the derivatives, together with the changes in fair value of the hedged assets or liabilities that are attributable to the hedged risk, recorded in the income statement.
- Cash flow hedge, a hedge against the cash flows attributable to recognised assets or liabilities. This is accounted for with changes in the fair value of the derivatives initially through equity, and subsequently released into the income statement in line with the recognition of income or expense of the assets or liabilities being hedged.

Derivatives held for trading purposes and those that do not qualify for hedge accounting, will be accounted for with changes in fair value reported in the income statement.

(iii) Embedded derivatives

In prior years, embedded derivatives were not separately accounted for and they were carried accordingly to the classification of the host contracts.

With effect from 1 January 2005, embedded derivative that is not closely related to the host contract or where the hybrid (combined) instrument is not measured at fair value through profit or loss is accounted for separately from the host contract as equity, assets or liabilities.

(iv) Convertible bonds issued

In prior years, convertible bonds issued were recorded as liability and stated at cost.

With effect from 1 January 2005, and in accordance with HKAS 32, the Group has provided additional disclosures of terms, conditions, accounting policies, risk and fair values of convertible bonds. In order to comply with HKAS 32 and 39, convertible bonds issued are split into their liability and equity components at initial recognition by recognizing the liability component at its fair value and attributing to the equity component the difference between the proceeds from the issue and the fair value of the liability component. The liability component is subsequently carried at amortized cost. The equity component is recognized in the convertible bond - equity component until the note is either converted (in which case it is transferred to share premium) or the note is redeemed (in which case it is released directly to retained profits).

(v) Impairment of financial assets

Loans and advances

In prior years, provisions were made against specific loans and advances as and when the directors had doubts on the ultimate recoverability of principal or interest in full.

Specific provisions represented the quantification of actual and expected losses from identified accounts and were deducted from loans and advances in the balance sheet.

Other than where provisions on smaller balance homogeneous advances were assessed on a portfolio basis, the amount of specific provision raised was assessed on a case by case basis. Specific provisions were made against the carrying amount of advances that were identified as being in doubt based on regular reviews of outstanding balances to reduce these advances, net of any collateral, to their recoverable amounts.

Where specific provisions were raised on a portfolio basis, the level of provisioning took into account management's assessment of the portfolio's structure, past and expected credit losses, business and economic conditions, and any other relevant factors. The principal portfolios evaluated on this basis were credit cards and certain unsecured personal advances.

General provisions augmented specific provisions and provided cover for loans which were impaired at the balance sheet date but would not be identified as such until some time in the future. The Group maintained a general provision which was determined taking into account the structure and risk characteristics of the Group's loan portfolio and the expected loss of the individual components of the loan portfolio based primarily on the historical loss experience. Historic levels of latent risk were regularly reviewed to determine that the level of general provisioning continues to be appropriate. General provisions were deducted from loans and advances to customers in the balance sheet.

In respect of the year ended 31 December 2005, it is not practicable to estimate the extent to which the profit for the year would have been higher or lower had the previous policy on impairment of financial assets still been applied.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to impairment on loans and advances to customers.

Impairment allowances are made on a loan when objective evidence of impairment loss has been observed or occurred. Impairment loss is assessed either individually for individually significant loans, or collectively for loan portfolios with similar credit risk characteristics.

Impairment loss of an individually assessed loan is measured as the difference between the loan's carrying value and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

For the purpose of collective assessment of impairment, individually insignificant loans and loans which have been assessed individually and determined to have no objective evidence of impairment are grouped on the basis of similar credit risk characteristics and collectively assessed based on historical loss experience of each type of loans and management judgement of the current economic and credit environment.

Other financial assets

Financial assets, other than loans and advances, were reviewed on each balance sheet date to determine whether there was any indication of impairment. If the recoverable amount of the asset was estimated to be less than its carrying amount, the carrying amount of the asset was reduced to its recoverable amount and the impairment loss was recognized in the income statement.

With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to impairment of investments in debt and equity securities and impairment of other financial assets.

Held-to-maturity investments and available-for-sale securities are assessed for objective evidence of impairment at each balance sheet date. Impairment loss for held-to-maturity investments is recognised in the income statement. When an available-for-sale financial asset is determined to be impaired, the cumulative loss previously recognised in equity will be transferred to the income statement.

(vi) **Interest recognition on impaired loans**
In prior years, loans were not reclassified as accruing until interest and principal payments were up-to-date and future payments were reasonably assured. Where the probability of receiving interest payments was remote, interest was no longer accrued. Where the loan had no reasonable prospect of recovery, the loan and related suspended interests were written off.
With effect from 1 January 2005, in order to comply with HKAS 39, the Group has changed its accounting policies relating to interest income recognition.
Interest will continue to be recognized on impaired financial assets using the interest rate for discounting future cash flows for the purpose of measuring the related impairment loss. Subsequent unwinding of discount allowance is recognized as interest income.

(vii) **Description of transitional provisions and effect of adjustments**
The changes in accounting policies of the above items were adopted by way of opening balance adjustments to certain reserves and redesignation of financial instruments as at 1 January 2005. Comparative amounts have not been restated as this is prohibited by the transitional arrangements in HKAS 39.

The adjustments for each financial statement line item of the Group affected for the year ended 31 December 2005 are set out in note 3(b).

(d) **Interest in associates (HKAS 28, Investments in associates)**

In prior years, investments held by the Group with 20% or more of the voting power of the investee that were acquired and held exclusively with a view to subsequent disposal in the near future were classified as other investments in securities and stated at fair value.

With effect from 1 January 2005, and in accordance with HKAS 28, such investments are reclassified as investment in associates and accounted for in the consolidated financial statements under the equity method.

The adjustments for each consolidated financial statement line item of the Group for the year ended 31 December 2004 are set out in notes 3(a).

(e) **Employee share option scheme (HKFRS 2, Share-based payment)**

(i) **Employee share option scheme**

In prior years, no amounts were recognised when employees (which term includes directors) were granted share options over shares in the Company. If the employees chose to exercise the options, the nominal amount of share capital and share premium were credited only to the extent of the option's exercise price receivable.

With effect from 1 January 2005, in order to comply with HKFRS 2, the Group has adopted a new policy for employee share options. Under the new policy, the Group recognizes the fair value of such share options as an expense with a corresponding increase recognized in a capital reserve within equity.

The new accounting policy has been applied retrospectively with comparatives restated, except that the Group has taken advantage of the transitional provisions set out in HKFRS 2, under which the new recognition and measurement policies have not been applied to the following grants of options:

- (a) all options granted to employees on or before 7 November 2002; and
- (b) all options granted to employees after 7 November 2002 but which had vested before 1 January 2005.

(ii) **Employee Equity Linked Deferred Award Scheme ("ELDA")**

In prior years, when employees (which term includes directors) were granted awards under ELDA, provision for the ELDA was made and recognized immediately as expenses in the year in which the awards were granted.

With effect from 1 January 2005, in order to comply with HKFRS 2, the fair value of the amount payable is recognized as an expense in the income statement over the relevant vesting period with a corresponding increase in liabilities. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognized in the income statement.

(iii) *The adjustments for each consolidated financial statement line of the Group affected for the years ended 31 December 2005 and 2004 are set out in notes 3(a) and (b).*

(f) **Amortization of positive goodwill (HKFRS 3, Business combinations and HKAS 36, Impairment of assets)**

In prior years, positive goodwill which arose on or after 1 January 2001 was amortized on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policy relating to goodwill. Under the new policy, the Group no longer amortizes positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognized immediately in profit or loss as it arises.

The new policy in respect of the amortization of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The adjustments for each consolidated financial statement line affected for the year ended 31 December 2005 are set out in note 3(b).

(g) **Investment property (HKAS 40, Investment property)**

(i) **Timing of recognition of movements in fair value in the income statement**

In prior years, movements in the fair value of the Group's investment property were recognized directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognized in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognized in the income statement.

In addition, in prior years property (including leasehold land) which the Group held for an undetermined future purpose was accounted for under the cost model in Statement of Standard Accounting Practice ("SSAP") No. 17 "Property, plant and equipment", whereby the property was carried at cost less accumulated depreciation and impairment.

Upon adoption of HKAS 40 as from 1 January 2005, the Group has adopted a new policy for investment property. Under this new policy:

- all changes in the fair value of investment property are recognized directly in the income statement in accordance with the fair value model in HKAS 40; and
- land held for an undetermined future purpose is recognized as "investment property" if the property is freehold or, if the property is leasehold, the Group has chosen to recognize such land as investment property rather than as land held under an operating lease.

(ii) **Measurement of deferred tax on movements in fair value**

In prior year, the Group was required to apply the tax rate that would be applicable to the sale of investment property to determine whether any amounts of deferred tax should be recognized on the revaluation of investment property. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property were disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognizes deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

(iii) **Description of transitional provisions and effect of adjustments**

While these changes in accounting policy have to be adopted retrospectively, no adjustment to the opening balances as at 1 January 2004 and 1 January 2005 are required because the net surplus on revaluation of investment properties for the year ended 31 December 2003 and 31 December 2004 was taken to the income statement as this related to deficit on revaluation in respect of the portfolio of investment properties previously charged to the income statement.

(h) **Definition of related parties (HKAS 24, Related party disclosures)**

As a result of the adoption of HKAS 24, Related party disclosures, the definition of related parties has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20, Related party disclosures, still been in effect.

(i) **Changes in presentation (HKAS 1, Presentation of financial statements and HKAS 30, Disclosures in financial statements of banks and similar financial institutions)**

(i) **Presentation of income statement and balance sheets**

In prior years, there were no specific accounting standards governing the presentation of the financial statement of banks. Management, having regard to the overall clarity and the disclosure requirements of the Hong Kong Monetary Authority, exercised its judgment in deciding on the relative prominence given to each item presented on the face of the income statement and balance sheets. As a result, certificates of deposits held were separately presented on the face of the balance sheets. Treasury bills (including Exchange Fund Bills) and money at call and short notice (representing placements with banks and other financial institutions maturing within one month) were included in cash and short-term funds with treasury bills being presented separately as held-to-maturity investments and other investments in securities according to the previous SSAP 24.

With effect from 1 January 2005, in order to comply with HKAS 30 and taking into account the measurement basis that has been applied, the Group has changed its presentation of certain items on the face of the income statement and balance sheets. Treasury bills (including Exchange Fund Bills) and certificates of deposit held are included in the four categories of financial instruments under HKAS 39. Placements with banks and other financial institutions maturing within one month are included in placements with banks and other financial institutions. These changes in presentation have been applied retrospectively with comparatives reclassified.

(ii) **Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)**

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to the presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity shareholders of the Company. These changes in presentation of minority interests in the consolidated balance sheet and income statement have been applied retrospectively with comparatives restated.

(4) The calculation of basic earnings per share is based on profit attributable to shareholders of HK\$1,103,395,000 (2004 (restated): HK\$903,925,000) and on the weighted average of 3,197,198,285 (2004: 3,192,157,892) ordinary shares in issue during the year.

(5) The calculation of diluted earnings per share is based on adjusted profit attributable to shareholders of HK\$1,141,126,000 (2004 (restated): HK\$907,420,000) and on the weighted average number of ordinary shares of 3,524,437,109 (2004: 3,521,197,208) after adjusting for the effects of all dilutive potential ordinary shares.

SUPPLEMENTARY FINANCIAL INFORMATION

(a) Summary of financial position

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Advances to customers and trade bills	43,368,061	42,921,282	1.04
Impairment allowances	568,565	–	N/A
Provisions for advances to customers and trade bills	–	1,058,893	N/A
Total assets	85,036,678	83,577,357	1.75
Average interest earning assets	70,383,962	70,297,381	0.12
Total deposits	61,883,240	62,411,417	(0.85)
Total equity attributable to equity shareholders of the Company	9,455,317	8,322,003	13.62
<i>Financial ratios</i>			
Loans to deposits	70.08%	68.77%	
Loans to total assets	51.00%	51.36%	
Collective assessment coverage	0.68%	N/A	
General provisions coverage	N/A	1.22%	
Property lending	39.25%	35.57%	
Cost to income (before goodwill amortization in respect of 2004)	55.55%	49.06%	
Cost to income (after goodwill amortization in respect of 2004)	55.55%	51.85%	
Return on assets	1.31%	1.11%	
Return on average total equity attributable to equity shareholders of the Company	12.41%	11.21%	

(b) Fee and commission income

	2005	2004	Variance
	HK\$'000	HK\$'000	%
Bills commission	40,152	42,281	(5.04)
Card related income	35,064	23,722	47.81
General banking services	50,518	65,801	(23.23)
Insurance	77,964	61,715	26.33
Investment and structural investment products	75,888	90,451	(16.10)
Loans, overdraft and facility fee	159,256	176,955	(10.00)
Others	820	382	114.66
	439,662	461,307	(4.69)

(c) Net trading income

	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Gains less losses from dealing in foreign currencies	98,707	54,468	81.22
Gains less losses from trading securities	137,827	100,893	36.61
Gains less losses from other dealing activities	(51,738)	22,583	(329.10)
Interest income on trading assets			
– Listed	26,807	–	N/A
– Unlisted	120,050	–	N/A
Interest expense on trading liabilities	(8,592)	–	N/A
Dividend income from unlisted trading securities	20,405	–	N/A
	343,466	177,944	93.02

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

	2005	2004	Variance
	HK\$'000	HK\$'000	%
Net gains	93,941	–	N/A
Interest income			
– Listed	31,348	–	N/A
– Unlisted	3,395	–	N/A
Interest expense	(106,203)	–	N/A
	22,481	–	N/A

(e) Net hedging expense

	2005	2004	Variance
	HK\$'000	HK\$'000	%
Fair value hedge	(679)	–	N/A

(f) Other operating income

	2005	2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Dividend income from investment securities and other investments in securities			
– Listed investments	–	488	N/A
– Unlisted investments	–	10,289	N/A
Dividend income from available-for-sale securities			
– Unlisted investments	5,312	–	N/A
Gross rental income from investment properties of HK\$3,231,000 (2004: HK\$11,491,000) less direct outgoings of HK\$43,000 (2004: HK\$1,598,000)	3,188	9,893	(67.78)
Others	70,801	48,528	45.90
	79,301	69,198	14.60

(g) Operating expenses

	2005	2004 <i>(restated)</i>	Variance
	HK\$'000	HK\$'000	%
Staff costs			
Salaries and other staff costs	555,101	548,302	1.24
Retirement costs	37,914	35,866	5.71
Share-based payment expenses:			
– Equity-settled share-based payment expenses	5,796	4,308	34.54
– Cash-settled share-based payment expenses	9,029	4,221	113.91
	<u>607,840</u>	<u>592,697</u>	2.55
Depreciation and amortization			
Depreciation of premises and equipment			
– assets held for use under operating leases	2,571	932	175.86
– other assets	110,266	145,467	(24.20)
Amortization of positive goodwill	–	60,336	N/A
	<u>112,837</u>	<u>206,735</u>	(45.42)
Other operating expenses			
Premises and equipment expenses, excluding depreciation			
– Rental of premises	54,054	33,369	61.99
– Others	77,467	74,839	3.51
Auditors' remuneration	4,325	3,358	28.80
Advertising	63,659	66,651	(4.49)
Communication, printing and stationery	57,636	52,694	9.38
Legal and professional fee	22,876	22,247	2.83
Others	93,994	64,895	44.84
	<u>374,011</u>	<u>318,053</u>	17.59
Total operating expenses	<u>1,094,688</u>	<u>1,117,485</u>	(2.04)

Included in operating expenses are minimum lease payment under operating leases of HK\$931,000 (2004: HK\$1,372,000) for hire of equipment and HK\$50,248,000 (2004: HK\$29,619,000) for hire of other assets (including property rentals).

(h) Income tax in the consolidated income statement

	2005	2004 <i>(restated)</i>	Variance
	HK\$'000	HK\$'000	%
Current tax – Hong Kong Profits Tax			
Provision for the year	129,827	156,377	(16.98)
Over-provision in respect of prior years	(19,180)	(1,253)	1,430.73
	<u>110,647</u>	<u>155,124</u>	(28.67)
Current tax – Overseas			
Provision for the year	1,727	2,145	(19.49)
Deferred tax			
Origination and reversal of temporary differences	(168)	(6,092)	(97.24)
Total	<u>112,206</u>	<u>151,177</u>	(25.78)

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the year. Taxation for branches and subsidiaries outside Hong Kong is charged at the appropriate current rates of taxation ruling in the relevant countries.

(i) Dividends

	2005	2004	Variance
	HK\$'000	HK\$'000	%
Interim dividend declared and paid of HK\$0.113 (2004: HK\$0.066) per share	361,358	210,759	71.46
Final dividend proposed after the balance sheet date of HK\$0.060 (2004: HK\$0.075) per share	191,872	239,636	(19.93)
	<u>553,230</u>	<u>450,395</u>	22.83

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

(j) Advances to customers and other accounts

	As at 31 Dec 2005	As at 31 Dec 2004	Variance
	HK\$'000	HK\$'000	%
Gross advances to customers	42,961,697	42,672,715	0.68
<i>Less:</i> Impairment allowances			
– Individually assessed	(274,021)	–	N/A
– Collectively assessed	(294,544)	–	N/A
Provision for bad and doubtful debts			
– Specific	–	(537,056)	N/A
– General	–	(519,351)	N/A
	<u>42,393,132</u>	<u>41,616,308</u>	
Advances to banks and other financial institutions	327,521	20,000	1,537.61
Accrued interest and other accounts less impairment allowances	1,387,530	1,686,992	(17.75)
	<u>44,108,183</u>	<u>43,323,300</u>	1.81

(k) Reserves

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)	Variance
	HK\$'000	HK\$'000	%
Share premium	1,840,212	1,835,948	0.23
Other property revaluation reserve	6,550	11,945	(45.17)
Capital reserve	2,818	2,818	–
Fair value reserve	322,467	–	N/A
General reserve	100,000	100,000	–
Exchange differences	3,684	(314)	(1,273.25)
Convertible bond-equity component	132,698	–	N/A
Share option reserve	16,604	4,308	285.42
Retained profits*	3,832,425	3,173,145	20.78
Total	<u>6,257,458</u>	<u>5,127,850</u>	22.03
Proposed dividends, not provided for	<u>191,872</u>	<u>239,636</u>	(19.93)

* The Group complies with 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 2005, an amount of HK\$233,800,000 (2004: Nil) was included in the retained profits in this respect which was distributable to equity shareholders of the Company subject to consultation with the Hong Kong Monetary Authority.

(l) Advances to customers – By industry sectors

	As at 31 Dec 2005		As at 31 Dec 2004		Variance
	HK\$'000	%	HK\$'000	%	%
Loans for use in Hong Kong					
<i>Industrial, commercial and financial</i>					
– Property development	410,595	0.96	350,668	0.82	17.09
– Property investment	5,033,111	11.72	4,313,945	10.11	16.67
– Financial concerns	2,355,699	5.48	2,702,487	6.33	(12.83)
– Stockbrokers	45,606	0.11	39,835	0.09	14.49
– Wholesale and retail trade	2,015,783	4.69	2,000,654	4.69	0.76
– Manufacturing	2,813,124	6.55	3,372,328	7.90	(16.58)
– Transport and transport equipment	4,280,529	9.96	5,404,016	12.67	(20.79)
– Others	3,093,252	7.20	3,690,455	8.65	(16.18)
<i>Individuals</i>					
– Loans for the purchase of flats under the Home Ownership Scheme, Private Sector Participation Scheme and Tenant Purchase Scheme	18,409	0.04	19,394	0.05	(5.08)
– Loans for the purchase of other residential properties	11,416,704	26.57	10,512,764	24.64	8.60
– Credit card advances	586,781	1.37	538,041	1.26	9.06
– Others	1,308,935	3.05	1,161,561	2.72	12.69
Trade finance	2,789,104	6.49	2,287,943	5.36	21.90
Loans for use outside Hong Kong	<u>6,794,065</u>	<u>15.81</u>	<u>6,278,624</u>	<u>14.71</u>	8.21
	<u>42,961,697</u>	<u>100.00</u>	<u>42,672,715</u>	<u>100.00</u>	0.68

(m) 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.

	As at 31 Dec 2005			As at 31 Dec 2004		
	Advances to customers	Overdue loans and advances	Impaired 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	34,536,529	473,722	507,111	34,431,875	1,314,119	1,235,995
Mainland China	6,534,622	541,945	541,945	5,899,197	596,904	596,904
USA	793,891	50,495	50,495	714,454	50,620	50,620
Others	1,096,655	–	71,288	1,627,189	363	363
	<u>42,961,697</u>	<u>1,066,162</u>	<u>1,170,839</u>	<u>42,672,715</u>	<u>1,962,006</u>	<u>1,883,882</u>

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

Impaired loans are individually assessed loans with objective evidence of impairment on an individual basis.

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

(n) Impaired/Non-performing loans

Impaired loans are loans which have been classified and subject to individual impairment assessment.

	As at 31 Dec 2005	As at 31 Dec 2004
	HK\$'000	HK\$'000
Gross impaired loans and advances to customers	1,170,839	–
Impairment allowance-individually assessed	(274,021)	–
Gross non-performing loans and advances to customers	–	1,883,882
Specific provisions of bad and doubtful debts	–	(460,587)
	<u>896,818</u>	<u>1,423,295</u>
As a % of total loans and advances to customers		
– Gross impaired loans and advances	2.73%	–
– Gross non-performing loans and advances	–	4.41%

(o) **Overdue advances to customers**

	As at 31 Dec 2005		As at 31 Dec 2004	
	HK\$'000	%*	HK\$'000	%*
The gross amount of advances have been overdue for periods of:				
– 6 months or less but over 3 months	40,244	0.09	90,905	0.21
– 1 year or less but over 6 months	92,748	0.22	213,538	0.50
– over 1 year	933,170	2.17	1,657,563	3.89
Total	<u>1,066,162</u>	<u>2.48</u>	<u>1,962,006</u>	<u>4.60</u>
Secured overdue advances	860,601		1,449,690	
Unsecured overdue advances	205,561		512,316	
	<u>1,066,162</u>		<u>1,962,006</u>	
Market value of collateral held against the secured overdue advances	<u>1,236,616</u>		<u>1,607,051</u>	
Individual impairment allowance made	<u>217,950</u>			
Specific provisions made			<u>473,671</u>	

* 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 2005 and 31 December 2004.

(p) **Other overdue assets**

	As at	As at
	31 Dec 2005	31 Dec 2004
	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	<u>2,725</u>	–
	<u>2,725</u>	<u>2,565</u>
Held-to-maturity securities which have been overdue for:		
– Over 1 year	<u>15,510</u>	<u>15,549</u>

(q) **Rescheduled loans**

	As at 31 Dec 2005		As at 31 Dec 2004	
	HK\$'000	%*	HK\$'000	%*
Rescheduled loans	<u>25,077</u>	<u>0.06</u>	<u>226,093</u>	<u>0.53</u>

* Based on total advances to customers

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

There were no advances to banks and other financial institutions which were rescheduled as at 31 December 2005 and 31 December 2004.

(r) **Repossessed assets**

	As at	As at
	31 Dec 2005	31 Dec 2004
	HK\$'000	HK\$'000
Included in advances to customers and other accounts	<u>207,758</u>	<u>309,332</u>

(s) **Off-balance sheet exposures**

(i) **Contingent liabilities and commitments**

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

	As at	As at
	31 Dec 2005	31 Dec 2004
	HK\$'000	HK\$'000
Direct credit substitutes	958,516	943,362
Trade-related contingencies	1,058,462	1,165,944
Other commitments:		
– with an original maturity of under 1 year or which are unconditionally cancellable	12,846,765	10,576,584
– with an original maturity of 1 year and over	350,146	588,078
	<u>15,213,889</u>	<u>13,273,968</u>
Credit risk weighted amounts	<u>991,061</u>	<u>1,072,223</u>

(ii) **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 31 Dec 2005			As at 31 Dec 2004		
	Trading	Hedging	Total	Trading	Hedging	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Exchange rate contracts						
Forwards	18,941,850	–	18,941,850	2,637,254	–	2,637,254
Swaps	11,521,138	–	11,521,138	7,447,460	3,504,209	10,951,669
Options purchased	91,471	–	91,471	241,068	–	241,068
Options written	84,553	–	84,553	238,249	–	238,249
Interest rate contracts						
Forwards and futures	3,032,254	–	3,032,254	427,590	–	427,590
Swaps	6,897,921	12,074,747	18,972,668	3,570,070	11,615,697	15,185,767
Options purchased	1,298,984	–	1,298,984	1,671,487	–	1,671,487
Options written	1,298,984	–	1,298,984	1,849,231	–	1,849,231
Equity contracts						
Options purchased	–	–	–	–	1,083	1,083
Options written	–	–	–	–	1,083	1,083
	<u>43,167,155</u>	<u>12,074,747</u>	<u>55,241,902</u>	<u>18,082,409</u>	<u>15,122,072</u>	<u>33,204,481</u>

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.

Derivatives use for hedging purpose as at 31 December 2005 represented hedging instruments that were qualified for hedging accounting under HKAS 39.

Derivatives use for hedging purpose as at 31 December 2004 represented all derivatives that having an assets and liability management relationship. The conditions for using hedge accounting under HKAS 39 were not allowed to be applied retrospectively.

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

	2005			2004 (restated)		
	Fair value		Credit risk weighted amount	Fair value*		Credit risk weighted amount
	Assets	Liabilities		Assets	Liabilities	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate derivatives	157,286	387,765	74,175	268,774	383,276	105,037
Currency derivatives	70,858	55,468	85,145	119,554	127,623	66,096
Other derivatives	-	-	-	90	-	46
	228,144	443,233	159,320	388,418	510,899	171,179

* The fair values information for 2004 represented 1 January 2005 restated figures.

Credit risk-weighted amount refers to the amount as computed in accordance with the Third Schedule to the Hong Kong Banking Ordinance on capital adequacy and depends on the status of the counterparty and the maturity characteristics. The risk weights used range from 0% to 100% for contingent liabilities and commitments, and from 0% to 50% for exchange rate, interest rate and other derivatives contracts.

The fair values of derivative assets and liabilities and credit risk weighted amount of the off-balance sheet exposures do not take into account the effect of bilateral netting arrangements.

(t) **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.

(i) **Business segments**

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

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

	2005					
	Commercial banking	Asset management	Investment banking	Unallocated	Inter-segment elimination	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HK\$'000	HKD'000
Net interest income	1,100,952	34,821	-	(36,516)	-	1,099,257
Other operating income	798,698	61,221	-	11,475	-	871,394
Total operating income	1,899,650	96,042	-	(25,041)	-	1,970,651
Operating expenses	(1,049,390)	(24,436)	(9)	(20,853)	-	(1,094,688)
	850,260	71,606	(9)	(45,894)	-	875,963
Impairment losses on loans and advances written back/(charged)	83,379	(25,835)	-	-	-	57,544
Impairment losses on held-to-maturity and available-for-sale securities	(2,567)	(2,818)	-	3,874	-	(1,511)
Impairment losses on properties	(354)	-	-	1,871	-	1,517
Impairment losses	80,458	(28,653)	-	5,745	-	57,550
Operating profit	930,718	42,953	(9)	(40,149)	-	933,513
Net profit on disposal of tangible fixed assets and associates	226,347	-	-	7,523	-	233,870
Revaluation gain on investment properties	2,140	-	-	-	-	2,140
Share of profits less losses of associates	(10,501)	(3,135)	59,759	-	-	46,123
Profit before taxation	1,148,704	39,818	59,750	(32,626)	-	1,215,646
Income Tax	(101,661)	(7,160)	-	(3,385)	-	(112,206)
Profit for the year	1,047,043	32,658	59,750	(36,011)	-	1,103,440
Attributable to:						
Equity shareholders of the Company	1,047,043	32,613	59,750	(36,011)	-	1,103,395
Minority interests	-	45	-	-	-	45
Profit for the year	1,047,043	32,658	59,750	(36,011)	-	1,103,440
Depreciation for the year	116,800	298	-	(4,261)	-	112,837
Segment assets	81,777,136	1,295,604	-	1,035,367	(362,609)	83,745,498
Interest in associates	-	108,284	1,182,896	-	-	1,291,180
Total asset	81,777,136	1,403,888	1,182,896	1,035,367	(362,609)	85,036,678
Segment liabilities	74,660,342	12,869	-	1,396,145	(488,531)	75,580,825
Capital expenditure incurred during the year	53,237	585	-	112	-	53,934

2004
(restated)

	Commercial banking	Asset management	Investment banking	Unallocated	Inter-segment elimination	Consolidated
	HKD'000	HKD'000	HKD'000	HKD'000	HK\$'000	HKD'000
Net interest income	1,456,353	12,417	–	4,687	–	1,473,457
Other operating income	600,994	58,950	–	21,625	–	681,569
Total operating income	2,057,347	71,367	–	26,312	–	2,155,026
Operating expenses	(1,011,556)	(15,306)	–	(90,623)	–	(1,117,485)
	1,045,791	56,061	–	(64,311)	–	1,037,541
Charge for bad and doubtful debts	(100,540)	22,475	–	–	–	(78,065)
Provision written back on held-to-maturity securities	9,682	–	–	–	–	9,682
Impairment loss on goodwill	(9,502)	–	–	–	–	(9,502)
Impairment losses	(100,360)	22,475	–	–	–	(77,885)
Operating profit	945,431	78,536	–	(64,311)	–	959,656
Net profit on disposal of tangible fixed assets	19,755	–	–	(7,893)	–	11,862
Revaluation gain on investment properties	7,555	–	–	–	–	7,555
Share of profits less losses of associates	(4,139)	3,995	75,803	–	–	75,659
Profit before taxation	968,602	82,531	75,803	(72,204)	–	1,054,732
Income Tax	(151,538)	(54)	–	415	–	(151,177)
Profit for the year	817,064	82,477	75,803	(71,789)	–	903,555
Attributable to:						
Equity shareholders of the Company	817,064	82,477	75,803	(71,419)	–	903,925
Minority interests	–	–	–	(370)	–	(370)
Profit for the year	817,064	82,477	75,803	(71,789)	–	903,555
Depreciation for the year	149,070	87	–	(2,758)	–	146,399
Amortisation of goodwill for the year	1,056	–	6,528	52,752	–	60,336
Segment assets	80,101,502	1,320,542	–	1,038,641	(217,770)	82,242,915
Interest in associates	191,450	22,085	1,120,907	–	–	1,334,442
Total asset	80,292,952	1,342,627	1,120,907	1,038,641	(217,770)	83,577,357
Segment liabilities	74,308,120	14,064	–	1,395,300	(462,130)	75,255,354
Capital expenditure incurred during the year	62,784	719	195,866	500	–	259,869

(ii) **Geographical segments**

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

2005

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

2004
(restated)

	Hong Kong	Mainland China	USA	Others	Inter-segment elimination	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Operating income from external customers	2,103,648	16,684	45,380	–	(10,686)	2,155,026
Total assets	83,004,397	690,143	1,742,424	466,479	(2,326,086)	83,577,357
Capital expenditure incurred during the year	245,075	8,008	6,786	–	–	259,869

(u) **Capital adequacy ratio**

Unadjusted capital adequacy ratio*	As at 31 Dec 2005	As at 31 Dec 2004 (restated)
	16.01%	15.88%

* 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.

(v) **Capital base after deductions**

	As at 31 Dec 2005	As at 31 Dec 2004 (restated)
	HK\$'000	HK\$'000
Core capital		
Paid up ordinary share capital	3,197,859	3,194,153
Share premium	1,840,212	1,835,948
Reserves	2,953,640	2,584,437
Minority interest	536	–
Deduct: Goodwill	(1,007,749)	(1,007,749)
Total core capital	6,984,498	6,606,789
Eligible supplementary capital		
Reserves on revaluation of land and interests in land	–	8,362
Reserves on revaluation of holding of securities not held for trading purposes	332,076	–
Collective impairment allowances for impaired assets and regulatory reserve	528,790	–
General provisions for doubtful debts	–	521,837
Perpetual subordinated debt	2,016,390	1,943,589
Term subordinated debt	467,192	932,923
Total eligible supplementary capital	3,344,448	3,406,711
Total capital base before deductions	10,328,946	10,013,500
Deductions from total capital base	(950,528)	(1,056,629)
Total capital base after deductions	9,378,418	8,956,871

(w) **Currency risk**

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

Equivalent in HK\$'000	As at 31 Dec 2005				As at 31 Dec 2004			
	US dollars	Renminbi	Other	Total	US dollars	Renminbi	Other	Total
Spot assets	28,078,183	1,327,251	5,453,586	34,859,020	28,674,000	757,264	4,981,384	34,412,648
Spot liabilities	(31,167,025)	(549,815)	(5,084,950)	(36,801,790)	(30,836,628)	(134,181)	(4,656,405)	(35,627,214)
Forward purchases	16,617,043	104,658	3,758,734	20,480,435	7,309,008	–	2,629,869	9,938,877
Forward sales	(13,674,662)	(104,573)	(4,122,558)	(17,901,793)	(5,848,312)	–	(2,943,565)	(8,791,877)
Net options position	(179)	–	179	–	693	–	(693)	–
Net (short)/long position	(146,640)	777,521	4,991	635,872	(701,239)	623,083	10,590	(67,566)

The net options position is calculated using the model user approach.

(x) **Cross-border claims**

Cross border claims are on-balance sheet exposures of counterparties based on the location of the counterparties after taking into account the transfer of risk. For a claim guaranteed by a party situated in a country different from the counterparty, risk will be transferred to the country of the guarantor. For a claim on the branch of a bank or other financial institution, the risk will be transferred to the country where its head office is situated. Claims on individual countries or areas, after risk transfer, amounting to 10% or more of the aggregate cross-border claims are shown as follows:

	Banks and other financial institutions	Public sector entities	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 31 Dec 2005				
Asia and Pacific excluding Hong Kong	7,553,502	441,975	7,753,870	15,749,347
of which Australia	3,000,177	763	70,118	3,071,058
of which Mainland China	2,425,439	391,052	7,021,444	9,837,935
Caribbean	–	–	4,392,838	4,392,838
of which Cayman Islands	–	–	3,727,377	3,727,377
Western Europe	11,118,604	1,791	4,861,642	15,982,037
of which France	1,257,160	–	812,763	2,069,923
of which Germany	1,423,132	–	113,916	1,537,048
of which Netherlands	1,061,821	–	821,618	1,883,439
of which United Kingdom	2,492,175	623	1,224,905	3,717,703
As at 31 Dec 2004				
Asia and Pacific excluding Hong Kong	6,765,626	201,643	7,552,627	14,519,896
of which Australia	3,373,719	1,128	61,338	3,436,185
of which Mainland China	2,196,755	199,858	6,712,491	9,109,104
Western Europe	13,717,333	3,008	4,276,585	17,996,926
of which France	2,281,061	–	806,261	3,087,322
of which Germany	2,519,414	–	410,682	2,930,096
of which Netherlands	1,249,111	–	720,948	1,970,059
of which United Kingdom	3,608,631	953	1,023,518	4,633,102

FINAL DIVIDEND

At the annual general meeting to be held on Tuesday, 16 May 2006 ("Annual General Meeting"), the Directors will propose a final dividend of HK\$0.06 per share which, together with the interim dividend of HK\$0.113 per share paid on 15 September 2005, will constitute a total dividend of HK\$0.173 per share for the year 2005. Shareholders whose names are on the Register of Members at the close of business on Tuesday, 16 May 2006 will be entitled to the proposed final dividend. The dividend warrants will be sent to Shareholders by ordinary mail on or about Tuesday, 23 May 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 12 May 2006 to Tuesday, 16 May 2006, 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 Thursday, 11 May 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

1.0 Review of Operations

The Hong Kong economy enjoyed a year of good performance in 2005. As domestic consumption continued to be buoyed by declining unemployment and rising wages, and tourism and exports continued to show stable growth, domestic loan demand started to show signs of recovery after a prolonged period of sluggishness. However, with the sharp increase in interest rates from their historical lows during the course of the year, local banks saw their funding costs soar as depositors switched their funds from savings accounts to time deposits. The recovery momentum of mortgage lending was also affected by repeated interest rate hikes. Although the spread between the Prime Lending Rate ("Prime") and the Hong Kong Interbank Offer Rate ("HIBOR") began to normalise in the latter half of the year, the local financial industry continued to be tested by uncertainties in the outlook of interest rates, continued intense market competition and rising operating costs.

CITIC International Financial Holdings Limited (the "Group") has adopted the new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("the new accounting standards") that came into effect on 1 January 2005. Details of the required adjustments in its accounting policies are outlined in Note 3 in the accounts section. Due to the changes in accounting treatment and in the presentation of various profit and loss and balance sheet items, direct comparisons of certain figures may not be possible.

2.0 Business Performance

2.1 Earnings

For the year ended 31 December 2005, the Group reported operating profit before impairment allowances of HK\$876 million, representing a fall of 15.6% over 2004 which was mainly attributed to a 25.4% decline in net interest income. On a brighter note, however, the Group continued to post strong non-interest income growth at 27.9% over 2004, while prudent cost management saw operating expenses decreased by 2.0%. These accomplishments have helped to mitigate the impact of the decline in net interest income. Meanwhile, an improvement in asset quality and a reversal in collective assessment allowances led to a HK\$58 million release in impairment allowances. The disposal of tangible assets during the year realised a net profit of HK\$240 million, which included the HK\$227 million gain from the sale of Ka Wah Bank Centre. The Group's share of profits from associates, amounted to HK\$46 million. After taking into account other items, the Group's profit attributable to shareholders for the year rose 22.1% over 2004 to HK\$1,103 million.

2.2 Net Interest Income

The Group's net interest income for 2005 fell 25.4% to HK\$1,099 million. Under the new accounting standards and after adjusting for funding cost on fund investments, the Group's net interest margin stood at 1.80% at 2005 year-end, compared to 2.00% restated on same basis at 2004 year-end.

As the gross income for the fund investments was recognised as non-interest income, its funding cost was added back to the net interest income for the purpose of calculating the net interest margin in order to provide an accurate reflection of the Group's interest earning capability.

The decline in net interest income and net interest margin was attributed mainly to the adverse impact stemming from rising interest rates throughout the year. These included the sustained narrowing of the Prime-HIBOR gap during the year, a surge in funding costs resulting from the swing of core deposits to time deposits and from the pressure on the performance of the Group's fixed income portfolio.

The adoption of the new accounting standards generated further negative impact, namely, interest income from funding swaps and trading portfolios was treated as non-interest income; dealer commission expenses incurred in the hire purchase business was offset against interest income, and incremental interest expense was incurred from the treatment of effective interest rate of convertible bonds.

2.3 Non-Interest Income

The Group's non-interest income grew substantially by 27.9% over 2004 to HK\$871 million. The growth was derived mainly from CKWB's retail banking business and its fund investments. The proportion of non-interest income to operating income rose significantly to 44.2% in 2005, up from 31.6% in 2004.

2.4 Operating Expenses

The Group's prudent cost control measures, coupled with the exclusion of goodwill amortisation under the new accounting standards, led to a decline of 2.0% in operating expenses to HK\$1,095 million for 2005. Nevertheless, given the pressures on operating income, the Group's cost to income ratio rose to 55.6% in 2005 from 49.1% in 2004.

2.5 Impairment Allowances

The Group lent conservatively and strived to continually improve its asset quality. With the improvements in both the Hong Kong economy and property market, strong recoveries in bad debts and the partial benefit of a reversal in collective assessment allowances after the adoption of Hong Kong Accounting Standard 39, the Group recorded a HK\$58 million release in impairment allowances in 2005, as compared to a charge of HK\$78 million in 2004. Net additional provisions for individually assessed loans during the year amounted to HK\$85 million, while net releases in provisions for collectively assessed loans totalled HK\$44 million.

2.6 Final Dividend

The Board of Directors proposed a final dividend of HK\$0.06 per share. Together with an interim dividend of HK\$0.113 per share, the total dividend for 2005 will amount to HK\$0.173 per share, representing a total dividend pay-out ratio of 50% for the year.

3.0 Asset Quality

3.1 Asset, Loan, and Deposit Sizes

As at 31 December 2005, the Group's total assets were HK\$85.0 billion, representing a 1.7% increase from 2004 year-end. Total loans rose 1.0% from the end of 2004 to HK\$43.4 billion, driven mainly by a rise in residential mortgages, property investment lending, loans for use outside Hong Kong and trade finance. Total deposits were HK\$61.9 billion, similar to the level at 2004 year-end.

3.2 Asset Quality Indicators

During the year, the Group improved on several asset quality indicators. As at 31 December 2005, classified exposure fell to 2.7% from 5.4% at the end of 2004. The Group's impaired loan ratio under the new accounting standards improved to 2.7% as at 31 December 2005 compared to 5.4% as at 1 January 2005. Coverage as calculated on the basis of the new accounting standards expanded from 89.6% as at 1 January 2005 to 92.7% at year-end.

3.3 Financial Position

As at 31 December 2005, the Group's unadjusted capital adequacy ratio was 16.0%. Its loans to deposits ratio was 70.1%, and its loans to total assets ratio was 51.0%.

CITIC International Financial Holdings' Asset Quality Indicators

	31 Dec 2005	1 Jan 2005	31 Dec 2004
Unadjusted capital adequacy	16.0%	16.2%	15.9%
Loans to deposits	70.1%	68.8%	68.8%
Loans to total assets	51.0%	50.7%	51.4%
Classified exposure	2.7%	5.4%	5.4%
Impaired loans *	2.7%	5.4%	-
Coverage *	92.7%	89.6%	-
Loan loss coverage *	48.6%	37.0%	-
Collective assessment coverage *	0.68%	0.84%	-

* Calculated on the basis of the new accounting standards.

4.0 Core Business Development

4.1 Commercial Banking Business – CITIC Ka Wah Bank Limited ("CKWB")

4.11 Operating Environment

The operating environment of Hong Kong's banking sector in 2005 was characterised by rising costs, narrowing interest margins and intense competition. However, CKWB successfully leveraged opportunities from Hong Kong's sustained economic improvement to grow its wealth management business. Its fund investments also yielded strong performance during the year. As a result, CKWB was able to achieve substantial growth in its non-interest income. Meanwhile, CKWB stayed focus on strengthening its core capabilities and developing new competencies to pave the way for future growth.

4.12 Business Performance

4.121 Earnings

For the year ended 31 December 2005, CKWB reported operating profit before impairment allowances of HK\$850 million, representing a fall of 18.7% over last year which was mainly attributed to a 24.4% decline in net interest income. However, its strong non-interest income growth at 32.9% over 2004 helped to partially offset the impact of the decline in net interest income. Meanwhile, an improvement in asset quality and a reversal in collective assessment allowances led to a HK\$80 million release in impairment allowances. The disposal of tangible assets during the year realised a net profit of HK\$233 million, which included the HK\$227 million gain from the sale of Ka Wah Bank Centre. After taking into account other items, CKWB's profit attributable to shareholders for the year rose 28.2% over 2004 to HK\$1,047 million.

4.122 Net Interest Income

CKWB's net interest income for 2005 fell 24.4% to HK\$1,101 million. Under the new accounting standards and after adjusting for funding cost on fund investments, CKWB's net interest margin stood at 1.82% at 2005 year-end, compared to 2.00% restated on same basis at 2004 year-end.

The major factors attributing to the decline in CKWB's net interest income and the narrowing of its net interest margin are discussed in section 2.2.

4.123 Non-Interest Income
During the year, CKWB recorded a strong 32.9% growth in its non-interest income to HK\$799 million as compared to 2004. This lifted the share of its non-interest income in its operating income to 42.0% in 2005 from 29.2% in 2004. The main contributor of this performance came from its Retail Banking Group which registered a 16.6% increase in non-interest income to HK\$319 million. The other key contributor was its Fund Investments which more than doubled its income to nearly HK\$230 million.

4.124 Operating Expenses
CKWB's operating expenses for 2005 rose by 3.7% year-on-year, primarily due to incremental rental expenses and the rise in staff costs. The former arose as a result of the sale and leaseback agreement of Ka Wah Bank Centre after CKWB disposed of the property as part of its office premise rationalisation plan. Its cost to income ratio rose to 55.2% in 2005 from 49.1% in 2004.

4.125 Impairment Allowances
CKWB lent conservatively and strived to continually improve its asset quality. With the improvements in both the Hong Kong economy and property market, strong recoveries in bad debts and the partial benefit of a reversal in collective assessment allowances after the adoption of Hong Kong Accounting Standard 39, CKWB recorded a HK\$80 million release in impairment allowances in 2005, as compared to a charge of HK\$100 million in 2004. Net additional provisions for individually assessed loans during the year amounted to HK\$58 million, while net releases in provisions for collectively assessed loans totalled HK\$44 million.

4.13 Asset Quality

4.131 Asset, Loan, And Deposit Sizes

Total assets of CKWB amounted to approximately HK\$81.8 billion as at 31 December 2005, representing a 1.9% increase over 2004 year-end. Total loans rose 1.5% to HK\$43 billion on the back of increases in a rise in residential mortgages, property investment lending, loans for use outside Hong Kong and trade finance. Despite a slight 1.5% decline in customer deposits to HK\$54.8 billion, total deposits stood at HK\$62.3 billion, similar to the level at 2004 year-end.

4.132 Asset Quality Indicators

As at 31 December 2005, CKWB reported improvements in several asset quality indicators. Classified exposure fell to 1.9% from 4.3% at the end of 2004. Its impaired loan ratio under the new accounting standards improved to 1.9% as at 31 December 2005 compared to 4.3% as at 1 January 2005. Its coverage as calculated on the basis of the new accounting standards expanded from 86.8% as at 1 January 2005 to 87.8% at year-end. Its mortgage delinquency ratio not only fell significantly from 0.34% as at 2004 year-end to 0.14%, but was also better than the industry average of 0.19% as released by the Hong Kong Monetary Authority. Its credit card charge-off ratio fell further from 3.0% as at 2004 year-end to 1.4%.

In July 2005, Fitch Ratings upgraded CKWB's long-term rating from 'BBB' to 'BBB+'. According to the credit rating agency, the upgrade reflected CKWB's improved financials, the continued enhancement of its risk management procedures and systems, as well as its innovative management.

4.133 Financial Position

As at 31 December 2005, CKWB's unadjusted capital adequacy ratio was 16.4%. Its average liquidity ratio was 51.1%. Its loans to deposits ratio was 69.0% and its loans to total assets ratio was 52.5%.

CITIC Ka Wah Bank's Asset Quality Indicators

	31 Dec 2005	1 Jan 2005	31 Dec 2004
Unadjusted capital adequacy	16.4%	16.8%	16.5%
Average liquidity	51.1%	47.9%	47.9%
Loans to deposits	69.0%	67.6%	67.6%
Loans to total assets	52.5%	52.0%	52.7%
Classified exposure	1.9%	4.3%	4.3%
Impaired loans *	1.9%	4.3%	-
Coverage *	87.8%	86.8%	-
Loan loss coverage *	50.9%	39.3%	-
Collective assessment coverage *	0.69%	0.85%	-
Mainland loans to total loans	15.1%	13.6%	13.6%

* Calculated on the basis of the new accounting standards.

4.14 Business Development

4.141 New Products and Services

CKWB continued to broaden the range of its products and services during 2005.

New Products And Services Launched In 2005

Month	New Products And Services
January	<ul style="list-style-type: none"> Five-year HKD callable certificates of deposit Three-year USD callable step-up certificates of deposit Credit card "Enjoy Buy-One-Get-One-Free Offer With Your Sales Draft" spending programme Credit card on-line bill payment double reward programme Credit card acquisition campaign
February	<ul style="list-style-type: none"> Credit card travel insurance plan Dollar\$mart personal instalment loan express approval
March	<ul style="list-style-type: none"> Three-month USD yield enhancement deposit NOW Account "Monthly Step-up Bonus Interest Rate Offer" Credit card "HKD500,000 Jackpot Sharing Programme" Credit card "Easy Cash-In" programme Earn double bonus points by settling second tax payment with credit card Credit card balance transfer programme
April	<ul style="list-style-type: none"> Two-year HKD callable step-up certificates of deposit Dollar\$mart revolving cash card programme
May	<ul style="list-style-type: none"> Three-year HKD callable step-up certificates of deposit Three-year USD callable step-up certificates of deposit "Guaranteed Retirement Income Plan" "Business Instalment Loan And Overdraft" services Credit card spending programme – up to 10 times cash rebate Credit card personal line of credit
June	<ul style="list-style-type: none"> Gold margin trading Dual option i-banking two-factor authentication RMB credit card and ATM card Credit card on-line bill payment reward programme Credit card acquisition campaign Dollar\$mart interest-free personal instalment loan programme

July	<ul style="list-style-type: none"> • On-line time deposit placement promotion • Mortgage overdraft and top-up loan programme • “PowerOne Universal Life” insurance plan • Credit card “Travel and Dine” guaranteed-to-win lucky draw • 2.8% balance transfer new card programme
August	<ul style="list-style-type: none"> • Yield enhancement deposit series 1: One-year AUD-linked deposit • Yield enhancement deposit series 2: One-year NZD-linked deposit • “GROWTH Plus” insurance plan • Home contents insurance plan • Credit card on-line bill payment lucky draw programme • Dollar\$mart “Free Choice Skip Payment” instalment loan programme
September	<ul style="list-style-type: none"> • Interest rate-linked structured deposit: 2.5-year HKD and USD callable deposit • Yield enhancement deposit series 3: Six-month AUD-linked deposit • Ratio par forward FX swaps • Manulife investment solutions • e-Cert “Use More Get More” reward programme • Credit card “one off fee instalment” cash-in plan
October	<ul style="list-style-type: none"> • Launch of CITICfirst mass affluent wealth management services to existing customers • Interest rate-linked structured deposit series 2: Two-year-and-nine-month HKD and USD callable deposit • Yield enhancement deposit series 4: Six-month AUD-linked deposit • eIPO services • Credit card “low rate cash-in” plan • Credit card double rewards new card programme • Credit card supplementary card acquisition programme
November	<ul style="list-style-type: none"> • Value-added-tax invoice financing facility • Corporate tax loan • Yield enhancement deposit series 5: Nine-month CAD-linked deposit • Yield enhancement deposit series 6: Six-month CAD-linked deposit • Credit card Christmas guaranteed-to-win lucky draw • Credit card tax instalment plan • Dollar\$mart tax loan
December	<ul style="list-style-type: none"> • Yield enhancement deposit series 7: Nine-month AUD-linked deposit

4.142 Retail Banking Group

In 2005, CKWB aggressively expanded the scope of its wealth management products and services. Its broad range of product initiatives included five HKD and USD certificates of deposit, seven yield enhancement deposit series and two interest rate-linked structured deposit series. Apart from drawing in HK\$2.1 billion in total funding for the bank and attracting over 800 new customers, these also generated nearly HK\$30 million in non-interest income. In October 2005, CKWB rolled out its new mass affluent wealth management platform, CITIC*first*, to its existing clients. Four dedicated CITIC*first* banking centres were introduced at the same time. CITIC*first* was warmly greeted by the bank’s customers who met its target profile of a minimum net worth of HK\$1 million. The full market launch of CITIC*first* is scheduled within the first half of 2006.

Meanwhile, CKWB continued to build on its successful bancassurance business model. In addition to its existing partnership with Sun Life Financial (Hong Kong) Limited, CKWB entered into a strategic alliance with Manulife (International) Limited last year. Its dynamic offering of insurance products helped the bank achieve a year-on-year growth of over 28.7% in its bancassurance-related income.

In the area of credit cards, CKWB continued to launch a number of card acquisition and card spending campaigns in 2005 that yielded good business results. Total new sales increased by 21.4% year-on-year in 2005. This compared favourably to the industry’s average growth rate at 17.0% as released by VISA International.

Both CKWB’s mortgage and small- and medium-sized enterprise (“SME”) businesses also delivered strong performances. Its market share in newly drawn-down mortgage loans was increased by 0.8% over 2004 while its total outstanding mortgage loans rose 9.7%. Outstanding loans to SMEs also grew 43.5% over 2004.

4.143 Wholesale Banking Group

CKWB’s Wholesale Banking Group (“WBG”) took a strategic decision in 2005 to reposition its business model, with a clear focus to deepen client relationships and to enhance fee income generation capability by delivering value-added services rather than relying on lending as the core product. As part of this exercise, WBG underwent a business restructuring to strengthen and enhance its core competencies. This involved the upgrading of its corporate and syndication capabilities, the establishment of a commercial real estate and structured finance team as well as the launching of CITIC Insurance Brokers Limited which is wholly-owned by CKWB. At the same time, WBG enhanced its capability to deliver treasury solutions to corporate customers, and was successful in introducing structured products such as a three-month USD yield enhancement deposit.

Meanwhile, CKWB’s Macau branch was officially opened in October 2005 to offer one-stop banking services to corporate customers as well as to further reinforce the Bank’s geographic reach to service customers in the Pan Pearl Delta River region.

4.144 Treasury and Markets Group

CKWB’s Treasury and Markets Group (“TMG”) successfully established its in-house product manufacturing capability in structured products, and focused on building its distribution during the year by cross-selling to the bank’s retail and corporate customers. Its fund investments also delivered stable growth over the previous year.

4.145 China Banking

CKWB’s China Banking business achieved a number of strategic breakthroughs in 2005. In June 2005, China International Finance Company (Shenzhen) (“CIFC”) received approval from the China Banking Regulatory Commission to offer Renminbi services. As a result, CKWB became the first Hong Kong bank whose subsidiary has obtained a Renminbi licence in the Mainland under the preferential measures prescribed in the Closer Economic Partnership Agreement (“CEPA”). Leveraging on the Renminbi licence, CIFC and CKWB are able to offer Renminbi services to its corporate clients as well as to individual clients who are non-Mainland citizens. They will also be able to extend such services to all Mainland citizens when China opens up its banking sector at the end of 2006. In July 2005, CIFC was granted a property insurance agency licence by the China Insurance Regulatory Commission.

Its Shanghai branch continued to be profitable in 2005, and the performance of its China mortgage business was particularly good, achieving outstanding balances of nearly HK\$600 million at the end of 2005.

Looking ahead, CKWB has received regulatory approval to plan the upgrade of its Beijing representative office to branch status in the latter half of 2006. Its Shanghai branch has set up a foreign exchange trading room in 2005 and is in the process of applying for a derivative licence; it is also planning to apply for a Renminbi licence at the end of 2006. Last but not least, CIFC is seeking regulatory approval to apply for an upgrade to bank status.

More significantly, the partnership between CKWB and its sister China CITIC Bank is to see breakthrough developments going forward as the China market and China CITIC Bank itself become more mature. The two banks are planning to systematically develop an integrated product and services platform for their corporate clientele, and will seek to build complementary competencies in customer resources, professional know-how, product range and service quality. Both will enjoy enhanced synergistic benefits as they collaborate to establish the “CITIC” international brand.

4.15 Awards
CKWB continued to receive several awards in 2005. These included the “Outstanding Retail Sales Volume – Gold Prize” awarded by VISA International; the “Quality Recognition Award 2004” from JPMorgan acknowledging CKWB’s quality excellence in its SWIFT payments; the “Banking Return Prize” awarded by the Shanghai headquarters of the People’s Bank of China to CKWB’s Shanghai branch, and the “Caring Company Logo” awarded by the Hong Kong Council of Social Service. Additionally, one of CKWB’s customer relationship managers received the Bronze Prize in the Third Annual Hong Kong Financial Planners of the Year Award.

4.2 Asset Management Business – CITIC International Assets Management Limited (“CIAM”)

4.21 Business Performance

Since CIAM began to operate independently in 2002, it has undertaken its mission to manage distressed loans and assets as well as to allocate resources to earmark debt and equity investments. Its objectives are to optimise generation of operating income and to explore new business areas for the Group.

In 2005, CIAM reported a consolidated operating profit before impairment allowances of HK\$71.6 million and an operating profit of HK\$57.3 million. Its net profit after tax amounted to HK\$50.2 million.

The growth of CIAM’s operating profit before impairment allowances at 24.6% over 2004 was attributed to the handling of distressed assets and to the progress made in its debt and equity investments. Meanwhile, it made net impairment allowances of HK\$17.0 million during the year to provide for the requirements of the new accounting standards as well as to strengthen the provisioning of its non-performing loans (“NPL”) portfolio. As a result, it registered a 28.3% and 37.1% decline in its 2005 operating profit and net profit after tax respectively as compared to 2004.

4.22 Problem Loans/Assets

CIAM successfully resolved over HK\$150 million worth of problem loans in 2005, an achievement that was over 5.4 times that in 2004. This represented a 27.1% year-on-year reduction of its NPL balances, and resulted in a decline in the aggregate value of its problem loan assets to HK\$370 million.

4.23 Direct Investment and Structured Loans

Apart from deploying its free funds to participate in short-term treasury activities, CIAM began in 2003 to look for projects in China that can offer attractive prospective returns and for which it can provide flexible and integrated debt, equity investments and advisory services. Over time, it has gradually built a diversified portfolio of direct investments and structured loans.

Given CIAM’s focus in 2005 to consolidate its overall operations, few projects were added to its portfolio during the year. Nevertheless, the original debt and equity investment projects have successively started to generate interest income as well as handling fee and other incomes. This, together with the returns generated during the process of handling distressed assets, have contributed to the growth of CIAM’s operating profit before impairment allowances.

4.24 Strategic Collaboration

To pave the way for future business development, CIAM’s co-investment entity, Shenzhen Guocheng Century Venture Capital Company Limited, was fully funded in early 2005 and has begun to expand its project investments. Separately, in the second half of 2005, CIAM has joined forces with Bahrain’s Shamil Bank B.S.C. to develop for the first time a China real estate investment fund. The fund has just completed its roadshows in the Gulf regions of the Middle East and has received favourable responses from investors.

4.3 Investment Banking Business – CITIC Capital Markets Holdings Limited

4.31 Business Performance

The capital markets in Hong Kong experienced a very challenging year in 2005, being affected by rising interest rates, soaring prices of crude oil and other natural resources as well as uncertainties associated with the macroeconomic austerity measures in China. The market for initial public offerings (“IPOs”) remained relatively quiet except for a spur of activities towards the year-end. However, these activities were dominated by a few mega-sized listings of Mainland Chinese enterprises with very large capitalisations. Within CCMH’s target segment of mid- to low-cap enterprises, activities in the IPO market stayed relatively lacklustre throughout the year. Additionally, the volatile trading environment posed difficulty for CCMH’s investment performance.

As a result, CCMH reported a decline in net profit after tax of HK\$120 million in 2005. This represented 6.2% return on average equity employed, compared with 11.4% achieved in 2004.

In 2005, CCMH continued to bolster the firm’s strong foundation for further growth. It launched a number of fund products that span the spectrum of public market fund and private equity fund, thereby driving a remarkable growth in its assets under management (“AUM”) (see 4.33 for details). These efforts will give CCMH the opportunity to earn a steady stream of management fees, performance fees plus return on its own investment throughout the life of these funds.

4.32 Investment Banking

In the area of corporate finance in 2005, CCMH advised a CCMH-led consortium on their US\$250 million investment in Harbin Pharmaceutical Group Holding Co., Ltd., a landmark transaction that still ranks the largest of its kind to-date.

In the area of equity capital markets, CCMH participated, among others, in the two largest IPOs in Hong Kong during 2005, namely, as co-lead manager for the HK\$72 billion IPO of China Construction Bank, and as co-manager for the HK\$25 billion IPO of China Shenhua.

CCMH also remained active in the debt capital markets arena. Financings completed during the year included the syndicated loans arranged for Nanjing International Plaza and the Tsinlein Group at total sizes of RMB 450 million and US\$120 million respectively.

4.33 Asset Management

CCMH registered double-digit growth in both its private equity and hedge fund AUM in 2005. These two mainstream alternative investment products accounted for around 60% and 40% respectively of its total AUM of approximately US\$800 million at the end of December 2005.

A variety of funds were launched during the year to broaden CCMH’s product range and to offer more choices to investors, these included:

- *CITIC Capital China Property Investment Fund* – a real estate investment fund focusing on the growth potential of China’s property market. During the year, this fund acquired a strategically located high-end commercial property in Shanghai and yielded satisfactory returns to-date;
- *CITIC Capital Greater China Discovery Fund* – a long-only equity fund with a mid- and small-cap bias in the Greater China markets;
- *CITIC Capital China Century Fund* – a fund targeting investments in Mainland China’s A-share market via arrangements with Qualified Foreign Institutional Investors;
- *CITIC Capital China Partners L.P.* – CCMH’s flagship private equity fund for investing in China enterprises;
- *CITIC Capital Equity Partners II L.P.* – CCMH’s second private equity fund focusing on investing in American enterprises seeking accelerated China growth strategies.
- *CITIC Allco Investment Limited* – a fund co-managed by CCMH and Allco, a renowned Australian financial services group, focusing on mezzanine and structured financing opportunities in Greater China, in particular Mainland China.

4.34 Securities Brokerage

CCMH continued to enhance its capabilities to serve corporate and institutional clients as well as to grow its high net-worth client base, and maintained its 2005 market share on the Hong Kong stock market at a level similar to the previous year.

4.35 Contemplated Group Restructuring

The year 2005 continued to witness the gradual convergence of capital markets in China and overseas, including Hong Kong. To fully exploit the opportunities spawned by this trend, CCMH came up with a series of plans to realign its business mix based on its relative strength and synergies with other entities within the CITIC Group. These strategic plannings culminated in an announcement in January 2006 of its contemplated restructuring in two related moves.

Firstly, CCMH intends to join forces with CITIC Securities Co., Ltd. (“CITIC Securities”) to create an integrated, cross-border equities business platform. A new Hong Kong-based joint venture company, in which CITIC Securities will own a majority stake with CCMH as the minority shareholder, will take over CCMH’s existing equities business, including origination, equity capital markets, institutional and retail sales, equity research and related back office and support functions.

Secondly, CCMH intends to subscribe for a 35% interest in the enlarged share capital base of CITIC Trust & Investment Co., Ltd. ("CITIC Trust"), one of the leading trust companies in China. It is envisaged that the combined forces of CITIC Trust and CCMH will enable both companies to better exploit the high growth opportunities offered by an increasing demand for trust and other alternative investment products in China.

Upon the completion of these strategic moves, CCMH will focus on developing its principal businesses in the areas of private equity, asset management, corporate advisory and mezzanine and structured finance.

The completion of the contemplated restructuring will of course be subject to the necessary regulatory approval.

5.0 Risk Management

The Group's risk management achieved a number of milestones in 2005. With the help of professional consultants, the Group successfully revamped its risk grading system and rolled out an expert judgement model that can quantitatively differentiate various levels of credit risk and subsequently calibrates probability of customer default. Sections of credit risk policy, product and investment risk underwriting, exposure control, management information systems and risk infrastructure were realigned into a portfolio risk management unit to take ownership of the new risk grading system.

The Group's market risk exposures come mainly from CKWB. CKWB has set up a hierarchy of limits that comprises policy, business and transaction limits. Each level of hierarchy has a series of risk measurements such as profit and loss limits, position limits and sensitivity limits to alert and trigger adequate actions at different management levels for specific market risk control. CKWB has adopted advanced market risk techniques for Value-at-Risk calculation, stress-testing and back-testing of the trading book. It has successfully developed an effective hedge ratio testing method so that hedge accounting principles can be applied to offset the fair value changes in the Available-for-Sale securities or the Non-Trading Liabilities, and corresponding hedging derivative instruments like interest rate swaps can offset each other.

With the preparation done in the past few years for Basel II, the Group is ready to meet the requirements of the Standardised Approach by the end of 2006. To ensure due compliance, the Group employed an independent auditing firm to confirm the gaps between its status quo and the Standardised Approach. A Basel II working committee was also formed to coordinate credit risk, market risk and operational risk, implement necessary measures and institute system enhancements.

During the year, the Group successfully implemented unique models for assessing impairment losses of financial assets in accordance with the requirements of sections 32 and 39 in the new International Accounting Standards ("IAS"). Under the new models, loan portfolios are assessed based on historical loan loss experiences and observable economic conditions correlating with defaults on the asset portfolio. For assessing the impairment losses of individual doubtful accounts, the Group first assesses if there is any objective evidence that a loan is impaired; if positive, the Group will proceed to estimate the expected future cash flows of the impaired account and to come up with the impairment losses by reducing the cash flows from the outstanding principal.

IAS and the Basel II Accord have also made new requirements on the classification, fair value assessment and capital adequacy of financial assets and liabilities. These requirements and the on-going developments of highly structured, complicated financial products with embedded derivative features have big impact on financial institutions. The Group faces the new challenges and fulfils the requirements via CKWB. For the past few years, CKWB has been continually upgrading its treasury management functions and market risk control. Advanced and sophisticated techniques have been adopted to identify, manage and monitor the general and specific market risks. At the same time, CKWB's TMG has successfully extended its product range and provided various customer-related structured financial products under strict market risk control. Derivative instruments traded by TMG mainly include forward foreign exchanges, foreign exchange swaps, foreign exchange options, interest rate futures and interest rate swaps.

6.0 Human Resources Development

As at the end of 2005, the Group had 1,711 staff under its employment. Management firmly believes that "people" are the decisive factor that distinguishes an organisation and makes it successful. In order to attract talent and retain strong performers, the Group has been making continuous efforts to benchmark its remuneration structure in order to ensure its competitiveness compared to industry peers. All companies under the Group offer discretionary bonus schemes aimed at cultivating common goals among employees, driving individual performance and generating results for the Group. All bonus schemes are directly correlated to the Group's profitability, unit performance and individual contributions.

The Group offers share options to the eligible employees pursuant to the Share Option Scheme adopted on 16 May 2003, details of which are given in the Directors' Report.

The Group places a high priority on on-going staff training and people development. The average training per employee was 4.8 days in 2005. A total of 569 classes were conducted during the year, with curriculums covering a wide range of subjects, from product, financial knowledge to management, professional qualifications, regulatory, marketing and servicing skills.

7.0 Future Development

2005 represented a landmark year for the Group. During the year, the Group has built the infrastructure and a solid foundation for transformational growth of its businesses going forward, enabling it to grasp the immense market opportunities that will arise from the implementation of China's 11th Five-Year Plan and from the country's formal accession into the World Trade Organisation.

Last year, while taking care to strengthen and expand its core businesses, the Group was focused on establishing new competencies, especially in CKWB, in order to create new impetus to power the growth of its core performance and earnings capabilities going forward. The Group expects these efforts to start making an impact in 2006.

Meanwhile, in view of the increasingly convergent financial and capital markets in the Mainland and Hong Kong, the Group is collaborating with other CITIC Group financial institutions to develop cohesive partnership models. Apart from the efforts of CKWB and China CITIC Bank to establish a synergistic platform that leverages their complementary competencies, CCMH, CITIC Securities and CITIC Trust are also working on establishing a coherent and effective alignment of their businesses.

As the offshore financial flagship of the CITIC Group, the Group stays committed to maximise strategic opportunities for the CITIC international financial brand.

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 2005. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions in the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2005 except for the deviations from Code Provisions of A.4.1, B.1.1 and E.1.2 which are explained as follows:-

With respect to Code A.4.1, the Non-executive Directors of the Company are not appointed for a specific term. However, same as all other Directors of the Company, the Non-executive Directors are subject to retirement and re-election at each annual general meeting in accordance with Article 98 of the Articles of Association of the Company.

With respect to Code B.1.1, the Company has, on 16 August 2005, established a Nomination and Remuneration Committee of which is chaired by Mr. Kong Dan, and its other members are Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Liu Jifu and Mr. Lo Wing Yat Kelvin. Although majority of the members of this Nomination and Remuneration Committee are Executive Directors of the Company, they cannot vote in decisions on each of their own remuneration or any other matters which he/she has any direct or indirect interest. All Non-executive Directors of the Company have the right to attend the meetings of this Committee.

With respect to Code E.1.2, Mr. Kong Dan, the Chairman, had originally scheduled to attend the annual general meeting of the Company held on 19 May 2005. However, due to the occurrence of certain event of which he must attend in the meantime, he had no alternative but to reschedule his itinerary. The Directors presented at the meeting had elected Mr. Dou Jianzhong, the Chief Executive Officer of the Company, to chair the meeting in accordance with Article 67 of the Articles of Association of the Company.

REVIEW BY THE AUDIT COMMITTEE

The financial statements of the Company for the year ended 31 December 2005 have been reviewed by the Company's Audit Committee, which comprises three Independent Non-executive Directors and one Non-executive Director of the Company.

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

Hong Kong, 9 March 2006

As at the date of this announcement, the Chairman of the Company is Mr. Kong Dan; the executive directors of the Company are Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Lo Wing Yat Kelvin, Mr. Roger Clark Spyer and Mr. Zhao Shengbiao; the non-executive directors of the Company are Mr. Chang Zhenming, Mr. Chen Xiaoxian, Mr. Ju Weimin, Mr. Liu Jifu, Mr. Wang Dongming and Mr. Yang Chao; and the independent non-executive directors of the Company are Mr. Rafael Gil-Tienda, Mr. Lam Kwong Siu and Mr. Tsang Yiu Keung Paul.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT the Eighty-first Annual General Meeting of the members of CITIC International Financial Holdings Limited (the “**Company**”) will be held at Salon 6, JW Marriott Hotel Hong Kong, Level 3, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 16 May 2006 at 10:00 a.m. for the following purposes:–

1. To receive and consider the financial statements together with the Reports of the Directors and of the Auditors for the year ended 31 December 2005;
2. To declare a final dividend;
3. To re-elect Directors and to authorise the Board to fix their remuneration for the year ended 31 December 2005;
4. To appoint Auditors and to authorise the Board to fix their remuneration;
5. To grant a general mandate to the Directors to issue additional shares not exceeding 20% of the issued share capital;
6. To grant a general mandate to the Directors to repurchase shares not exceeding 10% of the issued share capital; and
7. To extend the general mandate under item 5 hereof by increasing the number of shares permitted to be issued equivalent to the number of shares repurchased under item 6 hereof.

By Order of the Board
CITIC International Financial Holdings Limited
Kyna Y. C. Wong
Company Secretary

Hong Kong, 9 March 2006

Notes:

1. The Register of Members of the Company will be closed from Friday, 12 May 2006 to Tuesday, 16 May 2006, both days inclusive. 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 not later than 4:00 p.m. on Thursday, 11 May 2006.
2. A member entitled to attend and vote at the above meeting may appoint more than one proxy to attend and vote in his place provided that if more than one person is so authorised, the form of proxy must specify the number of shares in respect of which each such person is so authorised. A proxy need not be a member.
3. To be valid, forms of proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at Suites 1801-2, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong for the attention of the Company Secretary not less than 48 hours before the time for holding the meeting or adjourned meeting, and in default thereof, the form of proxy and such power of attorney or authority shall not be treated as valid.
4. The proposed resolutions of items 5 to 7 will be included in the Notice of Annual General Meeting incorporated in the circular to be despatched to members on or before Monday, 24 April 2006.

As at the date of this announcement, the Chairman of the Company is Mr. Kong Dan; the executive directors of the Company are Mr. Dou Jianzhong, Mrs. Chan Hui Dor Lam Doreen, Mr. Lo Wing Yat Kelvin, Mr. Roger Clark Spyer and Mr. Zhao Shengbiao; the non-executive directors of the Company are Mr. Chang Zhenming, Mr. Chen Xiaoxian, Mr. Ju Weimin, Mr. Liu Jifu, Mr. Wang Dongming and Mr. Yang Chao; and the independent non-executive directors of the Company are Mr. Rafael Gil-Tienda, Mr. Lam Kwong Siu and Mr. Tsang Yiu Keung Paul.